

**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, 2017
- 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)  
800 Royal Oaks Drive, Suite 210  
Monrovia, CA  
(Address of Principal Executive Offices)

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

91016  
(Zip Code)

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

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

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

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

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

None

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

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  (Do not check if a smaller reporting company) Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 29, 2016 was approximately \$504.9 million.

As of June 20, 2017, the issuer had 23,729,911 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, 2017, are incorporated by reference into Part III of this Form 10-K.

AEROVIRONMENT, INC.  
INDEX TO FORM 10-K

	<u>Page</u>	
<b><u>PART I</u></b>		
<u>Item 1.</u>	<u>Business</u>	3
<u>Item 1A.</u>	<u>Risk Factors</u>	23
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	46
<u>Item 2.</u>	<u>Properties</u>	46
<u>Item 3.</u>	<u>Legal Proceedings</u>	47
<u>Item 4.</u>	<u>Mine Safety Disclosure</u>	47
<b><u>PART II</u></b>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	48
<u>Item 6.</u>	<u>Selected Consolidated Financial Data</u>	50
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	50
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	63
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	64
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	101
<u>Item 9A.</u>	<u>Controls and Procedures</u>	101
<u>Item 9B.</u>	<u>Other Information</u>	102
<b><u>PART III</u></b>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	104
<u>Item 11.</u>	<u>Executive Compensation</u>	104
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	104
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	104
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	104
<b><u>PART IV</u></b>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	105

PART I

**Forward-Looking Statements**

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

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

Set forth below in Item 1A, “Risk Factors” are additional significant uncertainties and other factors affecting forward-looking statements. The reader should understand that the uncertainties and other factors identified in this Annual Report are not a comprehensive list of all the uncertainties and other factors that may affect forward-looking statements. We do not undertake any obligation to update or revise any forward-looking statements or the list of uncertainties and other factors that could affect those statements.

**Item 1. Business.**

**Overview**

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

Our success with current products and services stems from our investment in research and development and our ability to invent and deliver advanced solutions, utilizing proprietary and commercially available technologies, to help our government, commercial and consumer customers operate more effectively and efficiently. We develop these highly innovative solutions by working very closely with our key customers in each segment of our business 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 lightweight aerostructures; power electronics; electric propulsion systems; efficient electric power generation, conversion, and storage systems; high-density energy packaging; miniaturization; digital data links (“DDL”); aircraft sensors; controls integration; systems integration; engineering optimization; electric propulsion; vertical takeoff fixed wing flight and autonomy, each coupled with professional field service capabilities.

Our UAS business segment focuses primarily on the design, development, production, marketing, support and operation of innovative UAS and tactical missile systems and the delivery of UAS-related services that provide situational awareness, remote sensing, multi-band communications, force protection and other information and mission effects to increase the safety and effectiveness of our customers’ operations. Our Efficient Energy Systems, or EES, business segment focuses primarily on the design, development, production, marketing, support and operation of innovative efficient electric energy systems that address the growing demand for electric transportation solutions.

**Our Strategy**

As a technology solutions provider, our strategy is to develop innovative, safe and reliable new solutions that provide customers with valuable benefits and enable us to create new markets or market segments, gain market share and grow as market adoption increases. We believe that by introducing new solutions that provide customers with compelling value we are able to create new markets or market segments and then grow our positions within those markets or market segments profitably, instead of entering existing markets and competing directly against large, incumbent competitors that may possess advantages in scope, scale, resources and relationships.

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

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

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

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

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

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

#### **Customers**

We sell the majority of our UAS and tactical missile systems and services to organizations within the DoD, including the U.S. Army, Marine Corps, Special Operations Command, Air Force and Navy. Our EES business segment generates revenue from commercial, consumer and, to a lesser extent, government customers.

During our fiscal year ended April 30, 2017, we generated approximately 18% 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 several other organizations within the DoD. Other U.S. government agencies and government subcontractors accounted for 37% of our sales revenue, while purchases by foreign, commercial and consumer customers accounted for the remaining 45% of sales revenue during our fiscal year ended April 30, 2017.

#### **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; TurboCord™, the smallest, most portable UL-listed 240-volt EV charger; and Blackwing™, the first submarine-launched unmanned aircraft system deployed by the U.S. Navy. The Smithsonian Institution possesses seven vehicles developed by our company or our founder in its permanent collection. Our history of innovation excellence is the result of our talented, creative and skilled employees whom we encourage to invent and develop innovative new solutions.

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

As a result of our commitment to research and development, we possess an extensive portfolio of intellectual property in the form of patents, trade secrets, copyrights and trademarks across a broad range of UAS and advanced energy technologies. As of April 30, 2017, we had 168 U.S. patents issued; 113 U.S. patent applications pending; 17 active Patent Cooperation Treaty applications; and numerous foreign patents and applications. In many cases, when appropriate and to preserve confidentiality, we opt to protect our intellectual property through trade secrets as opposed to filing for patent protection.

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

#### **Research, Development and Commercialization Projects**

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

For the fiscal years ended April 30, 2017, 2016 and 2015, our internal research and development spending amounted to 12%, 16% and 18%, of our revenue, respectively, and customer-funded research and development spending amounted to an additional 16%, 20% and 14%, of our revenue, respectively.

#### **Sales and Marketing**

Our marketing strategy is based on developing leadership positions in new markets that we create through the introduction of innovation solutions that improve customer operational effectiveness and efficiency. Our ability to operate in an agile, flexible manner helps us achieve first mover advantage and work closely with early customers to achieve the successful adoption of our solutions. Once we establish a market position we work to maintain our leadership position while growing 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 U.S. registered

trademarks for AeroVironment, AV, Switchblade, Raven, Wasp, Snipe, EV Solutions, TurboCord, PosiCharge, BMID, and Battery RX, and have several other pending applications for trademark registration.

#### **International Sales**

We contract with international sales representatives and team with domestic organizations in a number of foreign markets and believe that these markets represent growth opportunities for our business. Our international sales accounted for approximately 36%, 28% and 9%, of our revenue for the fiscal years ended April 30, 2017, 2016 and 2015, 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 segments, 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. As a result, we believe that we significantly reduce the time required to move a product from its design phase to full-rate production deliveries while achieving high reliability, quality and yields.

We outsource certain production activities, such as the fabrication of structures, the manufacture of electronic printed circuit board subassemblies, payload components and the medium to high volume production of our EV charging products, to qualified suppliers, with many of whom we have long-term relationships. This outsourcing enables us to focus on final assembly, system integration and test processes for our products, ensuring high levels of quality and reliability. We forge strong relationships with key suppliers based on their ability to grow with our production needs and support our growth plans. We continue to expand upon our suppliers' expertise to improve our existing products and develop new solutions. We rely on both single and multiple suppliers for certain components and subassemblies. See "Risk Factors—If critical components or raw materials used to manufacture our products become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products, which could damage our business" for more information. All of our production system operations incorporate internal and external quality programs and processes to increase acceptance rates, reduce lead times and lower cost.

#### **Customer Funded Research and Development**

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

**Seasonality**

Historically, and more pronounced in recent years, our revenues in the second half of our fiscal year have exceeded our revenues in the first half of our fiscal year. 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. We expect this trend to continue in our fiscal year 2018.

**Raw Materials and Suppliers**

Historically, we have not experienced significant delays in the supply or availability of our key raw materials or components provided by our suppliers, nor have we experienced a significant price increase for raw materials or components. We do not anticipate any such delays or significant price increases in our fiscal year 2018.

**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,		
	2017	2016	2015
Fixed-price contracts	79 %	78 %	85 %
Cost-reimbursable contracts	21 %	22 %	15 %

**Employees**

As of April 30, 2017, we had 661 full-time employees, of whom 218 were in research and development and engineering, 58 were in sales and marketing, 242 were in operations and 143 were general and administrative personnel. We believe that we have a good relationship with our employees.

**Backlog**

We define funded backlog as unfilled firm orders for products and services for which funding currently is appropriated to us under the contract by the customer. As of April 30, 2017 and 2016, our funded backlog was approximately \$78.0 million and \$65.8 million, respectively. We expect that approximately 97% of our funded backlog will be filled during our fiscal year ending April 30, 2018.

In addition to our funded backlog, we had unfunded backlog of \$24.6 million and \$16.7 million as of April 30, 2017 and 2016, respectively. We define unfunded backlog as the total remaining potential order amounts under cost reimbursable and fixed price contracts with multiple one-year options, and indefinite delivery, indefinite quantity, or IDIQ contracts. Unfunded backlog does not obligate the U.S. government to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, if at all. Management believes that unfunded backlog does not provide a reliable measure of future estimated revenue under our contracts. Unfunded backlog does not include the remaining potential value associated with a U.S. Army IDIQ-type contract for small UAS because that contract was awarded to five companies in 2012, including AeroVironment, and we cannot be certain that we will receive all task orders issued against the contract.

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



U.S. government contracts included in backlog, whether or not they are funded, may be terminated at the convenience of the U.S. government.

#### **Other Information**

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

Our principal executive offices are located at 800 Royal Oaks Drive, Suite 210, Monrovia, California 91016. Our telephone number is (626) 357-9983. Our website home page is <http://www.avinc.com>. We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Annual Report.

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements for our annual stockholders' meetings, as well as any amendments to those reports, available free of charge through our website as soon as reasonably practical after we electronically file that material with, or furnish it to, the Securities and Exchange Commission, or SEC. You can learn more about us by reviewing our SEC filings. Our SEC reports can be accessed through the investor relations page of our web site at <http://investor.avinc.com>. These reports may also be obtained at the SEC's public reference room at 100 F. Street, N.E., Washington, DC 20549. 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.

#### **Unmanned Aircraft Systems**

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

##### **Industry Background**

###### **Small UAS**

The market for small UAS has grown significantly since the early 2000s driven largely by the demands associated with the global threat environment and the resulting procurement by military customers, the early adopters for this technology. Small UAS now represent an accepted and enduring capability for the military. The U.S. military's transformation into a smaller, more agile force that operates via a network of observation, communication and precision targeting technologies accelerated following the terrorist attacks of September 11, 2001, as it required improved, distributed observation and targeting of enemy combatants who operate in small groups, often embedded in dense population centers or dispersed in remote locations. We believe that UAS, which range from large systems, such as Northrop Grumman's *Global Hawk* and General Atomics' *Predator*, *Sky Warrior*, *Reaper* and *Gray Eagle*, to small systems, such as our Raven, Wasp AE, Puma AE and Snipe, serve as integral components of today's military force. These systems provide critical observation and communications capabilities serving the increasing demand for actionable intelligence, while reducing risk to individual "warfighters." Small UAS can provide real-time observation and communication capabilities to the small units who control them. As airspace regulations in the U.S. and other nations evolve to accommodate the commercial use of small UAS, we are furthering the application of small UAS technology in new markets such as energy, precision agriculture, transportation, infrastructure and public safety. We expect further growth through the introduction of UAS technology and services to these emerging commercial applications.

###### **Tactical Missile Systems**

The development of weapons capable of rapid deployment and precision strike while minimizing the risk to surrounding civilians, property and operators accelerated in recent years 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 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 situations and from a variety of sea, air and land platforms. We believe that embedding a precision lethal payload into a remotely controlled, man-portable delivery system provides warfighters with a valuable and more cost-effective alternative to existing airborne and land-based missile systems.

#### **Large UAS**

We believe a market opportunity exists for large UAS that can fly for long periods of time to provide continuous remote sensing and communications in an affordable manner over great distances. Existing solutions such as 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. Geosynchronous satellites provide fixed, continuous communications capabilities to large portions of the globe, but they operate more than 20,000 miles from the surface of the earth, therefore limiting the bandwidth they can provide 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. UAS that are capable of operating in an affordable manner for extended periods of time over an area of interest without gaps in availability while carrying a communications or observation payload could help to satisfy this need.

#### **Our UAS Solutions**

We supply our UAS products and services to multiple customers inside and outside of the United States. For the fiscal years ended April 30, 2017, 2016 and 2015, our UAS segment products and services accounted for 86%, 89% and 85%, of our revenue, respectively.

#### **Small UAS Products**

Our small UAS, including Raven, Wasp AE, Puma AE and Snipe, are designed to operate reliably a few hundred feet above the ground in a wide range of environmental conditions, providing a vantage point from which to deliver valuable information. Military forces employ our small UAS to deliver intelligence, surveillance and reconnaissance ("ISR"), and communications, including real-time tactical reconnaissance, tracking, combat assessment and geographic data, directly to the small tactical unit or individual operator, thereby increasing flexibility in mission planning and execution. In commercial applications, we operate our small UAS as part of a turnkey information solution to deliver advanced analysis and prescriptive actions that can reduce costs, enhance safety and increase revenue. Our small UAS wirelessly transmit critical live video and other information generated by their payload of electro-optical, infrared or other sensors directly to a hand-held ground control unit, enabling the operator to view and capture images, during the day or at night, on the control unit. Certain sensors generate a volume of data significantly larger than wireless bandwidth can accommodate, requiring the transfer of data once the air vehicle has landed. Our ground control systems allow the operator to control the aircraft by programming it for GPS-based autonomous navigation using operator-designated way-points, or by manual flight operation. The ground control systems are designed for durability and ease of use in harsh environments and incorporate a user-friendly, intuitive user interface. All of our fixed wing small UAS currently in production for military customers operate from our common ground control system.

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

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

In emerging commercial applications, our small UAS enable enterprises to manage valuable assets such as crops, powerlines and railroad infrastructure, more effectively and safely than previously possible. Our Quantix data collection drone and our commercial information services, consisting of trained operators, advanced sensors, cloud-based data processing and application-specific analysis, are designed to provide our customers with more accurate and timely information regarding their infrastructure, such as pipelines, roads and bridges, and can provide companies with agriculture operations with more accurate and timely information regarding their crops. Better and more timely information can translate into more efficient maintenance activities that prevent downtime, in the case of the energy industry, and more efficient use of scarce resources such as water, for agriculture.

Our small UAS offering also includes spare equipment, alternative payload modules, batteries, chargers, repair services and customer support. We provide training by our highly-skilled instructors, who typically have 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.

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

Small UAS Product	Wingspan (ft.)	Weight (lbs.)	Recovery	Standard Sensors	Range (mi.)(1)	Flight Time (min.)(1)
Puma AE	9.2	14	Vertical autonomous landing capable (ground or water)	Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared	9.0	210
Raven	4.5	4.5	Vertical autonomous landing capable	Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared	6.0	60 - 90
Wasp AE	3.3	2.8	Vertical autonomous landing capable (ground or water)	Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared	3.0	50
Snipe	0.8	0.3	Vertical takeoff and landing	Mechanical tilt, electro-optical and infrared	0.6	15

(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 DDL relay can enable operational modes that can extend range significantly.

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

The Snipe nano quadrotor is an unmanned aircraft system tailored to the needs of frontline troops who need immediate situational awareness. Snipe incorporates an advanced touch screen interface to control the system and view the information produced by the air vehicle's onboard sensors. Highly portable and easy to assemble, operate and stow, snipe is designed to provide rapid airborne information within one kilometer of its launch point in situations where time is short and risk is high.

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

#### **Tactical Missile Systems Products**

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

#### **UAS Logistics Services**

In support of our small UAS 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 the company and provide us with continuous feedback to understand the utility of our systems, anticipate our customers' needs and develop additional customer insights. We believe that this ongoing feedback loop enables us to continue to provide our customers with innovative solutions that help them succeed. We provide spare parts as well as repair, refurbishment and replacement services in a manner that seeks to minimize supply chain delays, and we support our customers with spare parts, replacement aircraft and support whenever and wherever they need them. One of our facilities also serves as the primary depot for repairs and spare parts.

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

#### **UAS Customer Funded Research and Development**

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

#### **UAS Technology, Research and Development**

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

- lightweight, low speed aerostuctures and aerodynamic design;
- miniaturized avionics and micro/nano unmanned aircraft systems;

- image stabilization and target tracking;
- autonomous systems;
- payload design, development, miniaturization and integration;
- electric propulsion systems;
- high altitude long endurance flight operations;
- fluid dynamics;
- miniature, low power wireless digital communications;
- vertical takeoff and landing fixed-wing flight unmanned aircraft systems; and
- system integration and optimization.

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

***Tactical Missile System Variants.*** We pioneered our first rapidly deployable, high-precision tactical missile system, called Switchblade, for use by ground forces. Switchblade is now employed by the U.S. military to provide force protection to its troops overseas in combat operations. During a multitude of demonstrations over the course of several years, multiple potential customers requested modifications to Switchblade to accommodate their specific mission requirements. We performed a number of successful demonstrations and are now developing several variants to Switchblade for new customers and applications, including deployment from sea and air vehicles. Blackwing, a submarine-launched reconnaissance system, represents one of the variants. Other variants have transitioned into production and sale to U.S. customers. We believe these new variants have the potential to expand our tactical missile systems opportunities significantly.

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

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

We organize our U.S. UAS business development team members by market and customer and we locate team members in close proximity to the customers they support, where possible. Our program managers are organized 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.

### **UAS Manufacturing and Operations**

Continued investment in infrastructure has established our manufacturing capability to meet demand with scalable capacity. We have the manufacturing infrastructure to produce UAS products at high rates, support initial low rate production for new UAS development programs and tactical missile systems and execute initial low-rate production of large UAS. By drawing upon experienced personnel across various manufacturing industries including aerospace, automotive and volume commodities, we have instituted lean production systems and leverage our International Organization for Standardization, or ISO, certification, integrated supply chain strategy, document control systems and process control methodologies for production. Presently, we perform small UAS and tactical missile systems manufacturing at the 85,000 square foot manufacturing facility we established in 2005. This ISO 9001:2008 certified manufacturing facility is designed to accommodate demand of up to 1,000 aircraft per month. ISO 9001:2008 refers to a set of voluntary standards for quality management systems. These standards are established by the ISO to govern quality management systems used worldwide. Companies that receive ISO certification have passed audits performed by a Registrar Accreditation Board-certified auditing company. These audits 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.

### **UAS Competition**

The market for military 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., L-3 Technologies, Inc. and Lockheed Martin Corporation. We do not view large UAS such as Northrop Grumman Corporation's *Global Hawk*, General Atomics, Inc.'s *Predator* and its derivatives, The Boeing Company's *ScanEagle* and Textron Inc.'s *Shadow* as direct competitors to our small UAS because they perform different missions, do not typically deliver their information directly to front-line ground forces and are not hand-launched and controlled. However, we cannot be certain that these platforms will not become direct competitors in the future. Potential competition from consumer-focused drone manufacturers could emerge as their capabilities increase and their prices remain low relative to existing military solutions, which could result in some level of military consideration even if such drones do not meet traditional military performance specifications.

The market for long endurance 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 long endurance UAS is Northrop Grumman Corporation with its *Global Hawk*. Several aerospace and defense contractors are pursuing this market opportunity with proposed very long duration UAS, including The Boeing Company, Airbus, Aurora Flight Sciences Corporation, Lockheed Martin Corporation and Northrop Grumman Corporation. Some internet technology companies have acquired small firms that focus on this type of capability and represent potential future competitors. Companies pursuing airships (high altitude aircraft that are kept buoyant by a body of gas that is lighter than air) as a solution for this market include Lockheed Martin Corporation and Northrop Grumman Corporation. Companies pursuing satellites as a solution for this market include The Boeing Company, Lockheed Martin Corporation, General Dynamics Corporation, EADS N.V., Ball Corporation and Orbital Sciences Corporation.

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

The market for commercial UAS products and services is in an early stage of development, but is evolving rapidly, generating a great deal of interest as government regulations evolve to accommodate commercial UAS operations in the National Airspace System and in the airspace systems of other countries. Given the breadth of applications and the diversity of industries that could benefit from UAS technology, a growing number of potential competitors in this market include consumer drone manufacturers who seek to enhance their systems' capabilities over time; other small UAS manufacturers, including large aerospace companies; aerial surveying and mapping service

providers; ground-based surveying and mapping service providers; satellite imagery providers; and specialty system manufacturers, software as a service and service providers aiming to address specific market segments. The emerging non-military market is attracting numerous additional competitors and significant venture capital funding given perceived lower barriers to entry and a much more fragmented marketplace as compared to the military market. Potential additional competitors include start-up companies providing low cost solutions.

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

#### ***UAS Regulation***

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

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

In addition, we are subject to industry-specific regulations due to the nature of the products and services we provide. For example, certain aspects of our business are subject to further regulation by additional U.S. government authorities, including (i) the FAA, which regulates airspace for all air vehicles in the U.S. National Airspace System, (ii) the National Telecommunications and Information Administration and the Federal Communications Commission, which regulate the wireless communications upon which our UAS depend in the United States and (iii) the Defense Trade Controls of the U.S. Department of State that administers the International Traffic in Arms Regulations, which regulate the export of controlled technical data, defense articles and defense services. In 2006, the FAA issued a clarification of its existing policies stating that, in order to engage in public use of small UAS in the U.S. National Airspace System, a public (government) operator must obtain a Certificate of Authorization, or 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 states that the rules for radio-controlled hobby aircraft do not apply to public or commercial use of small UAS. In 2012, the U.S. Congress mandated that the FAA develop rules that provide for the integration of small UAS into the U.S. National Airspace System by September 30, 2015.

The FAA issued the first restricted type certificate for the commercial operation of an unmanned aircraft over American soil to our Puma AE system in 2014. Under a COA, we operated Puma AE systems in the Prudhoe Bay area of Alaska to support a major oil and gas customer. The Secretary of Transportation has the authority to determine whether an airworthiness certificate is required for a UAS to operate safely in the U.S. National Airspace System. On September 25, 2014 the FAA began issuing case-by-case authorization for certain unmanned aircraft to perform commercial operations prior to the finalization of the rules providing for the integration of small UAS into the U.S. National Airspace System. As of May 11, 2015 the FAA had granted us four exemptions for the use of our small UAS, including Puma AE systems, for agriculture, aerial survey, and patrol operations and for inspections of fixed infrastructures in controlled environments. 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.

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.

***UAS Government Contracting Process***

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

***UAS Bidding Process***

Most of our current government contracts were awarded through a competitive bidding process. The U.S. government awards competitive-bid contracts based on proposal evaluation criteria established by the procuring agency. Competitive-bid contracts are awarded after a formal bid and proposal competition among providers. Interested contractors prepare a bid and proposal in response to the agency's request for proposal or request for information. A bid and proposal is usually prepared in a short time period in response to a deadline and requires the extensive involvement of numerous technical and administrative personnel. Following award, competitive-bid contracts may be challenged by unsuccessful bidders.

***UAS 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 needs statements or as programs of record. Operational needs statements represent 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 needs 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.

***UAS Material Government Contract Provisions***

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

- terminate existing contracts for convenience, in whole or in part, when it is in the interest of the government to do so;
- terminate contracts for default upon the occurrence of certain enumerated events;
- unilaterally modify contracts with regard to certain performance requirements;



- cancel multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;
- potentially obtain rights in, or ownership to, intellectual property associated with products and systems developed or delivered by a contractor as a result of its performance of the contract;
- adjust contract costs and fees on the basis of audits completed by its agencies;
- suspend or debar a contractor from doing business with the U.S. government; and
- control or prohibit the export of certain items.

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

#### ***UAS Government Contract Categories***

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

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

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

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

- Cost-plus-fixed fee contracts are cost reimbursable contracts that provide for payment of a negotiated fee that is fixed at the inception of the contract. This fixed fee does not vary with actual cost of the contract, but may be adjusted as a result of changes in the work to be performed under the contract. This contract type poses less risk of loss than a fixed-price contract, but our ability to win future contracts from the procuring agency may be adversely affected if we fail to perform within the maximum cost set forth in the contract.

- A cost-plus-award fee contract is a cost reimbursable contract that provides for a fee consisting of a base amount, which may be zero, fixed at inception of the contract and an award amount, based upon the government's satisfaction with the performance under the contract. With this type of contract, we assume the risk that we may not receive the award fee, or only a portion of it, if we do not perform satisfactorily.
- A cost-plus-incentive fee contract is a cost reimbursable contract that provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs.

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

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

#### ***UAS Indefinite Delivery Indefinite Quantity Contract Form***

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

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

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

#### **Efficient Energy Systems**

Our EES business segment addresses the increasing economic, environmental and energy security value of electric transportation with solutions for developing, manufacturing and charging electric vehicles.

## Industry Background

### Electric Vehicle Charging Systems

Plug-in electric vehicles (PEVs) and advanced hybrid electric vehicles (HEVs) require on-board battery packs to provide the electricity that powers their operation. These battery packs vary in chemistry, size, weight, shape, and energy storage capacity. As drivers operate electric vehicles, their battery packs discharge electricity similar to the way an internal combustion vehicle's gasoline tank supplies fuel to the engine as it is driven. Upon discharging the battery pack, the driver of an electric vehicle must either replace it with a fully charged pack, if it is removable, or recharge the pack while it remains in the vehicle. Because of the differences in battery sizes and composition, as well as the manner in which each vehicle is operated and the type of electric service available, a variety of charging systems exist to support these vehicles. These charging systems range from relatively slow charging devices that require many hours to completely recharge a battery pack to very fast chargers that can do so in minutes.

#### Passenger Electric Vehicle Charging Systems

Numerous factors contribute to a growing interest among consumers, governments and automakers in vehicles that do not rely solely on fossil fuels. These factors include:

- concerns regarding the environmental impact of resource extraction and carbon emissions associated with fossil fuel-based transportation;
- awareness of the geopolitical and economic costs associated with the current dependence on petroleum imports;
- anticipation of future energy price volatility;
- the increasing demand for automobiles in large, rapidly growing markets such as China and India and the resulting anticipated growth in demand for fossil fuels; and
- government and private investments in "clean" technologies.

In response to these factors most major automotive manufacturers around the world are developing and introducing modern PEVs for everyday transportation. Vehicles in this class incorporate battery electric drive systems either in a dedicated format in which an onboard battery pack supplies electricity to one or more electric motors, or in an advanced hybrid design, in which an onboard battery pack provides electricity to an electric motor, and a small onboard internal combustion engine recharges the battery as needed. A PEV requires that its battery pack be recharged from an external power source or be replaced with a fully charged battery pack. An advanced HEV does not require recharging from an external power source because an onboard gasoline powered internal combustion engine recharges the battery pack, but using an external power source can minimize gasoline consumption and vehicle carbon emissions.

Most EVs recharge using external systems installed at home, work and at public places such as shopping centers, supermarkets, highway rest stops, and locations similar to gasoline refueling stations. With a growing number of new consumer electric vehicle models now deployed, and additional models scheduled to follow, there exists demand for charging infrastructure to enable their safe, reliable and practical recharging.

The rate at which a passenger electric vehicle battery pack can be recharged depends on a number of factors including battery type, size, ambient temperature, the capacity of the vehicle's onboard controller to convert electricity to

the proper format for storage in a battery pack, its ability to receive high current charging and the amount of power available. Electric vehicle charging systems may be segmented into three general categories.

Level	Infrastructure Requirement	Recharge Time
Level 1	Power cord with safety features that plugs into a dedicated 120-volt AC outlet	Capable of slow recharge that could require up to 24 hours or more for certain battery packs
Level 2, known as Electric Vehicle Supply Equipment	A hard-wired or portable device that requires a dedicated 240-volt AC circuit	Capable of fully recharging most battery packs in two to six hours
Level 3, DC or fast/quick charge	Typically requires installation onto a three-phase, 480-volt AC circuit	Capable of nearly fully recharging battery packs designed to accept such a charge in 30 minutes

We believe that broad adoption of passenger electric vehicles requires a mix of these types of charging systems, distributed so as to make them accessible to drivers when and where they need them. The adoption of passenger electric vehicles also necessitates supporting services, such as: experienced electrical assessment and installation, the integration of PEVs and charging systems into smart grids and the ability to monitor and manage the use of electricity and provide for various payment methods and plans such as subscription and credit card point-of-sale.

#### Industrial Electric Vehicle Charging Systems

Industrial electric vehicles have been in use extensively for decades. In industrial environments such as factories, distribution centers and airports, fast charge technology, which charges a battery with a high electrical current while the battery remains in the vehicle, eliminates the need for frequent battery changing and a dedicated battery room. This approach increases productivity, reduces operating costs and improves facility safety. The earliest adopters of fast charge technology include the automotive and air transportation industries. Large food and retail industry customers now also utilize fast charge technology.

Industrial electric vehicles rely on large onboard lead-acid batteries that can consume up to 17 cubic feet and weigh up to 3,500 pounds. In multi-shift fleet operations, traditional slow charging systems require users to exchange vehicle batteries throughout the day because these batteries discharge their energy through vehicle usage and there is insufficient vehicle downtime to recharge them during a shift. As a result, drivers must leave their work areas when the battery reaches a low state of charge and drive to a dedicated battery changing room, which often occupies valuable floor space and is frequently located far from a driver's work area. The driver, or in some cases a dedicated battery attendant, must then remove the battery from the vehicle, place it on a storage rack, connect it to a conventional battery charger, identify a fully-charged battery, move it into the vehicle's battery compartment and reconnect the battery to the motor before the driver may return to the work area. These battery changes take place every day in facilities around the world, resulting in reduced material movement and increased operating costs. Furthermore, depending on the type of battery, conventional battery chargers can require up to eight hours to recharge the battery, which then must cool for up to an additional eight hours before it is ready to be used again. Consequently, depending on vehicle usage and the number of shifts in an operation, a fleet may require more than one battery per vehicle, which necessitates additional storage space, chargers and maintenance time. Moreover, the high levels of heat generated by conventional battery chargers during their normal use can cause excessive evaporation of the water contained in the battery and damage to the battery's components. Over time, this evaporation of fluid and subsequent damage to components result in battery degradation and adversely affect the battery's life. Lithium battery chemistry is emerging as a potentially transformative motive power solution for industrial EVs that offers benefits in charging time, size, weight and capacity. We believe that industrial battery charging solutions that can also support lithium ion battery packs will be well positioned for this emerging trend.

#### Power Cycling and Test Systems

Developers and manufacturers of electric and hybrid electric vehicles typically conduct a variety of tests on the electric propulsion and energy storage systems that convert electricity to motion. These tests include simulating the consumption, conversion and storage of electricity through a range of operating scenarios, and long-term testing to

simulate the rigors of real-world driving. Developers of battery packs, electric motors and fuel cells also test their devices to validate design hypotheses and identify potential operating issues. Customers include commercial, government, military and university research and development labs as well as commercial manufacturing facilities.

## **Our EES Solutions**

### **EES Products**

Our EES business segment produces electric transportation and industrial productivity solutions for commercial, consumer and government customers, develops new potential electric transportation solutions and performs engineering services. These solutions consist of: (i) electric vehicle charging systems, services and related solutions for plug-in passenger vehicles; (ii) PosiCharge industrial electric vehicle charging systems for electric material handling vehicles and airport ground support equipment; and (iii) power cycling and test systems for developers and manufacturers of EVs as well as battery packs, electric motors and fuel cells. For the fiscal years ended April 30, 2017, 2016 and 2015, EES sales accounted for 14%, 11% and 15%, respectively, of our revenue. We believe that the markets for our electric vehicle charging systems and power cycling and test systems continue to develop and that continued diversification of our customer base and the increasing adoption of electric vehicles will support increased penetration into target markets.

#### **Passenger Electric Vehicle Charging Systems**

In response to automakers' introductions of PEVs and broader trends favoring electric transportation, we have developed solutions to support the adoption and use of PEVs by nearly every major automaker and many startups worldwide. Our initial EV charging technology emerged from our development of the GM Impact, the first modern EV. Over two decades we improved the technology, deployed it to industrial markets, and adapted it for the current generation of EVs. We believe that most EV drivers will charge their vehicles overnight at their homes. Those without a charging location at home or who make trips beyond the range of their vehicle's battery pack will require public or workplace charging infrastructure. Our strategy is to offer a charging infrastructure solution, including TurboCord portable dual voltage level 2 charging cords, overnight home chargers, public chargers, installation services, data collection systems and communications through multiple wired and wireless data communications options. We offer an integrated solution designed to enable the broad adoption and the practical use of PEVs and HEVs.

A component of our strategy is to develop relationships across multiple channels that lever our strengths and provide complementary pathways to market. We have announced several such agreements to date with leading auto manufacturers, electric utilities and state and municipal governments.

We believe these relationships represent a valuable position from which to expand our charging infrastructure footprint. We continue to work with automakers, utilities and government agencies at multiple levels as well as with private industry to explore business models and to promote our solutions.

In addition to the thousands of level 2 charging systems we have deployed in North America, we have also deployed PEV fast charging systems, which we view as a powerful tool that can help enable the broader adoption of PEVs.

#### **Passenger Electric Vehicle Charging Services**

We have established broad geographic coverage in North America to provide installation and repair services for our growing footprint of passenger electric vehicle charging systems. We identify, qualify, select, train, certify and monitor the performance of these contractors and equip them with proprietary tools, expertise and web-based information systems to facilitate the successful installation and support of our charging systems as this market opportunity grows. Our 24-hour customer service center provides support to answer customer inquiries and promote a high level of customer satisfaction.

The appearance of our products and services can readily be customized to support our partners' marketing programs. This capability is designed to enable automakers, utilities, government agencies and other businesses to deliver a branded solution to their customers that will enhance their customer relationships.

#### **PosiCharge Industrial Electric Vehicle Charging System**

Developed from our work on electric and HEVs and advanced battery systems in the 1990s, PosiCharge industrial electric vehicle charging systems quickly and safely recharge industrial electric vehicle batteries while the batteries remain in the vehicle during regularly scheduled breaks and at other times when the vehicle is not in use. By eliminating battery changing, PosiCharge systems improve supply chain productivity by returning time to the vehicle operator to complete more work. Furthermore, because of their advanced efficient energy capabilities, PosiCharge systems can reduce the amount of electricity required to support industrial electric vehicles by several hundred dollars per year per vehicle, as compared to less efficient conventional battery chargers. Many customers who implement our charging systems in their facilities are able to re-purpose the battery changing room floor space for more productive activities and create a safer working environment, as drivers or battery attendants no longer need to exchange large lead-acid batteries continually.

The proprietary battery charging algorithms built into PosiCharge systems, which are tailored to battery type, brand and size, maximize the rate at which they deliver energy into the battery while minimizing heat generation and its damaging effects on the battery's internal components. We developed these algorithms over years of advanced battery testing and usage. We believe our work to develop these algorithms contributed to the major battery manufacturers offering warranties for the use of their batteries with our charging systems, which provided a critical assurance to customers that our rapid charging systems would not harm their batteries. In combination with a weekly equalization charge that balances all the cells within the battery pack, our "intelligent" charging process enhances the performance of batteries. We believe that competing rapid and conventional charging systems, which lack our current and voltage regulating tailored charge algorithms and monitoring capabilities, may actually contribute to lower battery performance and lifespan, ultimately resulting in higher battery costs and degraded vehicle performance.

Our PosiCharge offering is focused on providing smart, efficient products to enhance the charging process and help customers maximize the life and performance of their industrial fleets by managing and extending the lives of their batteries, and thereby increasing the productivity of their drivers.

#### **Power Cycling and Test Systems**

We supply a line of power cycling and test systems to research and development organizations that focus on electric propulsion systems, electric generation systems and electricity storage systems. Customers employ these systems to test batteries, electric motors, electric and hybrid drive trains and fuel cell systems.

Our line of DC test systems has the flexibility to perform a variety of electric load tests. With a power range (+/-5kW to +/-800kW) of bi-directional DC equipment, our power cycling and test systems can handle a wide variety of DC supply or load requirements—from lead acid to the latest lithium-ion battery chemistries to fuel cells with integrated power electronics. In addition, these systems can emulate any drive train component, enabling the testing of individual components or partial drive trains accurately and realistically, and allowing hardware-in-the-loop testing. We also offer flexible software control options via the C language Remote Operation System and Windows-based languages such as LabVIEW or CAN.

#### **EES Technology**

The following list highlights a number of our key EES technological capabilities:

- battery management and testing;
- power electronics and controls;

- efficient electric drive systems and controls;
- high-density energy packaging;
- efficient electric power generation, storage and management;
- charging algorithms and thermal management;
- on/off grid controls and controls integration;
- system integration and optimization; and
- web-based real-time data collection and reporting.

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

##### **Passenger Electric Vehicle Charging Systems**

As the market for PEVs evolves, we are pursuing numerous potential sales channels for our products and services. We continue to seek to partner with auto manufacturers, utilities, government agencies and others to position ourselves for an increase in demand for charging solutions associated with electric and HEV adoption. We also sell our charging products to consumers, both directly and via major retailers. We have a broad network of licensed electrical contractors whom we train and certify to install and service home and public charging systems. To enable this installation and service network we have developed an e-commerce platform to integrate customers' orders, inventory management, dispatching and provisioning, billing and product and service traceability. This platform, along with our broad network, is designed to support our growth as we pursue numerous electric vehicle charging opportunities.

##### **Industrial Electric Vehicle Charging Systems**

We primarily sell our PosiCharge industrial electric vehicle charging systems through a dedicated, direct sales force complemented by a network of resellers and industrial battery and lift-truck dealers. The sales team targets large entities with the potential for domestic and international enterprise adoption of our solutions. The sales team also coordinates distribution of PosiCharge systems through battery and lift-truck dealers. These dealers' relationships with, and proximity to, our customers' facilities enable them to sell our solutions and provide post-sale service to our customers. We believe that these dealers are well suited to address the large number of smaller and geographically dispersed customers with industrial vehicle fleets. When evaluating a facility for its ability to benefit from PosiCharge systems, we typically perform a detailed analysis of the customer's operations. This analysis allows us to quantify the benefit projected for a PosiCharge system implementation, helping customers to determine for themselves if the business case is sufficiently compelling.

##### **Power Cycling and Test Systems**

We sell our power cycling and test systems through a dedicated, direct sales force and through a network of international distributors and representatives who have access to the research and development and manufacturing organizations that procure and use these types of systems. Given the distances involved, we enable and often rely on our international distributors to provide service in support of our customers.

##### **EES Manufacturing and Operations**

We perform assembly and testing of our power cycling and test systems at our 85,000 square foot, ISO 9001:2008 and ISO14001:2004 certified facility. We designed the portion of this facility where we perform such assembly and testing operations for flexibility, using a work cell model for final assembly and have included fixtures optimized for final testing. We utilize contract manufacturing for the production of the majority of our PosiCharge

industrial electric vehicle charging systems. We have also implemented a contract manufacturing strategy to support our passenger electric and HEV charging systems business opportunity.

#### **EES Competition**

Competitors in the emerging market for passenger electric and HEV charging systems include focused charging system suppliers such as ChargePoint, Inc. and ClipperCreek, Inc. and large industrial electrical device suppliers such as Bosch Automotive Service Solutions LLC, Delta Electronics, Inc., Eaton Corporation, Leviton Manufacturing Co., Inc., Schneider Electric SA, The ABB Group and Siemens AG.

The primary direct competitors to PosiCharge systems are other fast charge suppliers, including Aker Wade Power Technologies LLC, Minit-Charger, PowerDesigners, LLC, and EnerSys. Some of the major industrial motive battery suppliers have aligned themselves with fast charge suppliers. In addition, our PosiCharge systems compete against the traditional method of battery changing. Competitors in this area include suppliers of battery changing equipment and infrastructure, designers of battery changing rooms, battery manufacturers and dealers who may experience reduced sales volume because PosiCharge systems reduce or eliminate the need for extra batteries.

Direct competitors for our power cycling and test systems include Bitrode Corporation and Digatron Power Electronics.

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, integration with existing equipment, quality, reliability, customer support, brand and reputation.

For additional financial information with respect to our UAS and EES segments, please see Note 20 to our consolidated financial statements, which are included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report.

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

##### **General Business Risks**

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

Historically, we have derived a significant portion of our total sales and substantially all of our small UAS sales from the U.S. government and its agencies. Sales to the U.S. government, either as a prime contractor or subcontractor, represented approximately 55% of our revenue for the fiscal year ended April 30, 2017. The DoD, our principal U.S. government customer, accounted for approximately 37% of our revenue for the fiscal year ended April 30, 2017. We believe that the success and growth of our business for the foreseeable future will continue to depend to a significant degree on our ability to win government contracts, in particular from the DoD. Many of our government customers are subject to budgetary constraints and our continued performance under these contracts, or award of additional contracts from these agencies, could be jeopardized by spending reductions, including constraints on government spending imposed by the Budget Control Act of 2011 and its subsequent amendments, or budget cutbacks at these agencies. The funding of U.S. government programs is uncertain and dependent on continued congressional appropriations and administrative allotment of funds based on an annual budgeting process. We cannot assure you that current levels of congressional funding for our products and services will continue and that our business will not decline. Additionally, the U.S. military funds our contracts primarily through operational needs statements, and to a lesser extent, through programs of record, which provides us with less visibility and certainty on future funding allocations for our contracts. Furthermore, all of our contracts with the U.S. government are terminable by the U.S. government at will. A significant decline in government expenditures generally, or with respect to programs for which we provide products, could adversely affect our business and prospects. Our operating results may also be negatively impacted by other developments that affect these government programs generally, including the following:

- changes in government programs that are related to our products and services;



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

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

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

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

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

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

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

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

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

The defense industry is highly competitive and generally characterized by intense competition to win contracts. Our current principal small UAS competitors include Elbit Systems Ltd., L-3 Technologies, Inc. and Lockheed Martin Corporation. We do not view large UAS such as Northrop Grumman Corporation's *Global Hawk*, General Atomics, Inc.'s *Predator* and related products, The Boeing Company's *ScanEagle* and Textron Inc.'s *Shadow* as direct competitors because they perform different missions, do not typically deliver their information directly to front-line ground forces, and are not hand launched and controlled. However, we cannot be certain that these platforms will not become direct competitors in the future. 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.

The primary direct competitors to our PosiCharge industrial EV charging system business are other fast charge suppliers, including Aker Wade Power Technologies LLC, PowerDesigners, LLC and Minit-Charger as well as industrial battery manufacturers that distribute fast charging systems from these suppliers. The primary direct competitors to our power cycling and test system business are other test system suppliers, including Bitrode Corporation and Digatron Firing Circuits. Our primary competitors in the emerging market for passenger EV charging systems include charging system suppliers such as ChargePoint, Inc. and ClipperCreek, Inc. and large industrial electrical device suppliers such as Bosch Automotive Service Solutions LLC, Delta Electronics, Inc., Eaton Corporation, Leviton Manufacturing Co., Inc., Schneider Electric SA, the ABB Group and Siemens AG. Our EV charging system installation and support services business faces competition from local licensed electricians as well as larger electrical service providers.

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 in our services businesses may be able to offer more cost competitive services, due to their lower overhead costs, and take advantage of small business incentive and set-aside programs for which we are ineligible. In the event that the market for small UAS or EV charging systems and services expands, we expect that competition will intensify as additional competitors enter the market and current competitors expand their product lines. In order to secure contracts successfully when competing with larger, well-financed companies, we may be forced to agree to contractual terms that provide for lower aggregate payments to us over the life of the contract, which could adversely affect our margins. In addition, larger diversified competitors serving as prime contractors may be able to supply underlying products and services from affiliated entities, which would prevent us from competing for subcontracting opportunities on these contracts. Our failure to compete effectively with respect to any of these or other factors could have a material adverse effect on our business, prospects, financial condition or operating results.

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

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

commercial UAS markets in general, and the market for our products in particular, depends on a number of factors, including the following:

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

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

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

We derived approximately 36% of our revenue from international sales during the fiscal year ended April 30, 2017 compared to 28% for the fiscal year ended April 30, 2016. We expect to continue to derive an increasing portion of our revenue from international sales. Our international revenue and operations are subject to a number of material risks, including the following:

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

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

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

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

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

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

The complexity of our business has increased significantly over the last several years. We have expanded the number of business areas being pursued, shifting from primarily a U.S. government focused business to a business that includes substantial international product sales and added commercial services. This increased complexity and our expected growth has placed, and will continue to place, a strain on our management and our administrative, operational and financial infrastructure. We anticipate further growth of headcount and facilities will be required to address expansion in our product offerings and the geographic scope of our customer base. However, if we are unsuccessful in our efforts, our business could decline. Our success will depend in part upon the ability of our senior management to manage our increased complexity and expected growth effectively. To do so, we must continue to hire, train, manage and integrate a significant number of qualified managers and engineers. If our new employees perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or retaining these or our existing employees, then our business may experience declines.

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

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

Until recently, we have focused on selling our small UAS to the U.S. military, our industrial EV fast charging and test systems to large industrial EV fleet operators primarily in North America, our power cycling and test systems primarily to research and development facilities in North America, and our EV charging systems to domestic commercial customers, distributors and consumers. We have, however, expanded our UAS sales into other government and commercial markets, and our industrial EV charging and power cycling and test systems and EV charging systems sales into international markets. Our efforts to expand our product offerings beyond our traditional markets may divert management resources from existing operations and require us to commit significant financial resources to unproven businesses that may not generate additional sales, either of which could significantly impair our operating results.

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

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

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

The EV charging industry is especially dynamic. For example, a single fast charge connector communication protocol standard for the U.S. market has not yet been established, although other standards are emerging throughout the world. If we are unable to accurately anticipate fast charge standards that are adopted in our potential markets or develop products that meet such standards quickly enough to meet customer requirements, our EV charging systems 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 \$33.0 million, or 12% of our revenue, in our fiscal year ended April 30, 2017 on research and development activities. We believe that there are significant investment opportunities in a number of business areas. Because we account for research and development as an operating expense, these expenditures will adversely affect our earnings in the future. Further, our research and development programs may not produce successful results, and our new products and services may not achieve market acceptance, create additional revenue or become profitable, which could materially harm our business, prospects, financial results and liquidity.

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

The regulation of small UAS for commercial use in the United States is undergoing substantial change and the ultimate treatment is uncertain. In 2006, the FAA issued a clarification of its existing policies stating that, in order to engage in commercial use of small UAS in the U.S. National Airspace System, a public operator must obtain a COA from the FAA, or fly in restricted airspace. The FAA's COA approval process requires that the public operator certify the airworthiness of the aircraft for its intended purpose, that a collision with another aircraft or other airspace user is extremely improbable, that the small unmanned aircraft system complies with appropriate cloud and terrain clearances and that the operator or spotter of the small unmanned aircraft system is generally within one half-mile laterally and 400 feet vertically of the small unmanned aircraft system while in operation. Furthermore, the FAA's clarification of existing policy stated that the rules for radio-controlled hobby aircraft do not apply to public or commercial use of small UAS.

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

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

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

Our UAS rely on complex avionics, sensors, user-friendly interfaces and tightly-integrated, electromechanical designs to accomplish their missions, and our EV charging and power cycling and test systems often rely upon the application of intellectual property for which there may have been little or no prior commercial application. Despite testing, our products have contained defects and errors and may in the future contain defects, errors or performance problems when first introduced, when new versions or enhancements are released, or even after these products have been used by our customers for a period of time. These problems could result in expensive and time-consuming design modifications or warranty charges, delays in the introduction of new products or enhancements, significant increases in our service and maintenance costs, exposure to liability for damages, damaged customer relationships and harm to our reputation, any of which could materially harm our results of operations and ability to achieve market acceptance. In addition, increased development and warranty costs could be substantial and could reduce our operating margins.

The existence of any defects, errors, or failures in our products or the misuse of our products could also lead to product liability claims or lawsuits against us. A defect, error or failure in one of our UAS could result in injury, death or property damage and significantly damage our reputation and support for our UAS in general. We anticipate this risk will grow as our UAS begin to be used in U.S. domestic airspace and urban areas. While our PosiCharge industrial EV charging systems include certain safety mechanisms, these systems can deliver up to 600 amps of current in their application, and the failure, malfunction or misuse of these systems could result in injury or death. Our passenger electric and HEV charging systems and power cycling and test systems also have the potential to cause injury, death or property damage in the event that they are misused, malfunction or fail to operate properly due to unknown defects or errors.

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

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

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

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

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

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

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

Contract accounting requires judgments relative to assessing risks, including risks associated with estimating contract revenues 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 revenues and cost 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; consider whether the intent of entering into multiple contracts was effectively to enter into a single project in order to determine whether such contracts should be combined or segmented;

consider incentives or penalties related to performance on contracts in estimating sales and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and use estimates of award fees in estimating sales and profit rates based on actual and anticipated awards. 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 79% of our revenue for the fiscal year ended April 30, 2017. If we fail to anticipate technical problems, estimate costs accurately or control costs during our performance of fixed-price contracts, then we may incur losses on these contracts because we absorb any costs in excess of the fixed price. Under cost-plus-fee contracts, if costs exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, then we may not be able to obtain reimbursement for all such costs. Under time and materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Because many of our contracts involve advanced designs and innovative technologies, we may experience unforeseen technological difficulties and cost overruns. Under each type of contract, if we are unable to control the costs we incur in performing under the contract, then our financial condition and results of operations could be materially adversely affected. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

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

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

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

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

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

Certain of our U.S. government contracts require our employees to maintain various levels of security clearances, and we are required to maintain certain facility security clearances complying with DoD requirements. The DoD has strict security clearance requirements for personnel who work on classified programs. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit and retain employees who already hold security clearances. If our employees are unable to obtain security clearances in a timely



manner, or at all, or if our employees who hold security clearances are unable to maintain the clearances or terminate employment with us, then a customer requiring classified work could terminate the contract or decide not to renew it upon its expiration. In addition, we expect that many of the contracts on which we will bid will require us to demonstrate our ability to obtain facility security clearances and employ personnel with specified types of security clearances. To the extent we are not able to obtain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, or effectively rebid on expiring contracts.

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

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

***We face significant risks in overseeing our outsourcing of manufacturing processes as well as in the management of our inventory, and failure to properly oversee our manufacturing processes or to effectively manage our inventory levels may result in product recalls or supply imbalances that could harm our business.***

We have contracted for the manufacture of certain EV charging systems with contract manufacturers. We sell these units directly and through distributors, as well as through our own online sales channels. We face significant risks if our contract manufacturers do not perform as expected. If we fail to effectively oversee the manufacturing process, including the work performed by our contract manufacturers, we could be negatively impacted by product recalls, poorly performing products and higher than anticipated warranty costs.

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

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

The development and manufacture of certain of our products involves the handling of a variety of explosive and flammable materials as well as high power equipment. From time to time, these activities may result in incidents that could cause us to temporarily shut down or otherwise disrupt some manufacturing processes, causing production delays and resulting in liability for workplace injuries and/or fatalities. We have safety and loss prevention programs that

require detailed reviews of process changes and new operations, along with routine safety audits of operations involving explosive materials, to mitigate such incidents, as well as a variety of insurance policies, however our insurance coverage may be inadequate to cover all claims and losses related to such incidents. We may experience such incidents in the future, which could result in production delays or otherwise have a material adverse effect on our business and financial condition.

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

Urban environments may present certain challenges to the operators of UAS. UAS may accidentally collide with other aircraft, persons or property, which could result in injury, death or property damage and significantly damage the reputation of and support for UAS in general. As the usage of UAS has increased, particularly by military customers, the danger of such collisions has increased. Furthermore, the incorporation of our DDL technology into our UAS has increased the number of vehicles which can operate simultaneously in a given area and with this increase has come an increase in the risk of accidental collision. In addition, obstructions to effective transmissions in urban environments, such as large buildings, may limit the ability of the operator to utilize the aircraft for its intended purpose. The risks or limitations of operating UAS in urban environments may limit their value in such environments, which may limit demand for our UAS and consequently materially harm our business and operating results.

***As a manufacturer of commercial UAS and electrical vehicle charging products and provider of electrical installation services to consumers, 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. In addition, certain of our electrical contracting services are subject to regulation by various government authorities. 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. While we maintain insurance coverage for product liability claims, our insurance may be inadequate to cover any such claims. Any successful claim could significantly harm our business, financial condition and results of operations.

***Our quarterly operating results may vary widely.***

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

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

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

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

We depend on our research and development activities to develop the core technologies used in our UAS and EES 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. Moreover, the U.S., state and local governments provide energy rebates and incentives to commercial companies, which directly impact the amount of research and development that companies appropriate for energy systems. To the extent that these energy rebates and incentives 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.

***Variability and cyclical in the market for electric industrial vehicles could adversely affect us.***

Our PosiCharge industrial EV charging system products are purchased primarily by operators of fleets of electric industrial vehicles, such as forklift trucks and airport ground support equipment. Consequently, our ability to remain profitable depends in part on the varying conditions in the market for electric industrial vehicles. This market is subject to variability as it moves in response to cycles in the overall business environment and it is also particularly sensitive to the industrial, food and beverage, retail and air travel sectors, which generate a significant portion of the demand for such vehicles. Sales of electric industrial vehicles have historically been cyclical, with demand affected by such economic factors as industrial production, construction levels, demand for consumer and durable goods, interest rates and fuel costs. A significant decline in demand for electric industrial vehicles could adversely affect our revenue and prospects, which would harm our business, financial condition and operating results.

***Our success in the emerging market for passenger electric and HEV charging systems will depend on numerous factors which are out of our control.***

The passenger electric and HEV charging systems market is expected to grow rapidly, along with innovations in fast charging technologies. However, because the passenger electric charging systems market is relatively new, there is no guarantee that there will be strong consumer demand for charging systems. Demand for such systems could also be directly impacted by fuel costs; if fuel costs were to significantly decrease, the demand for EVs and charging systems could decline. Additionally, the elimination or expiration of government and economic incentives to support the adoption of EVs, such as tax credits and rebates, could also negatively affect demand for EVs and charging solutions. Further, the elimination or relaxation of minimum corporate average fuel economy ("CAFE") standards or vehicle greenhouse gas emission regulations which encourage automakers to produce and sell electric vehicles, could also slow the adoption of EVs. If there is little consumer demand for our passenger electric charging systems, our revenue and prospects could be adversely affected, which would harm our business, financial and operating results. The rate of EV adoption is difficult to predict and has been slower than many in the industry have predicted to date.

***Our industrial EV charging systems business is dependent upon our relationships with third parties with whom we do not have exclusive arrangements.***

To remain competitive in the market for industrial EV charging systems, we must maintain our access to potential customers and ensure that the service needs of our customers are met adequately. In many cases, we rely on battery and industrial vehicle dealers for access to potential industrial EV charging system customers. Currently, several of our industrial EV charging system competitors are working with battery manufacturers to sell fast charging systems and batteries together. Cooperative agreements between our competitors and battery manufacturers could restrict our access to battery dealers and potential industrial EV charging systems customers, adversely affecting our revenue and prospects. Additionally, we rely on outside service providers to perform post-sale services for our PosiCharge industrial EV charging system customers. If these service providers fail to perform these services as required or discontinue their business with us, then we could lose customers to competitors, which would harm our business, financial condition and operating results.

***Our commercial UAS initiative and our electric and HEV charging system business are dependent upon our development of relationships with multiple stakeholders in those industries.***

We have been selected by several major automakers to support the rollout of new model EVs across the United States and internationally with our home charging system and are building relationships with numerous potential customers and channel partners in various industries related to our commercial UAS initiative. Accordingly, we depend upon those relationships and the success of early customer engagements to expand our market penetration efforts. If one or more of our partnerships terminates prematurely, and we cannot establish similar relationships with other entities with direct access to end customers, we may not be able to develop a sustainable market for our home charging system or our commercial UAS solutions, which may delay commercialization or jeopardize the long-term success of these initiatives.

We believe that the success and growth of our passenger EV charging and commercial UAS businesses for the foreseeable future will also depend on our ability to develop similar working relationships with other value chain members in the United States and internationally. While we have been working with other stakeholders to explore business models and to promote our solutions, there is no guarantee that we will be successful in doing so.

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

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

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

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

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

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

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. Our former line of credit contained, and future debt financing may contain,

covenants or other provisions that limit our operational or financial flexibility. In addition, certain of our customers require that we obtain letters of credit to support our obligations under some of our contracts.

***Our investment portfolio includes investments in auction rate securities. Failures in the auctions for these securities affect our liquidity, coupled with deterioration in credit ratings of issuers of such securities and/or third parties insuring such investments may require us to adjust the carrying value of our investment through an impairment of earnings.***

As of April 30, 2017, our \$2.5 million of long-term investments recorded at fair value consisted entirely of auction rate municipal bonds with maturities that range from approximately 2 to 17 years. These investments have characteristics similar to short-term investments, because at pre-determined intervals, generally ranging from 30 to 35 days, there is a new auction process at which the interest rates for these securities are reset to current interest rates. At the end of such period, we choose to roll-over our holdings or redeem the investments for cash. A market maker facilitates the redemption of the securities and the underlying issuers are not required to redeem the investment within 365 days.

Since fiscal 2008, we have experienced failed auctions of our auction rate securities and there is no assurance that auctions on the remaining auction rate securities in our investment portfolio will succeed in the future. As a result, our ability to liquidate our investments in the near term may be limited, and our ability to recover the carrying value of our investments may be limited. An auction failure means that the parties wishing to sell securities were not able to do so. As of June 20, 2017, including the securities involved in failed auctions, we held approximately \$2.0 million of these auction rate securities, all of which carry investment grade ratings. These investments are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by problems in the global credit markets. These and other related factors have affected various sectors of the financial markets and caused credit and liquidity issues. If the issuers of these securities are unable to successfully close future auctions or their credit ratings deteriorate, we may in the future be required to record an impairment charge on these investments. We currently believe these securities are not permanently impaired, primarily due to the government backing of the underlying securities. However, it could take until the final maturity of the underlying notes (up to 17 years) to realize our remaining investments' purchase price of \$2.2 million. Based on our ability to access our cash and cash equivalents, expected operating cash flows, and our other sources of cash, we do not anticipate that the current lack of liquidity on these investments will affect our ability to continue to operate our business in the ordinary course, however we can provide no assurance as to when these investments will again become liquid or as to whether we may ultimately have to recognize an impairment charge with respect to these investments.

***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, 2017. We currently invest the majority of our cash in U.S. government securities, U.S. government agency securities, municipal bonds and high-grade corporate bonds, the performance of which are subject to additional market risks related to their respective issuers. Nearly all of our cash and bank deposits are not insured by the Federal Deposit Insurance Corporation, or the FDIC. Therefore, our cash and any bank deposits that we now hold or may acquire in the future may be subject to risks, including the risk of loss or of reduced value or liquidity. In the future, should we determine that there is a decline in value of any of our portfolio securities which is not temporary in nature, this would result in a loss being recognized in our consolidated statements of operations.

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

Global credit and financial markets have experienced extreme disruptions in recent years, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in

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

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

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

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

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

We intend to consider strategic acquisitions that would 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 the target company and realizing the anticipated synergies of the combined businesses;
- difficulties in supporting and transitioning customers, if any, of the target company;
- diversion of financial and management resources from existing operations;
- the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- risks of entering new markets in which we have limited or no experience;

- potential loss of key employees, customers and strategic alliances from either our current business or the target company's business;
- assumption of unanticipated problems or latent liabilities, such as problems with the quality of the target company's products or its regulatory compliance; and
- inability to generate sufficient revenue to offset acquisition costs.

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

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

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

The manufacture and sale of our products in certain states and countries may subject us to environmental and other regulations. For example, we obtain a significant number of our electronics components from companies located in East Asia, where environmental rules may be less stringent than in the United States. Over time, the countries where these companies are located may adopt more stringent environmental regulations, resulting in an increase in our manufacturing costs. Given the increasing focus on environmental compliance by regulators and the general public, any incidence of non-compliance could result in damage to our reputation beyond the fines and other sanctions that could be imposed. Furthermore, certain environmental laws, including the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, impose strict, joint and several liability on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances and impose liability for damages to natural resources. These laws often impose liability even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are later found to be contaminated. Such persons can be responsible for cleanup costs even if they never owned or operated the contaminated facility. Although we have never been named a responsible party at a contaminated site, we could be named a potentially responsible party in the future. We cannot assure you that such existing laws or future laws will not have a material adverse effect on our future earnings or results of operations.

***Our business is subject to federal, state and international laws regarding data protection and privacy, as well as confidentiality obligations under various agreements, and a privacy breach could damage our reputation, expose us to litigation risk and adversely affect our business.***

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. We also execute confidentiality agreements with various parties under which we are required to protect their confidential information. Compliance with these agreements and constantly evolving laws may cause us to incur significant costs or require changes to our business practices, which could reduce our revenue. If we fail to comply with these privacy and data protection laws, proceedings may be brought against us by governmental entities or others or penalties may be imposed on us, either of which could have a material adverse effect on our business, results of operations and financial condition. In addition, we could be subject to damages if we breach the confidentiality obligations in our agreements. While we rely, in part, on security services and software provided by outside vendors to protect sensitive and confidential customer information, there is no guarantee that the protections that we, or our outside vendors have implemented will prevent security breaches. In addition, we have access to certain of our customers' proprietary systems that contain sensitive information and are liable to such customers for damages.



caused by or employees' and agents' misuse of or access to such systems, including damages resulting from security breaches to such customers' systems caused by us. Any actual, threatened or perceived security breach that could result in misappropriation, loss or other unauthorized disclosure of sensitive or confidential customer information could harm our reputation and relationship with customers and potential customers, expose us to litigation risk and liability and adversely affect our business.

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

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

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

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

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

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

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

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

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

- the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under, U.S. government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of all factual cost and pricing data in connection with contract negotiations;

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

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

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

U.S. government agencies, primarily the DCAA and the DCMA, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. These agencies also may review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, quality, accounting, property, estimating, compensation and management information systems.

Like most government contractors, our contracts are audited and reviewed on a continual basis by the DCMA and the DCAA. The indirect costs we incur in performing government contracts have been audited on an annual basis. The DCMA, disallowed a portion of the our executive compensation and other costs included in our fiscal 2006, 2007 and 2008 incurred cost claims and sought interest for all three years and penalties for fiscal 2006, based on the disallowed costs. We appealed these cost disallowances to the Armed Services Board of Contract Appeals. For fiscal 2006, as a result of partial settlements and a decision of the Armed Services Board of Contract Appeals in March 2016, the government's remaining claims were dismissed with prejudice. All of the government's claims related to our 2007 and 2008 incurred cost claims were settled as of October 2015 by payment to the government of \$50,000 and the government's claims related to our 2009 incurred cost claims were settled as of October 2015 without the payment of any consideration. The audit of our 2010 incurred cost claim was settled in April 2016 without payment of any consideration. Our incurred cost claims for fiscal years 2011 through 2014 were accepted as submitted during the fiscal year ended April 30, 2017. No consideration was paid. 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. An unfavorable outcome to such an audit or investigation by the DCAA, U.S. Department of Justice or DOJ, or other government agency, could materially adversely affect our competitive position, affect our ability to obtain new government business, and obtain the maximum price for our products and services, and result in a substantial reduction of our revenues.

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

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

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

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

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

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

In addition, U.S. government contracts generally contain provisions permitting termination, in whole or in part, at the government's convenience or for contractor default. Since a substantial majority of our revenue is dependent on the procurement, performance and payment under our U.S. government contracts, the termination of one or more critical

government contracts could have a negative impact on our results of operations and financial condition. Termination arising out of our default could result in damage to our reputation, expose us to liability and have a material adverse effect on our ability to re-compete for future contracts and orders. Moreover, several of our contracts with the U.S. government do not contain a limitation of liability provision, creating a risk of responsibility for indirect, incidental damages and consequential damages. These provisions could cause substantial liability for us, especially given the use to which our products may be put.

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

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

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

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

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

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

### **Risks Related to Our Intellectual Property**

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

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

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

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

We may become subject to claims that our technologies infringe upon the intellectual property or other proprietary rights of third parties. Defending against, or otherwise addressing, any such claims, whether they are with or without merit, could be time-consuming and expensive, and could divert our management's attention away from the execution of our business plan. Moreover, any settlement or adverse judgment resulting from these claims could require us to pay substantial amounts or obtain a license to continue to use the disputed technology, or otherwise restrict or prohibit our use of the technology. We cannot assure you that we would be able to: obtain from the third party asserting the claim a license on commercially reasonable terms, if at all; develop alternative technology on a timely basis, if at all; or obtain a license to use a suitable alternative technology to permit us to continue offering, and our customers to continue using, our affected product. An adverse determination also could prevent us from offering our products to others. Infringement claims asserted against us may have a material adverse effect on our business, results of operations or financial condition.

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

***The price of our common stock may fluctuate significantly.***

The market prices for securities of emerging technology companies have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the

operating performance of particular companies. The market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including the following:

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

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

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

As of June 17, 2017, our directors, executive officers and their affiliates collectively beneficially owned 2,916,128 shares, or approximately 12%, of our total outstanding shares of common stock. Accordingly, our directors and executive officers as a group may be able to exert significant influence over matters requiring stockholder approval, including the election of directors. The interests of our directors and executive officers may not be fully aligned with yours. Although there is no agreement among our directors and executive officers with respect to the voting of their shares, this concentration of ownership may delay, defer or even prevent a change in control of our company, and make

transactions more difficult or impossible without the support of all or some of our directors and executive officers. These transactions might include proxy contests, tender offers, mergers or other purchases of common stock that could give you the opportunity to realize a premium over the then-prevailing market price for shares of our common stock.

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

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

- The ability of our board of directors to issue preferred stock in one or more series of with such rights, obligations and preferences as the board may determine, without further vote or action by our stockholders;
- Advanced notice procedures for stockholders to nominate candidates for election to the board of directors and for stockholders to submit proposals for consideration at a meeting of stockholders;
- The absence of cumulative voting rights for our stockholders;
- The classification of our board of directors, which effectively prevents stockholders from electing a majority of the directors at any one annual meeting of stockholders;
- The limitation that directors may be removed only for cause by the affirmative vote of the holders of 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.

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

None.

**Item 2. Properties.**

All of our facilities are leased. Our corporate headquarters are located in Monrovia, California where we lease approximately 36,000 square feet under an agreement expiring in June 2024. We have several other leased facilities in California, Alabama and Virginia that are used for administration, research and development, logistics and manufacturing and have a total of approximately 375,000 square feet. Such leases expire between the end of 2017 and 2022. We believe that our facilities are adequate to meet our needs for the foreseeable future.

As of April 30, 2017 our business segments had significant operations at the following locations:

- UAS: Simi Valley, and CA; Huntsville, AL.
- EES: Monrovia, CA; and Simi Valley, CA.
- Corporate functions: Monrovia, CA; and Simi Valley, CA

**Item 3. Legal Proceedings.**

We are not currently a party to any material legal proceedings. We are, however, 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**

The following table sets forth, for the periods indicated, the high and low sales prices for our common stock from May 1, 2015 through April 30, 2017. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	Fiscal Year Ended April 30,			
	2017		2016	
	High	Low	High	Low
First Quarter	\$ 32.44	\$ 26.02	\$ 29.22	\$ 25.01
Second Quarter	\$ 30.08	\$ 22.16	\$ 27.00	\$ 19.10
Third Quarter	\$ 29.42	\$ 23.40	\$ 30.65	\$ 21.86
Fourth Quarter	\$ 29.96	\$ 25.42	\$ 29.94	\$ 23.13

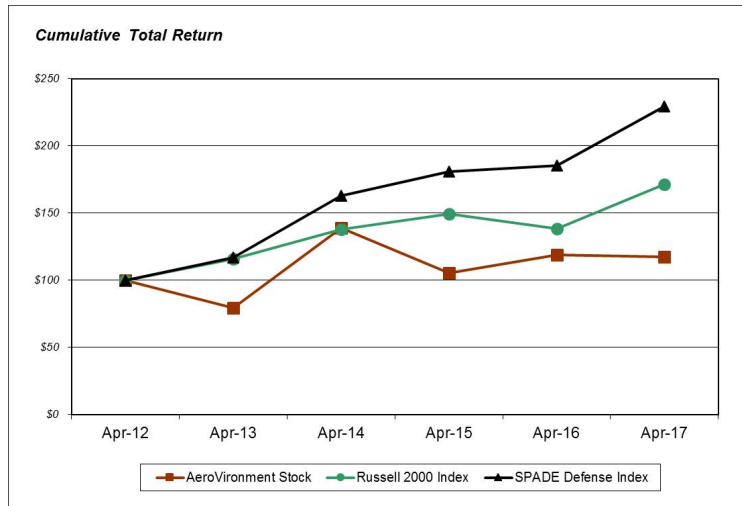
On June 20, 2017, the closing sales price of our common stock as reported on the NASDAQ Global Select Market was \$31.11 per share. As of June 20, 2017, there were 72 holders of record of our common stock.

**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, 2012 in AeroVironment, Inc., the Russell 2000 Index and the SPADE Defense Index.

	Performance Graph Table (\$)					
	April 30, 2012	April 30, 2013	April 30, 2014	April 30, 2015	April 30, 2016	April 30, 2017
AeroVironment Stock	100	80	139	105	119	117
Russell 2000 Index	100	116	138	149	138	171
SPADE Defense Index	100	117	163	181	185	230

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, 2017. As of April 30, 2017, approximately \$21.2 million remained authorized for future repurchases under this program.

**Item 6. Selected Consolidated Financial Data.**

The following selected financial data should be read in conjunction with our consolidated financial statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto included in Item 8, “Financial Statements and Supplementary Data” of this Annual Report in order to understand fully factors that may affect the comparability of the financial data presented below.

	Year Ended April 30,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
<b>Consolidated Income Statement Data:</b>					
Revenue	\$ 264,873	\$ 264,098	\$ 259,398	\$ 251,703	\$ 240,152
Net income attributable to AeroVironment	\$ 12,479	\$ 8,966	\$ 2,895	\$ 13,718	\$ 10,426
<b>Earnings per common share attributable to AeroVironment:</b>					
Basic	\$ 0.54	\$ 0.39	\$ 0.13	\$ 0.61	\$ 0.47
Diluted	\$ 0.54	\$ 0.39	\$ 0.13	\$ 0.60	\$ 0.47
Weighted average common shares outstanding (basic):	23,059	22,936	22,869	22,354	22,070
Weighted average common shares outstanding (diluted):	23,308	23,153	23,146	22,719	22,390
<b>Balance Sheet Data</b>					
Total assets	\$ 432,500	\$ 410,393	\$ 397,467	\$ 384,954	\$ 361,604
Capital lease obligations, current portion	\$ 288	\$ 390	\$ —	\$ —	\$ —
Capital lease obligations, net of current portion	\$ 161	\$ 449	\$ —	\$ —	\$ —
Other long-term obligations	\$ 2,083	\$ 2,339	\$ 1,820	\$ 4,752	\$ 4,231

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

**Introduction**

The following discussion of our financial condition and results of operations should be read in conjunction with our “Selected Consolidated Financial Data” and our consolidated financial statements and notes thereto included herein as Item 8. This discussion contains forward-looking statements. Refer to “Forward-Looking Statements” on page 2 and “Risk Factors” beginning on page 23, for a discussion of the uncertainties, risks and assumptions associated with these statements.

## **Overview**

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

The success we have achieved with our current products and services stems from our investment in research and development and our ability to invent and deliver advanced solutions, utilizing our proprietary technologies, to help our government, commercial and consumer customers operate more effectively and efficiently. We develop these highly innovative solutions by working very closely with our key customers in each segment of our business and solving their most important challenges related to our areas of expertise. Our core technological capabilities, developed through more than 40 years of innovation, include lightweight aerostructures, power electronics, electric propulsion systems, efficient electric power generation, conversion, and storage systems, high-density energy packaging, miniaturization, DDL, aircraft payloads, controls integration, systems integration and engineering optimization coupled with professional field service capabilities.

Our UAS business segment focuses primarily on the design, development, production, support and operation of innovative UAS and tactical missile systems that provide situational awareness, multi-band communications, force protection and other mission effects to increase the security and effectiveness of our customers’ operations. Our Efficient Energy Systems, or EES, business segment focuses primarily on the design, development, production, marketing, support and operation of innovative efficient electric energy systems that address the growing demand for electric transportation solutions.

## **Revenue**

We generate our revenue primarily from the sale, support and operation of our small UAS, tactical missile systems, electric vehicle charging systems and power cycling and test systems solutions. Support for our small UAS customers includes training, spare parts, product repair, product replacement, and the customer-contracted operation of our small UAS by our personnel. We refer to these support activities, in conjunction with customer-funded R&D, as our services operation. We derive most of our small UAS revenue from fixed-price and cost-plus-fee contracts with the U.S. government, and most of our electric vehicle charging systems and power cycling and test systems revenue from sales and service to commercial customers.

## **Cost of Sales**

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

## **Gross Margin**

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

## **Research and Development Expense**

Research and development, or 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.

### **Selling, General and Administrative**

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

### **Other Income and Expenses**

Other income and expenses includes interest income, interest expense, amortization of capital lease payments, changes in fair value of certain financial investments, gains/losses on sale of available-for-sale equity securities, gains resulting from the purchase of a controlling interest in an entity formerly accounted for under the equity method, and losses from equity method investments.

### **Income Tax Expense**

Our effective tax rates are substantially lower than the statutory rates primarily due to research and development tax credits.

### **Net loss (income) Attributable to Noncontrolling interests**

Net loss attributable to noncontrolling interests includes the 15% interest in the income or losses of our Turkish joint venture, Altoy Savunma Sanayi ve Havacilik Anonim Sirketi ("Altoy"). We acquired a controlling interest in Altoy on February 1, 2017.

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

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

We believe the following critical accounting estimates affect our more significant judgments and estimates used in preparing our consolidated financial statements. Please see Note 1 to our consolidated financial statements, which are included in Item 8 "Financial Statements and Supplementary Data" of this Annual Report, for our Organization and Significant Accounting Policies. There have been no material changes made to the critical accounting estimates during the periods presented in the consolidated financial statements.

#### **Revenue Recognition**

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management's estimates change on the basis of development of the

business or market conditions. Management judgments and estimates have been applied consistently and have been reliable historically. We believe that there are two key factors which impact the reliability of management's estimates. The first of those key factors is that the terms of our contracts are typically less than six months. The short-term nature of such contracts reduces the risk that material changes in accounting estimates will occur on the basis of market conditions or other factors. The second key factor is that we have hundreds of contracts in any given accounting period, which reduces the risk that any one change in an accounting estimate on one or several contracts would have a material impact on our consolidated financial statements or our two reporting segments' measures of profit.

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 or cost-reimbursable. We consider all contracts for treatment in accordance with authoritative guidance for contracts with multiple deliverables.

Revenue from product sales not under contractual arrangement is recognized at the time title and the risk and rewards of ownership pass, which typically occurs when the products are shipped and collection is reasonably assured.

Revenue and profits on fixed-price contracts are recognized using percentage-of-completion methods of accounting. Revenue and profits on fixed-price production contracts, whose units are produced and delivered in a continuous or sequential process, are recorded as units are delivered based on their selling prices, or the units-of-delivery method. Revenue and profits on other fixed-price contracts with significant engineering as well as production requirements are recorded based on the ratio of total actual incurred costs to date to the total estimated costs for each contract, or the cost-to-cost method. Under percentage-of-completion methods of accounting, a single estimated total profit margin is used to recognize profit for each contract over its entire period of performance, which can exceed one year. Accounting for revenue and profits on a fixed-price contract requires the preparation of estimates of (1) the total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract's statement of work and (3) the measurement of progress towards completion. The estimated profit or loss at completion on a contract is equal to the difference between the total estimated contract revenue and the total estimated cost at completion. Under the units-of-delivery method, sales on a fixed-price type contract are recorded as the units are delivered during the period based on their contractual selling prices. Under the cost-to-cost method, sales on a fixed-price type contract are recorded at amounts equal to the ratio of actual cumulative costs incurred divided by total estimated costs at completion, multiplied by (A) the total estimated contract revenue, less (B) the cumulative sales recognized in prior periods. The profit recorded on a contract in any period using either the units-of-delivery method or cost-to-cost method is equal to (X) the current estimated total profit margin multiplied by the cumulative sales recognized, less (Y) the amount of cumulative profit previously recorded for the contract. In the case of a contract for which the total estimated costs exceed the total estimated revenue, a loss arises, and a provision for the entire loss is recorded in the period that it becomes evident. The unrecoverable costs on a loss contract that are expected to be incurred in future periods are recorded in the program cost.

Revenue and profits on cost-reimbursable type contracts are recognized as costs are incurred on the contract, at an amount equal to the costs plus the estimated profit on those costs. The estimated profit on a cost-reimbursable contract is generally fixed or variable based on the contractual fee arrangement.

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 profit estimates for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. During the fiscal years ended April 30, 2017, 2016 and 2015, changes in accounting estimates on fixed-price contracts recognized using the percentage of completion method of accounting are presented below. Amounts representing contract change orders or claims are included in revenue only when they can be reliably estimated and their realization is probable. 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, 2017, 2016 and 2015, favorable and unfavorable cumulative catch-up adjustments included in cost of sales were as follows (in thousands):

	Year Ended April 30,		
	2017	2016	2015
Gross favorable adjustments	\$ 464	\$ 479	\$ 885
Gross unfavorable adjustments	(318)	(210)	(1,017)
Net adjustments	\$ 146	\$ 269	\$ (132)

For the year ended April 30, 2017, favorable cumulative catch-up adjustments of \$0.5 million were primarily due to final cost adjustments on 52 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$0.3 million were primarily related to higher than expected costs on 9 contracts, which individually were not material.

For the year ended April 30, 2016, favorable cumulative catch-up adjustments of \$0.5 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 \$0.2 million were primarily related to higher than expected costs on 15 contracts, which individually were not material.

For the year ended April 30, 2015, favorable cumulative catch-up adjustments of \$0.9 million were primarily due to final cost adjustments on 28 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$1.0 million were primarily related to higher than expected costs on 170 contracts, which individually were not material.

#### **Inventories and Reserve for Excess and Obsolescence**

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

#### **Self-Insured Liability**

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

#### **Impairment of Long-Lived Assets**

We review the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of

the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made.

#### **Goodwill**

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is tested 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 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 expected historical or projected future results of operations. At April 30, 2017 goodwill was not significant.

#### **Intangible Assets – Acquired in Business Combinations**

We perform valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocate the purchase price of each acquired business to our respective net tangible and intangible assets. Acquired intangible assets include: customer relationships and trade names. We use valuation techniques to value these 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 are consumed.

#### **Long-Term Incentive Awards**

For our outstanding long-term incentive plans as of April 30, 2017, we grant long-term incentive awards and we establish a target payout at the beginning of each performance period. The actual payout at the end of the performance period is calculated based upon our achievement of such targets. Payouts are made in cash and restricted stock units. Upon vesting of the restricted stock units, we have the discretion to settle the restricted stock units in cash or stock.

The cash component of the award is accounted for as a liability. The equity component is accounted for as a stock-based liability as the restricted stock units may be settled in cash or stock. At each reporting period, we reassess the probability of achieving the performance targets. The estimation of whether the performance targets will be achieved requires judgment, and to the extent actual results or updated estimates differ from our current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised.

#### **Income Taxes**

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

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



**Fiscal Periods**

Our fiscal year ends on April 30. Due to our fixed year end date of April 30, our first and fourth quarters each consist of approximately 13 weeks. The second and third quarters each consist of exactly 13 weeks. Our first three quarters end on a Saturday.

**Results of Operations**

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

	Fiscal Year Ended April 30,					
	2017		2016		2015	
Revenue	\$ 264,873	100 %	\$ 264,098	100 %	\$ 259,398	100 %
Cost of sales	162,763	61 %	151,995	58 %	155,130	60 %
Gross margin	102,110	39 %	112,103	42 %	104,268	40 %
Selling, general and administrative	56,537	21 %	60,077	23 %	55,763	21 %
Research and development	33,042	12 %	42,291	16 %	46,491	18 %
Income from operations	12,531	5 %	9,735	4 %	2,014	1 %
Interest income, net	1,618	1 %	1,032	— %	882	— %
Other income (expense), net	60	— %	(2,699)	(1)%	(1,003)	— %
Income before income taxes	14,209	5 %	8,068	3 %	1,893	1 %
Income tax expense (benefit)	1,752	1 %	(898)	— %	(1,002)	— %
Net income	12,457	5 %	8,966	3 %	2,895	1 %
Net loss attributable to noncontrolling interest	22	— %	—	— %	—	— %
Net income attributable to AeroVironment	\$ 12,479	5 %	\$ 8,966	3 %	\$ 2,895	1 %

The following table sets forth our revenue, costs of sales and gross margin generated by each operating segment for the periods indicated:

	Fiscal Year Ended April 30,		
	2017	2016	2015
	(In thousands)		
Revenue:			
UAS	\$ 228,940	\$ 233,738	\$ 220,950
EES	35,933	30,360	38,448
Total	\$ 264,873	\$ 264,098	\$ 259,398
Cost of sales:			
UAS	\$ 135,937	\$ 132,209	\$ 128,233
EES	26,826	19,786	26,897
Total	\$ 162,763	\$ 151,995	\$ 155,130
Gross margin:			
UAS	\$ 93,003	\$ 101,529	\$ 92,717
EES	9,107	10,574	11,551
Total	\$ 102,110	\$ 112,103	\$ 104,268

**Fiscal Year Ended April 30, 2017 Compared to Fiscal Year Ended April 30, 2016**

**Revenue.** Revenue for the fiscal year ended April 30, 2017 was \$264.9 million, as compared to \$264.1 million for the fiscal year ended April 30, 2016, representing an increase of \$0.8 million. The increase in revenue was due to an increase product deliveries of \$3.9 million, partially offset by a decrease in service revenue of \$3.1 million. UAS revenue decreased \$4.8 million, or 2%, to \$228.9 million for the fiscal year ended April 30, 2017, primarily due to a decrease in customer-funded R&D of \$9.9 million and a decrease in product deliveries of \$2.4 million, partially offset by an increase in service revenue of \$7.5 million. The decrease in customer-funded R&D was primarily associated with tactical missile system variant programs. The decrease in product deliveries was primarily due to a decrease in product deliveries of small UAS, partially offset by an increase in product deliveries of tactical missile systems. The increase in service revenue was primarily due to an increase in services associated with tactical missile systems and an increase in sustainment activities in support of small UAS for our international customers. In fiscal 2017, we continued to experience expansion in small UAS product deliveries and related services to international customers and in tactical missile system product deliveries and related services to customers within the U.S. Government. EES revenue increased \$5.6 million, or 18%, to \$35.9 million for the fiscal year ended April 30, 2017, primarily due to an increase in product deliveries of our power cycling and test systems and passenger electric vehicle charging systems.

**Cost of Sales.** Cost of sales for the fiscal year ended April 30, 2017 was \$162.8 million, as compared to \$152.0 million for the fiscal year ended April 30, 2016, representing an increase of \$10.8 million, or 7%. As a percentage of revenue, cost of sales increased from 58% to 61%. The increase in cost of sales was a result of an increase in product cost of sales of \$9.5 million and an increase in service costs of sales of \$1.2 million, both of which were impacted by the reserve reversal of \$3.6 million for the settlement of prior year government incurred cost audits recorded in the second quarter of fiscal 2016. UAS cost of sales increased \$3.7 million to \$135.9 million for the fiscal year ended April 30, 2017, primarily due to an increase in service revenue, the prior year reserve reversal of \$3.2 million for the settlement of prior year government incurred cost audits and an increase in sustaining engineering activities in support of our existing products, partially offset by decreases in customer-funded R&D and decreases in product deliveries. As a percentage of revenue, cost of sales for UAS increased from 57% to 59%, primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits and an increase in sustaining engineering activities in support of our existing products, combined with the decreased product deliveries. EES cost of sales increased \$7.0 million, or 36%, to \$26.8 million for the fiscal year ended April 30, 2017, primarily due to an increase in product deliveries, an increase in sustaining engineering activities in support of our existing products and the prior year reserve reversal for the settlement of prior year government incurred cost audits. As a percentage of revenue, cost of sales for EES increased from 65% to 75%, primarily due to the increase in sustaining engineering activities in support of our existing products and the prior year reserve reversal for the settlement of prior year government incurred cost audits.

**Gross Margin.** Gross margin for the fiscal year ended April 30, 2017 was \$102.1 million, as compared to \$112.1 million for the fiscal year ended April 30, 2016, representing a decrease of \$10.0 million, or 9%. As a percentage of revenue, gross margin decreased from 42% to 39%. The decrease in gross margin was a result of a decrease in product margin of \$5.7 million and a decrease in service margin of \$4.3 million, both of which were impacted by the reserve reversal of \$3.6 million for the settlement of prior year government incurred cost audits recorded in the second quarter of fiscal 2016. UAS gross margin decreased \$8.5 million, or 8%, to \$93.0 million for the fiscal year ended April 30, 2017, primarily due to decreases in customer-funded R&D revenue and product deliveries, the prior year reserve reversal of \$3.2 million for the settlement of prior year government incurred cost audits and an increase in sustaining engineering activities in support of our existing products, partially offset by increases in service revenue. As a percentage of revenue, gross margin for UAS decreased from 43% to 41%, primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits and an increase in sustaining engineering activities in support of our existing products, combined with the decreased product deliveries. EES gross margin decreased \$1.5 million, or 14%, to \$9.1 million for the fiscal year ended April 30, 2017, primarily due to an increase in sustaining engineering activities in support of our existing products and the prior year reserve reversal for the settlement of prior year government incurred cost audits, partially offset by the increase in product deliveries. As a percentage of revenue, EES gross margin decreased from 35% to 25%, primarily due to the increase in sustaining engineering activities in support of our existing products and the prior year reserve reversal for the settlement of prior year government incurred cost audits.

**Selling, General and Administrative.** SG&A expense for the fiscal year ended April 30, 2017 was \$56.5 million, or 21% of revenue, compared to SG&A expense of \$60.1 million, or 23% of revenue, for the fiscal year ended April 30, 2016. The decrease in SG&A expense was primarily due to a decrease in bid and proposal costs and a decrease in professional services expenses, partially offset by an increase in sales commission expense as a result of our increased international small UAS revenues.

**Research and Development.** R&D expense for the fiscal year ended April 30, 2017 was \$33.0 million, or 12% of revenue, compared to R&D expense of \$42.3 million, or 16% of revenue, for the fiscal year ended April 30, 2016. R&D expense decreased primarily due to decreased development activities for certain strategic initiatives.

**Interest Income, net.** Interest income, net for the fiscal year ended April 30, 2017 was \$1.6 million, compared to \$1.0 million for the fiscal year ended April 30, 2016. The increase in interest income was primarily due to an increase in the average interest rates earned on our investments portfolio.

**Other Income (Expense), net.** Other income, net for the fiscal year ended April 30, 2017 was \$0.1 million, as compared to other expense, net of \$2.7 million for the fiscal year ended April 30, 2016. The increase in other income was primarily due to the recording of an other-than-temporary impairment loss on our CybAero equity securities during the first quarter of fiscal 2016. Other income, net for the fiscal year ended April 30, 2017 also included a gain of \$0.6 million related to the acquisition of a controlling interest in our Turkish Joint Venture, Altay.

**Income Taxes.** Our effective income tax rate (benefit) was 12.3% for the fiscal year ended April 30, 2017, as compared to (11.1)% for the fiscal year ended April 30, 2016. The increase in the effective tax rate was primarily a result of an increase in income before taxes and a decrease in tax credits as a result of federal legislation permanently reinstating the federal research and development tax credit retroactive to January 2015 during fiscal year 2016, partially offset by a reversal of a reserve of \$1.0 million for uncertain tax positions due to the settlement of prior fiscal year audits recorded in the first quarter of fiscal 2017.

#### **Fiscal Year Ended April 30, 2016 Compared to Fiscal Year Ended April 30, 2015**

**Revenue.** Revenue for the fiscal year ended April 30, 2016 was \$264.1 million, as compared to \$259.4 million for the fiscal year ended April 30, 2015, representing an increase of \$4.7 million, or 2%. The increase in revenue was due to an increase in service revenue of \$20.3 million, partially offset by a decrease in product deliveries of \$15.6 million. UAS revenue increased \$12.8 million, or 6%, to \$233.7 million for the fiscal year ended April 30, 2016, primarily due to an increase in customer-funded R&D of \$16.6 million and an increase in service revenue of \$4.5 million, partially offset by a decrease in product deliveries of \$8.3 million. The increase in customer-funded R&D was primarily due to tactical missile system variant programs. The increase in service revenue was primarily due to an increase in sustainment activities in small UAS. The decrease in product deliveries was primarily due to a decrease in product deliveries of Wasp and Switchblade systems, partially offset by an increase in deliveries of Puma and Raven systems. EES revenue decreased \$8.1 million, or 21%, to \$30.4 million for the fiscal year ended April 30, 2016, primarily due to a decrease in product deliveries of our industrial fast charge systems and passenger electric vehicle charging systems as well as a decrease in service revenue.

**Cost of Sales.** Cost of sales for the fiscal year ended April 30, 2016 was \$152.0 million, as compared to \$155.1 million for the fiscal year ended April 30, 2015, representing a decrease of \$3.1 million, or 2%. Cost of sales was impacted by a government contract accounting reserve reduction of \$3.6 million recorded during the year ended April 30, 2016 for the settlement and resolution of prior year incurred cost audits. As a percentage of revenue, cost of sales decreased from 60% to 58%. The decrease in cost of sales was a result of a decrease in product cost of sales of \$12.8 million, partially offset by an increase in service costs of sales of \$9.7 million. UAS cost of sales increased \$4.0 million to \$132.2 million for the fiscal year ended April 30, 2016. As a percentage of revenue, cost of sales for UAS decreased from 58% to 57%, primarily due to a favorable product mix and the government contract reserve reduction. EES cost of sales decreased \$7.1 million, or 26%, to \$19.8 million for the fiscal year ended April 30, 2016 primarily due to a decrease in sales volume and, to a lesser extent, the government contract reserve reduction. As a percentage of

revenue, cost of sales for EES decreased from 70% to 65%, primarily due to a favorable product mix and the government contract reserve reduction.

**Gross Margin.** Gross margin for the fiscal year ended April 30, 2016 was \$112.1 million, as compared to \$104.3 million for the fiscal year ended April 30, 2015, representing an increase of \$7.8 million, or 8%. The increase in gross margin was due to an increase in service margin of \$10.5 million, partially offset by a decrease in product margin of \$2.7 million, both of which were impacted by the government contract reserve reduction. The increase in service margin was primarily due to the increase in service revenue. The decrease in product margin was primarily due to the decrease in product deliveries, partially offset by a favorable product mix and the government contract reserve reduction. As a percentage of revenue, gross margin increased from 40% to 42%. UAS gross margin increased \$8.8 million, or 10%, to \$101.5 million for the fiscal year ended April 30, 2016, primarily due to the increase in services revenue as well as a favorable product mix and the government contract reserve reduction. As a percentage of revenue, gross margin for UAS increased from 42% to 43%. EES gross margin decreased \$1.0 million, or 8%, to \$10.6 million for the fiscal year ended April 30, 2016, primarily due to a decrease in sales volume, partially offset by the government contract reserve reduction. As a percentage of revenue, EES gross margin increased from 30% to 35%, primarily due to a favorable product mix and the government contract reserve reduction.

**Selling, General and Administrative.** SG&A expense for the fiscal year ended April 30, 2016 was \$60.1 million, or 23% of revenue, compared to SG&A expense of \$55.8 million, or 21% of revenue, for the fiscal year ended April 30, 2015. The increase in SG&A expense was primarily due to higher bid and proposal costs, an increase in sales commission expense as a result of our increased international revenues, and an increase in severance related charges as well as other increases which were not individually significant.

**Research and Development.** R&D expense for the fiscal year ended April 30, 2016 was \$42.3 million, or 16% of revenue, compared to R&D expense of \$46.5 million, or 18% of revenue, for the fiscal year ended April 30, 2015. R&D expense decreased primarily due to decreased development activities for certain strategic initiatives.

**Interest Income, net.** Interest income, net for the fiscal year ended April 30, 2016 was \$1.0 million, compared to \$0.9 million for the fiscal year ended April 30, 2015.

**Other Expense, net.** Other expense, net for the fiscal year ended April 30, 2016 was \$2.7 million, as compared to other expense, net of \$1.0 million for the fiscal year ended April 30, 2015. The increase is primarily due to the recording of an other-than-temporary impairment loss on our CybAero equity securities during the first quarter of fiscal 2016.

**Income Taxes.** Our effective income tax benefit rate was (11.1)% for the fiscal year ended April 30, 2016, as compared to an effective income tax benefit rate of (52.9)% for the fiscal year ended April 30, 2015. The variance in the effective income tax rates was primarily due to higher pre-tax income and an increase in federal R&D tax credits primarily as a result of federal legislation reinstating the federal research and development tax credit.

#### **Liquidity and Capital Resources**

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

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

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

#### Cash Flows

The following table provides our cash flow data as of:

	Fiscal Year Ended April 30,		
	2017	2016	2015
	(In thousands)		
Net cash (used in) provided by operating activities	\$ (10,499)	\$ 551	\$ 39,413
Net cash used in investing activities	\$ (37,354)	\$ (16,578)	\$ (23,820)
Net cash provided by (used in) financing activities	\$ 3,470	\$ (3,096)	\$ 848

**Cash (Used in) Provided by Operating Activities.** Net cash used in operating activities for the fiscal year ended April 30, 2017 increased by \$11.0 million to \$10.5 million, compared to net cash provided by operating activities of \$0.6 million for the fiscal year ended April 30, 2016. This decrease in net cash provided by operating activities was primarily due to an increase in the use of cash as a result of changes in operating assets and liabilities of \$13.5 million largely resulting from increases in inventory primarily due to year over year timing differences in purchases to support anticipated product deliveries, partially offset by an increase in net income of \$3.5 million.

Net cash provided by operating activities for the fiscal year ended April 30, 2016 decreased by \$38.8 million to \$0.6 million, compared to net cash provided by operating activities of \$39.4 million for the fiscal year ended April 30, 2015. This decrease in net cash provided by operating activities was primarily due to an increase in the use of cash as a result of changes in operating assets and liabilities of \$40.9 million largely resulting from increases in accounts receivable due to the year over year timing of revenue, a decrease in the net loss on disposal of fixed assets of \$3.7 million and a decrease in depreciation expense of \$2.3 million, partially offset by an increase in net income of \$6.1 million and a non-cash other than temporary impairment charge on the CybAero available-for-sale equity securities of \$2.2 million.

**Cash Used in Investing Activities.** Net cash used in investing activities increased by \$20.8 million to \$37.4 million for the fiscal year ended April 30, 2017, compared to net cash used in investing activities of \$16.6 million for the fiscal year ended April 30, 2016. The increase in net cash used in investing activities was primarily due to higher net purchases of held-to-maturity investments of \$16.9 million and an increase in capital expenditures of \$3.0 million. During the fiscal years ended April 30, 2017, 2016 and 2015, we used cash to purchase property and equipment totaling \$9.9 million, \$6.8 million and \$5.3 million, respectively.

Net cash used in investing activities decreased by \$7.2 million to \$16.6 million for the fiscal year ended April 30, 2016, compared to net cash used in investing activities of \$23.8 million for the fiscal year ended April 30, 2015. The decrease in net cash used in investing activities was primarily due to lower net purchases of held-to-maturity

investments of \$17.6 million, partially offset by a decrease in sales of available-for-sale investments of \$9.1 million and an increase in capital expenditures of \$1.6 million. During the fiscal years ended April 30, 2016, 2015 and 2014, we used cash to purchase property and equipment totaling \$6.8 million, \$5.3 million and \$7.1 million, respectively.

**Cash Provided by (Used in) Financing Activities.** Net cash provided by financing activities increased by \$6.6 million to \$3.5 million for the fiscal year ended April 30, 2017, compared to net cash used in financing activities of \$3.1 million for the fiscal year ended April 30, 2016. The increase was primarily due to a decrease in the purchase and retirement of common stock of \$3.8 million and an increase in cash provided from the exercise of employee stock options of \$2.7 million.

Net cash used in financing activities increased by \$3.9 million to \$3.1 million for the fiscal year ended April 30, 2016, compared to net cash provided by financing activities of \$0.8 million for the fiscal year ended April 30, 2015. The increase was primarily due to the purchase and retirement of common stock of \$3.8 million during the fiscal year ended April 30, 2016.

**Contractual Obligations**

The following table describes our commitments to settle contractual obligations as of April 30, 2017:

	Payments Due By Period				
	Total	Less Than 1 Year	1 to 3 Years (In thousands)	3 to 5 Years	More Than 5 Years
Operating lease obligations	\$ 15,747	\$ 3,492	\$ 5,934	\$ 3,690	\$ 2,631
Capital lease obligations	449	288	161	—	—
Purchase obligations(1)	35,607	35,607	—	—	—
Total	\$ 51,803	\$ 39,387	\$ 6,095	\$ 3,690	\$ 2,631

(1) Consists of all cancelable and non-cancelable purchase orders as of April 30, 2017.

Not included in the table above are future rental payments associated with a lease amendment executed on June 13, 2017 to amend and extend its existing lease for one of our administrative properties. The amendment extends the term of the lease until June 30, 2022 and provides a tenant improvement allowance of up to \$420,332. Beginning July 1, 2017, base monthly rent under the Second Amendment will be \$65,200, which amount shall increase by 2.5%, compounded annually, commencing July 1, 2018. In addition, the amendment provides two 5-year options to extend the term of lease at the end of the then-current term.

**Off-Balance Sheet Arrangements**

As of April 30, 2017, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of the SEC's Regulation S-K.

**Inflation**

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

**Recently Adopted Accounting Standards**

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet. This guidance simplifies the current guidance, which

requires entities to separately present deferred tax assets and liabilities as current and non-current in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The ASU may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. We adopted this pronouncement beginning May 1, 2016 and applied this pronouncement retrospectively. In connection with adopting the pronouncement beginning May 1, 2016, we reclassified \$5,432,000 from current deferred income tax assets in the consolidated balance sheet as of April 30, 2016 to non-current deferred income tax liabilities.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The new standard simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as the related classification in the statement of cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The standard requires an entity to recognize all excess tax benefits and tax deficiencies as income tax benefit or expense in the income statement as discrete items in the reporting period in which they occur, and such tax benefits and tax deficiencies are not included in the estimate of an entity's annual effective tax rate, applied on a prospective basis. Further, the standard eliminates the requirement to defer the recognition of excess tax benefits until the benefit is realized through a reduction to taxes payable. All excess tax benefits previously unrecognized, along with any valuation allowance, are to be recognized on a modified retrospective basis as a cumulative adjustment to retained earnings as of the date of adoption. Under the ASU, an entity that applies the treasury stock method in calculating diluted earnings per share is required to exclude excess tax benefits and deficiencies from the calculation of assumed proceeds since such amounts are recognized in the income statement. Excess tax benefits are also classified as operating activities in the same manner as other cash flows related to income taxes on the statement of cash flows, as such excess tax benefits no longer represent financing activities since they are recognized in the income statement, and are to be applied prospectively or retrospectively to all periods presented. We adopted the pronouncement beginning May 1, 2016. In connection with adopting the pronouncement beginning May 1, 2016, we recorded a cumulative increase of \$265,000 in retained earnings with a corresponding increase in deferred tax assets in the consolidated balance sheet as of April 30, 2016 related to the prior years' unrecognized excess tax benefits. Excess tax benefits related to exercised options and vested restricted stock awards during the fiscal year ended April 30, 2017 have been recognized in the current period's income statement. We also excluded the excess tax benefits from the calculation of diluted earnings per share for the fiscal year ended April 30, 2017. We applied the cash flow presentation section of the guidance on a prospective basis, and the prior period statement of cash flows was not adjusted.

#### **New Accounting Standards**

In January 2017, the FASB issued ASU 2017-01, Business Combinations – Clarifying the definition of a business (Topic 805). This ASU clarifies the definition of a business with the objective of providing a more robust framework to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within that fiscal year, with early adoption permitted. The amendments are to be applied prospectively to business combinations that occur after the effective date.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230). This ASU adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods therein, with early adoption permitted. We are evaluating the potential impact of this adoption on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU requires the lessee to recognize the assets and liabilities for the rights and obligations created by leases with terms of 12 months or more. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. We are evaluating the potential impact of this adoption on our consolidated financial statements. We currently do not hold a large number of leases classified as operating leases under the existing lease standard, with the only significant leases being our various property leases.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU eliminates from U.S. GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less a normal profit margin. Entities within the scope of this update will now be required to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. Upon adoption during fiscal year 2018, we do not anticipate a material impact.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard was originally effective for reporting periods beginning after December 15, 2016 and early adoption was not permitted. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 640)-Deferral of the Effective Date. This update approved a one year delay of the effective date to reporting periods beginning after December 15, 2017, while permitting companies to voluntarily adopt the new standard as of the original effective date. Since the issuance of ASU 2014-09, the FASB has issued several amendments to provide additional supplemental guidance on certain aspects of the original pronouncement. The core principle of ASU 2014-09 is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. In adopting the guidance, companies are permitted to select between two transition methods: (1) a full retrospective transition method with the application of the new guidance to each prior reporting period presented, or (2) a retrospective transition method that recognizes the cumulative effect on prior periods at the date of adoption together with additional footnote disclosures. We are continuing to assess the potential impact of this guidance, including the impact on those areas currently subject to industry-specific guidance such as government contract accounting. As part of our assessment, we are reviewing representative samples of customer contracts to determine the impact on revenue recognition under the new guidance. At this time, we anticipate adopting the guidance under the retrospective transition method.

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

**Interest Rate Risk**

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

**Foreign Currency Exchange Rate Risk**

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



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

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

	Page
<a href="#">Report of Independent Registered Public Accounting Firm</a>	65
<a href="#">Consolidated Balance Sheets at April 30, 2017 and 2016</a>	66
<a href="#">Consolidated Statements of Income for the Years Ended April 30, 2017, 2016 and 2015</a>	67
<a href="#">Consolidated Statements of Comprehensive Income for the Years Ended April 30, 2017, 2016 and 2015</a>	68
<a href="#">Consolidated Statements of Stockholders' Equity for the Years Ended April 30, 2017, 2016 and 2015</a>	69
<a href="#">Consolidated Statements of Cash Flows for the Years Ended April 30, 2017, 2016 and 2015</a>	70
<a href="#">Notes to Consolidated Financial Statements</a>	71
<a href="#">Quarterly Results of Operations (Unaudited)</a>	98
<b>Supplementary Data</b>	<b>100</b>

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**

The Board of Directors and Stockholders of AeroVironment, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of AeroVironment, Inc. and subsidiaries as of April 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2017. Our audits also included the financial statement schedule listed in the index at Item 15(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AeroVironment, Inc. and subsidiaries at April 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 30, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AeroVironment, Inc. and subsidiaries' internal control over financial reporting as of April 30, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

June 27, 2017

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

	April 30,	
	2017	2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 79,904	\$ 124,287
Short-term investments	119,971	103,404
Accounts receivable, net of allowance for doubtful accounts of \$291 at April 30, 2017 and \$262 at April 30, 2016	74,361	56,045
Unbilled receivables and retentions	14,120	18,899
Inventories, net	60,076	37,486
Prepaid expenses and other current assets	5,653	4,150
<b>Total current assets</b>	<b>354,085</b>	<b>344,271</b>
Long-term investments	42,096	33,859
Property and equipment, net	19,220	16,762
Deferred income taxes	15,089	15,016
Other assets	2,010	750
<b>Total assets</b>	<b>\$ 432,500</b>	<b>\$ 410,658</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 20,283	\$ 17,712
Wages and related accruals	12,966	13,973
Income taxes payable	1,418	943
Customer advances	3,317	2,544
Other current liabilities	10,079	11,173
<b>Total current liabilities</b>	<b>48,063</b>	<b>46,345</b>
Deferred rent	1,719	1,714
Capital lease obligations - net of current portion	161	449
Other non-current liabilities	184	184
Deferred tax liability	116	—
Liability for uncertain tax positions	64	441
Commitments and contingencies		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.0001 par value:		
Authorized shares—10,000,000; none issued or outstanding at April 30, 2017 and April 30, 2016	—	—
Common stock, \$0.0001 par value:		
Authorized shares—100,000,000		
Issued and outstanding shares—23,630,419 shares at April 30, 2017 and 23,359,925 at April 30, 2016	2	2
Additional paid-in capital	162,150	154,274
Accumulated other comprehensive loss	(127)	(201)
Retained earnings	219,929	207,450
<b>Total AeroVironment stockholders' equity</b>	<b>381,954</b>	<b>361,525</b>
Noncontrolling interests	239	—
<b>Total equity</b>	<b>382,193</b>	<b>361,525</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 432,500</b>	<b>\$ 410,658</b>

See accompanying notes to consolidated financial statements.

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

	Year Ended April 30,		
	2017	2016	2015
<b>Revenue:</b>			
Product sales	\$ 193,338	\$ 189,476	\$ 205,027
Contract services	71,535	74,622	54,371
	<u>264,873</u>	<u>264,098</u>	<u>259,398</u>
<b>Cost of sales:</b>			
Product sales	115,513	105,987	118,834
Contract services	47,250	46,008	36,296
	<u>162,763</u>	<u>151,995</u>	<u>155,130</u>
<b>Gross margin:</b>			
Product sales	77,825	83,489	86,193
Contract services	24,285	28,614	18,075
	<u>102,110</u>	<u>112,103</u>	<u>104,268</u>
Selling, general and administrative	56,537	60,077	55,763
Research and development	33,042	42,291	46,491
Income from operations	12,531	9,735	2,014
<b>Other income (expense):</b>			
Interest income, net	1,618	1,032	882
Other income (expense), net	60	(2,699)	(1,003)
Income before income taxes	14,209	8,068	1,893
Provision (benefit) for income taxes	1,752	(898)	(1,002)
Net income	12,457	8,966	2,895
Net loss attributable to noncontrolling interest	22	—	—
Net income attributable to AeroVironment	<u>\$ 12,479</u>	<u>\$ 8,966</u>	<u>\$ 2,895</u>
<b>Earnings per share attributable to AeroVironment:</b>			
Basic	\$ 0.54	\$ 0.39	\$ 0.13
Diluted	\$ 0.54	\$ 0.39	\$ 0.13
<b>Weighted average shares outstanding:</b>			
Basic	23,059,045	22,936,413	22,868,733
Diluted	23,307,738	23,153,493	23,145,997

See accompanying notes to consolidated financial statements.

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

	Year Ended April 30,		
	2017	2016	2015
Net income	\$ 12,457	\$ 8,966	\$ 2,895
Other comprehensive (loss) income:			
Unrealized gain (loss) on investments, net of deferred tax expense (benefit) of \$43, \$18 and \$(730) for the fiscal years ended April 30, 2017, 2016 and 2015 respectively	74	27	(1,095)
Total comprehensive income	12,531	8,993	1,800
Net loss attributable to noncontrolling interest	22	—	—
Comprehensive income attributable to AeroVironment	<u>\$ 12,553</u>	<u>\$ 8,993</u>	<u>\$ 1,800</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	Total AeroVIRONMENT Equity	Non- Controlling Interest	Total
	Shares	Amount						
Balance at April 30, 2014	23,176,576	2	143,648	199,080	(263)	342,467	—	342,467
Net income	—	—	—	2,895	—	2,895	—	2,895
Unrealized loss on investments	—	—	—	—	(1,095)	(1,095)	—	(1,095)
Stock options exercised	35,018	—	722	—	—	722	—	722
Restricted stock awards	160,180	—	—	—	—	—	—	—
Restricted stock awards forfeited	(56,004)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(1,130)	—	(36)	—	—	(36)	—	(36)
Tax benefit from stock-based compensation	—	—	191	—	—	191	—	191
Stock-based compensation	—	—	3,768	—	—	3,768	—	3,768
Balance at April 30, 2015	23,314,640	2	148,293	201,975	(1,358)	348,912	—	348,912
Net income	—	—	—	8,966	—	8,966	—	8,966
Unrealized gain on investments	—	—	—	—	27	27	—	27
Reclassifications out of accumulated other comprehensive loss	—	—	—	—	1,130	1,130	—	1,130
Stock options exercised	84,881	—	1,122	—	—	1,122	—	1,122
Restricted stock awards	191,548	—	—	—	—	—	—	—
Restricted stock awards forfeited	(46,753)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(1,130)	—	(29)	—	—	(29)	—	(29)
Reclassification from share-based liability compensation to equity	—	—	228	—	—	228	—	228
Tax benefit from stock-based compensation	—	—	98	—	—	98	—	98
Purchases of common stock for retirement	(183,261)	—	—	(3,756)	—	(3,756)	—	(3,756)
Stock-based compensation	—	—	4,562	—	—	4,562	—	4,562
Balance at April 30, 2016	23,359,925	2	154,274	207,185	(201)	361,260	—	361,260
Adoption of ASU 2016-09	—	—	—	265	—	265	—	265
Net income (loss)	—	—	—	12,479	—	12,479	(22)	12,457
Unrealized gain on investments	—	—	—	—	74	74	—	74
Stock options exercised	204,130	—	3,865	—	—	3,865	—	3,865
Restricted stock awards	126,557	—	—	—	—	—	—	—
Restricted stock awards forfeited	(60,017)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(176)	—	(5)	—	—	(5)	—	(5)
Reclassification from share-based liability compensation to equity	—	—	307	—	—	307	—	307
Business acquisition	—	—	—	—	—	—	261	261
Stock based compensation	—	—	3,709	—	—	3,709	—	3,709
Balance at April 30, 2017	23,630,419	\$ 2	\$ 162,150	\$ 219,929	\$ (127)	\$ 381,954	\$ 239	\$ 382,193

See accompanying notes to consolidated financial statements.

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

	Year Ended April 30,		
	2017	2016	2015
<b>Operating activities</b>			
Net income	\$ 12,457	\$ 8,966	\$ 2,895
Adjustments to reconcile net income to cash used in operating activities:			
Depreciation and amortization	7,054	6,074	8,366
Loss from equity method investments	119	138	240
Impairment of available-for-sale securities	—	2,186	—
Impairment of long-lived assets	46	—	438
Provision for doubtful accounts	56	(178)	(106)
Losses on foreign currency transactions	284	63	580
Loss on sale of equity securities	—	219	209
Deferred income taxes	(52)	(2,912)	(3,382)
Gain on business acquisition	(584)	—	—
Change in fair value of conversion feature of convertible bonds	—	—	(73)
Stock-based compensation	3,709	4,562	3,768
Tax benefit from exercise of stock options	—	161	52
Excess tax benefit from stock-based compensation	—	(39)	(162)
Loss (gain) on disposition of property and equipment	37	(22)	3,661
Amortization of held-to-maturity investments	2,382	3,875	4,532
Changes in operating assets and liabilities:			
Accounts receivable	(18,627)	(22,260)	(1,762)
Unbilled receivables and retentions	4,779	(1,543)	(6,427)
Inventories	(22,590)	1,928	11,285
Income tax receivable	—	—	6,584
Prepaid expenses and other assets	(1,466)	517	(339)
Accounts payable	2,843	(2,705)	5,337
Other liabilities	(946)	1,521	3,717
Net cash (used in) provided by operating activities	(10,499)	551	39,413
<b>Investing activities</b>			
Acquisition of property and equipment	(9,862)	(6,829)	(5,279)
Equity method investment	—	(295)	(395)
Business acquisition, net of cash acquired	(430)	—	—
Redemptions of held-to-maturity investments	121,522	84,433	69,387
Purchases of held-to-maturity investments	(148,991)	(94,954)	(97,464)
Acquisition of intangible assets	—	—	(150)
Proceeds from the sale of property and equipment	7	80	—
Sales and redemptions of available-for-sale investments	400	987	10,081
Net cash used in investing activities	(37,354)	(16,578)	(23,820)
<b>Financing activities</b>			
Purchase and retirement of common stock	—	(3,756)	—
Principal payments of capital lease obligations	(390)	(472)	—
Excess tax benefit from stock-based compensation	—	39	162
Tax withholding payment related to net settlement of equity awards	(5)	(25)	(36)
Exercise of stock options	3,865	1,122	722
Net cash provided by (used in) financing activities	3,470	(3,096)	848
Net (decrease) increase in cash and cash equivalents	(44,383)	(19,123)	16,441
Cash and cash equivalents at beginning of period	124,287	143,410	126,969
Cash and cash equivalents at end of period	\$ 79,904	\$ 124,287	\$ 143,410
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the period for:			
Income taxes	\$ 1,804	\$ 1,576	\$ 700
<b>Non-cash activities</b>			
Unrealized gain (loss) on investments, net of deferred tax expense (benefit) of \$43, \$18 and \$(730) for the fiscal years ended April 30, 2017, April 30, 2016 and April 30, 2015 respectively	\$ 74	\$ 27	\$ (1,095)
Reclassification from share-based liability compensation to equity	\$ 307	\$ 228	\$ —
Forfeiture of vested stock-based compensation	\$ —	\$ 86	\$ 23
Acquisitions of property and equipment financed with capital lease obligations	\$ —	\$ 932	\$ —
Accrued acquisition of intangible assets	\$ —	\$ —	\$ 250
Acquisitions of property and equipment included in accounts payable	\$ 729	\$ 1,174	\$ —

See accompanying notes to consolidated financial statements.

AEROVIRONMENT, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Organization

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

Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AeroVironment, Inc. and its wholly-owned subsidiaries: AV S.r.l. Italy, Skytower, LLC, AeroVironment GmbH, AeroVironment Massachusetts, LLC, AeroVironment Rhode Island, LLC, Skytower Inc., AILC, Inc., AeroVironment International PTE. LTD. and Regenerative Fuel Cell Systems, LLC, Charger Bicycles, LLC and AeroVironment, Inc. (Afghanistan) (collectively referred to herein as the “Company”). In addition, the accompanying consolidated financial statements include the accounts of the Company’s Turkish joint venture, Altay Savunma Sanayi ve Havacilik Anonim Sirketi (“Altay”), in which the Company increased its ownership to a controlling interest in on February 1, 2017. As a result of the increase in ownership, the consolidated financial statements include the balance sheet and results of operations of Altay from February 1, 2017 forward. Prior to this date, the Company’s investment in Altay was accounted for under the equity method. Refer to Note 19 - Business Acquisitions for further details. All intercompany balances and transactions have been eliminated in consolidation.

In April 2016, the Company dissolved AV S.r.l. Italy, AILC, Inc. and AeroVironment Massachusetts, LLC the results of which were not material to the consolidated financial statements. In July 2016, the Company dissolved Charger Bicycles, LLC, the results of which were not material to the consolidated financial statements. In October 2016, the Company dissolved Skytower, LLC and Regenerative Fuel Cell Systems, LLC, the results of which were not material to the consolidated financial statements.

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.

Following the Company’s purchase of a controlling interest in Altay on February 1, 2017, the Company did not hold any equity or cost method investments. Refer to Note 19 - Business Acquisitions for further details.



## Segments

The Company's products are sold and divided among two reportable segments to reflect the Company's strategic goals. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer, who reviews the revenue and gross margin results for each of these segments in order to make resource allocation decisions, including the focus of research and development ("R&D"), activities, and assessing performance. The Company's reportable segments are business units that offer different products and services and are managed separately.

## Use of Estimates

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

## Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation due to the adoption of ASU 2016-09 and ASU 2015-17.

## Cash Equivalents

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

## Investments

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

Unrealized gains and losses are excluded from earnings and reported as a separate component of stockholders' equity, net of deferred income taxes for available-for-sale investments. The convertible bond in which the Company had invested, which was classified as available-for-sale, contained an embedded conversion feature which was bifurcated from the bond. The change in the fair value of the embedded conversion feature was recorded in other income in the income statement.

Gains and losses realized on the disposition of investment securities are determined on the specific identification basis and credited or charged to income. Premium and discount on investments are amortized and accreted using the interest method and charged or credited to investment income.

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

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. On a quarterly basis, the Company considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and its intent and

ability to hold the investment to maturity. The Company also considers potential adverse conditions related to the financial health of the issuer based on rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in earnings and a new cost basis in the investment is established.

#### **Fair Values of Financial Instruments**

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

#### **Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, municipal bonds, U.S. government securities, U.S. government-guaranteed agency securities, U.S. Government sponsored agency debt securities, highly rated commercial paper, highly rated corporate bonds, and accounts receivable. The Company currently invests the majority of its cash in municipal bonds, U.S. government securities, U.S. government-guaranteed agency securities, U.S. Government sponsored agency debt securities and highly rated corporate bonds. The Company's revenue and accounts receivable are with a limited number of corporations and governmental entities. In the aggregate, 55%, 71% and 80% of the Company's revenue came from agencies of the U.S. government for the years ended April 30, 2017, 2016 and 2015, respectively. These agencies accounted for 42% and 39% of the accounts receivable balances at April 30, 2017 and 2016, respectively. One such agency, the U.S. Army, accounted for 18%, 27% and 47% of the Company's consolidated revenue for the years ended April 30, 2017, 2016 and 2015, respectively. The U.S. Army accounted for approximately 21%, 31% and 55% of UAS reportable segment sales for the years ended April 30, 2017, 2016 and 2015, respectively. The Company performs ongoing credit evaluations of its commercial customers and maintains an allowance for potential losses.

#### **Accounts Receivable, Unbilled Receivables and Retentions**

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

Retentions represent amounts withheld by customers until contract completion. At April 30, 2017 and 2016, the retention balances were \$1,537,000 and \$1,453,000, respectively. The Company determines the allowance for doubtful accounts based on historical customer experience and other currently available evidence. When a specific account is deemed uncollectible, the account is written off against the allowance. The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance; such losses have historically been within management's expectations. An account is deemed past due based on contractual terms rather than on how recently payments have been received.

#### **Inventories**

Inventories are stated at the lower of cost (using the weighted average costing method) or market 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 market value.

### Long-Lived Assets

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

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

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

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

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

### Intangibles Assets — Acquired in Business Combinations

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

### Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is tested 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 the Company's overall business, significant negative industry or economic trends or significant underperformance relative to projected future results of operations. At April 30, 2017, goodwill was not significant and is attributable to the Company's acquisition of a controlling interest in Altay on February 1, 2017.

### 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, 2017 and 2016, the Company accrued sales commissions in other current liabilities of \$4,874,000 and \$3,287,000, 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, 2017 and 2016, the Company estimated and recorded a self insurance liability in wages and related accruals of approximately \$1,329,000 and \$1,176,000, 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 and Amounts in Excess of Cost Incurred**

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

#### **Revenue Recognition**

The substantial majority of 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 buyers (customers). These contracts may be fixed-price or cost-reimbursable. The Company considers all contracts for treatment in accordance with authoritative guidance for contracts with multiple deliverables.

Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables have value to the customer on a stand-alone basis; there is objective and reliable evidence of the fair value of the undelivered item(s); and, if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor. The Company occasionally enters into arrangements that consist of installation and repair contracts associated with hardware sold by the Company. Such arrangements consist of separate contractual arrangements and are divided into separate units of accounting where the delivered item has value to the customer on a stand-alone basis and there is objective and reasonable evidence of the fair value of the installation contract. Consideration is allocated among the separate units of accounting based on their relative fair values.

Product sales revenue is composed of revenue recognized on contracts for the delivery of production hardware and related activities. Contract services revenue is composed of revenue recognized on contracts for the provision of services, including repairs, training, engineering design, development and prototyping activities.

Revenue from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned. Revenue from fixed-price contracts are recognized on the percentage-of-completion method. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Unbilled receivables represent costs incurred and related profit on contracts not yet billed to customers, and are invoiced in subsequent periods.

Product sales revenue is recognized on the percentage-of-completion method or upon transfer of title to the customer, which is generally upon shipment. Shipping and handling costs incurred are included in cost of sales.

Revenue and profits on fixed-price production contracts, where units are produced and delivered in a continuous or sequential process, are recorded as units are delivered based on their selling prices (the "units-of-delivery method"). Revenue and profits on other fixed-price contracts with significant engineering as well as production requirements are recorded based on the ratio of total actual incurred costs to date to the total estimated costs for each contract (the "cost-to-cost method"). Accounting for revenue and profits on a fixed-price contract requires the preparation of estimates of (1) the total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract's statement of work and (3) the measurement of progress towards completion. The estimated profit or loss at completion on a contract is equal to the difference between the total estimated contract revenue and the total estimated cost at completion. Under the units-of-delivery method, sales on a fixed-price type contract are recorded as the units are delivered during the period based on their contractual selling prices. Under the cost-to-cost method, sales on a fixed-price type contract are recorded at amounts equal to the ratio of actual cumulative costs incurred divided by total estimated costs at completion, multiplied by (i) the total estimated contract revenue, less (ii) the cumulative sales recognized in prior periods. The profit recorded on a contract in any period using either the units-of-delivery method or cost-to-cost method is equal to (i) the current estimated total profit margin multiplied by the cumulative sales recognized, less (ii) the amount of cumulative profit previously recorded for the contract. In the case of a contract for which the total estimated costs exceed the total estimated revenue, a loss arises, and a provision for the entire loss is recorded in the period that it becomes evident. The unrecoverable costs on a loss contract that are expected to be incurred in future periods are recorded in the program cost.

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, market conditions or other factors. Management judgments and estimates have been applied consistently and have been reliable historically. The Company believes 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 the Company's 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 the Company has 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 the Company's consolidated financial statements or its two reporting segments' measures of profit. Changes in estimates are recognized using the cumulative catch-up method of accounting. This method recognizes, in the current period, the cumulative effect of the changes on current and prior periods.

#### **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, 2017, a target payout is 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 cash and restricted stock units. Upon vesting of the

restricted stock units, the Company has the discretion, but not an obligation, to settle the restricted stock units in cash or stock.

The cash component of the award is accounted for as a liability. The equity component is accounted for as a stock-based liability, as the restricted stock units may be settled in cash or stock. 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 \$43,597,000, \$53,546,000 and \$36,998,000 for the years ended April 30, 2017, 2016 and 2015, respectively. The related cost of sales for customer-funded research and development totaled approximately \$29,790,000, \$34,786,000 and \$24,776,000 for the years ended April 30, 2017, 2016 and 2015, respectively.

#### **Lease Accounting**

The Company accounts for its leases and subsequent amendments as operating leases or capital leases for financial reporting purposes. Certain operating leases contain rent escalation clauses, which are recorded on a straight-line basis over the initial term of the lease with the difference between the rent paid and the straight-line rent recorded as a deferred rent liability. Lease incentives received from landlords are recorded as deferred rent liabilities and are amortized on a straight-line basis over the lease term as a reduction to rent expense. Deferred rent liabilities were approximately \$1,719,000 and \$1,714,000 as of April 30, 2017 and 2016, respectively.

#### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expenses included in SG&A expenses were approximately \$337,000, \$486,000 and \$416,000 for the years ended April 30, 2017, 2016 and 2015, 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, 2017, 2016 and 2015, foreign currency transaction gains and losses that are included in other income (expense) in the accompanying statements of operations were \$(284,000), \$(63,000), and \$(580,000), respectively.

#### **Earnings Per Share**

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

The reconciliation of diluted to basic shares is as follows:

	Year Ended April 30,		
	2017	2016	2015
Numerator for basic earnings per share:			
Net income attributable to AeroVironment	\$ 12,479,000	\$ 8,966,000	\$ 2,895,000
Denominator for basic earnings per share:			
Weighted average common shares	23,059,045	22,936,413	22,868,733
Dilutive effect of employee stock options, restricted stock and restricted stock units	248,693	217,080	277,264
Denominator for diluted earnings per share	23,307,738	23,153,493	23,145,997

During the years ended April 30, 2017, 2016 and 2015, certain options, shares of restricted stock and restricted stock units were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive. The number of options, restricted stock and restricted stock units which met this anti-dilutive criterion was approximately 86,000, 22,000 and 43,000 for the years ended April 30, 2017, 2016 and 2015, respectively.

#### Recently Adopted Accounting Standards

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet. This guidance simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current and non-current in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The ASU may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company adopted this pronouncement beginning May 1, 2016 and applied this pronouncement retrospectively. In connection with adopting the pronouncement beginning May 1, 2016, the Company reclassified \$5,432,000 from current deferred income tax assets in the consolidated balance sheet as of April 30, 2016 to non-current deferred income tax liabilities.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The new standard simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as the related classification in the statement of cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The standard requires an entity to recognize all excess tax benefits and tax deficiencies as income tax benefit or expense in the income statement as discrete items in the reporting period in which they occur, and such tax benefits and tax deficiencies are not included in the estimate of an entity’s annual effective tax rate, applied on a prospective basis. Further, the standard eliminates the requirement to defer the recognition of excess tax benefits until the benefit is realized through a reduction to taxes payable. All excess tax benefits previously unrecognized, along with any valuation allowance, are to be recognized on a modified retrospective basis as a cumulative adjustment to retained earnings as of the date of adoption. Under the ASU, an entity that applies the treasury stock method in calculating diluted earnings per share is required to exclude excess tax benefits and deficiencies from the calculation of assumed proceeds since such amounts are recognized in the income statement. Excess tax benefits are also classified as operating activities in the same manner as other cash flows related to income taxes on the statement of cash flows, as such excess tax benefits no longer represent financing activities since they are recognized in the income statement, and are to be applied prospectively or retrospectively to all periods presented. The Company adopted the pronouncement beginning May 1, 2016. In connection with adopting the pronouncement beginning May 1, 2016, the Company recorded a cumulative increase of \$265,000 in retained earnings with a corresponding increase in deferred tax assets in the consolidated balance sheet as of April 30, 2016 related to the prior years’ unrecognized excess tax benefits. Excess tax benefits related to exercised options and vested restricted stock awards during the fiscal year ended April 30, 2017 have been recognized in the current period’s income statement. The Company also excluded the excess tax benefits from the calculation of diluted earnings per share for the fiscal year ended April 30, 2017. The Company applied the cash flow presentation section of the guidance on a prospective basis, and the prior period statement of cash flows was not adjusted.

#### Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-01, Business Combinations – Clarifying the definition of a business (Topic 805). This ASU clarifies the definition of a business with the objective of providing a more robust framework to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within that fiscal year, with early adoption permitted. The amendments are to be applied prospectively to business combinations that occur after the effective date.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230). This ASU adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods therein, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.



In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU requires the lessee to recognize the assets and liabilities for the rights and obligations created by leases with terms of 12 months or more. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements. The Company currently does not hold a large number of leases classified as operating leases under the existing lease standard, with the only significant leases being the Company's various property leases.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU eliminates from U.S. GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less a normal profit margin. Entities within the scope of this update will now be required to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company does not anticipate a material impact from adopting ASU 2015-11 during fiscal year 2018.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard was originally effective for reporting periods beginning after December 15, 2016 and early adoption was not permitted. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 640)-Deferral of the Effective Date. This update approved a one year delay of the effective date to reporting periods beginning after December 15, 2017, while permitting companies to voluntarily adopt the new standard as of the original effective date. Since the issuance of ASU 2014-09, the FASB has issued several amendments to provide additional supplemental guidance on certain aspects of the original pronouncement. The core principle of ASU 2014-09 is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. In adopting the guidance, companies are permitted to select between two transition methods: (1) a full retrospective transition method with the application of the new guidance to each prior reporting period presented, or (2) a retrospective transition method that recognizes the cumulative effect on prior periods at the date of adoption together with additional footnote disclosures. The Company is continuing to assess the potential impact of this guidance, including the impact on those areas currently subject to industry-specific guidance such as government contract accounting. As part of its assessment, the Company is reviewing representative samples of customer contracts to determine the impact on revenue recognition under the new guidance. At this time, the Company anticipates adopting the guidance under the retrospective transition method.

2. **Investments**

Investments consist of the following:

	April 30,	
	2017	2016
(In thousands)		
<b>Short-term investments:</b>		
Held-to-maturity securities:		
Municipal securities	\$ 47,437	\$ 42,179
U.S. government securities	14,515	21,184
Corporate bonds	55,519	40,041
Certificates of deposit	2,500	—
Total held-to-maturity and short-term investments	\$ 119,971	\$ 103,404
<b>Long-term investments:</b>		
Held-to-maturity securities:		
Municipal securities	\$ 8,942	\$ —
U.S. government securities	22,540	7,518
Corporate bonds	8,117	23,561
Total held-to-maturity investments	39,599	31,079
Available-for-sale securities:		
Auction rate securities	2,497	2,780
Total available-for-sale investments	2,497	2,780
Total long-term investments	\$ 42,096	\$ 33,859

**Held-To-Maturity Securities**

As of April 30, 2017 and 2016, the balance of held-to-maturity securities consisted of state and local government municipal securities, U.S. government securities, corporate bonds and certificates of deposit. Interest earned from these investments is recorded in interest income.

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

	April 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 56,379	\$ 30	\$ (21)	\$ 56,388
U.S. government securities	37,055	2	(41)	37,016
Corporate bonds	63,636	9	(85)	63,560
Certificates of deposit	2,500	1	—	2,501
Total held-to-maturity investments	\$ 159,570	\$ 42	\$ (147)	\$ 159,465

The amortized cost and fair value of the Company's held-to-maturity securities by contractual maturity at April 30, 2017, are as follows:

	Cost	Fair Value
Due within one year	\$ 119,971	\$ 119,893
Due after one year through five years	39,599	39,572
<b>Total</b>	<b>\$ 159,570</b>	<b>\$ 159,465</b>

**Available-For-Sale Securities**

**Auction Rate Securities**

As of April 30, 2017 and 2016, the entire balance of available-for-sale auction rate securities consisted of two investment grade auction rate municipal bonds with maturities ranging from 2 to 17 years. These investments have characteristics similar to short-term investments, because at pre-determined intervals, generally ranging from 30 to 35 days, there is a new auction process at which the interest rates for these securities are reset to current interest rates. At the end of such period, the Company chooses to roll-over its holdings or redeem the investments for cash. A market maker facilitates the redemption of the securities and the underlying issuers are not required to redeem the investment within 365 days. Interest earned from these investments is recorded in interest income.

During the fourth quarter of the fiscal year ended April 30, 2008, the Company began experiencing failed auctions on some of its auction rate securities. A failed auction occurs when a buyer for the securities cannot be obtained and the market maker does not buy the security for its own account. The Company continues to earn interest on the investments that failed to settle at auction, at the maximum contractual rate until the next auction occurs. In the event the Company needs to access funds invested in these auction rate securities, the Company may not be able to liquidate these securities at the fair value recorded on April 30, 2017 until a future auction of these securities is successful or a buyer is found outside of the auction process.

As a result of the failed auctions, the fair values of these securities are estimated utilizing a discounted cash flow analysis as of April 30, 2017 and 2016. The analysis considers, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction.

Based on the Company's ability to access its cash and cash equivalents, expected operating cash flows, and other sources of cash, the Company does not anticipate the current lack of liquidity on these investments will affect its ability to operate the business in the ordinary course. The Company believes the current lack of liquidity of these investments is temporary and expects that the securities will be redeemed or refinanced at some point in the future. The Company will continue to monitor the value of its auction rate securities at each reporting period for a possible impairment if a further decline in fair value occurs. The auction rate securities have been in an unrealized loss position for more than 12 months. The Company has the ability and the intent to hold these investments until a recovery of fair value, which may be maturity and as of April 30, 2017, it did not consider these investments to be other-than-temporarily impaired.

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

	April 30,	
	2017	2016
<b>Auction rate securities</b>		
Amortized cost	\$ 2,700	\$ 3,100
Gross unrealized losses	(203)	(320)
Fair value	\$ 2,497	\$ 2,780

The amortized cost and fair value of the Company's auction rate securities by contractual maturity at April 30, 2017 are as follows (in thousands):

	Cost	Fair Value
Due after one through five years	\$ 700	\$ 701
Due after 10 years	2,000	1,796
Total	\$ 2,700	\$ 2,497

#### Equity Securities

At April 30, 2015, the entire balance of available-for-sale equity securities consisted of 618,042 CybAero AB ("CybAero") common shares. The shares were classified as available-for-sale. These shares were initially acquired on August 11, 2014, when the Company converted a convertible bond into CybAero common shares. The convertible bond was in the amount of 10 million SEK and was converted into 1,062,699 common shares of CybAero at the conversion price of 9.41 SEK per share. When the Company converted the bond on August 11, 2014, the fair value per share was 37.50 SEK which became the new cost basis going forward, with all subsequent changes in fair value being recorded to other comprehensive income.

At August 1, 2015, the Company reviewed these shares for impairment based on criteria that included the extent to which the investment's carrying value exceeds its related market value, the duration of the market decline, uncertainty as to the recovery period due to sustained losses of the investee and the Company's intent to hold its investment until recovery. In the three months ended August 1, 2015, the Company determined it was in its best interests to liquidate the remaining shares held. As a result, during the three months ended August 1, 2015, the Company recorded an other-than-temporary-impairment loss of \$2,186,000 related to the Company's investment in the CybAero shares which was recorded to other (expense), net in the consolidated statement of operations. As a result of recording the impairment charge, the investment's fair value became its new cost basis.

In August 2015, the Company sold its remaining shares in CybAero in a private sale at the price of 12.00 SEK per share, resulting in proceeds of approximately \$777,000. During the fiscal year ended April 30, 2016, the Company realized gains on the sale of CybAero shares of \$207,000, based on the difference between the original conversion price of 9.41 SEK per share and the sales price at the time of sale, inclusive of the final sale of all shares. During the fiscal year ended April 30, 2015, the Company realized gains on the sale of CybAero shares of \$4,784,000.

**3. Fair Value Measurements**

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

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

The Company's financial assets measured at fair value on a recurring basis at April 30, 2017, 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)	
Auction rate securities	\$ —	\$ —	\$ 2,497	\$ 2,497
Total	\$ —	\$ —	\$ 2,497	\$ 2,497

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

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at May 1, 2016	\$ 2,780
Transfers to Level 3	—
Total gains (realized or unrealized)	—
Included in earnings	—
Included in other comprehensive income	117
Purchases, issuances and settlements, net	(400)
Balance at April 30, 2017	\$ 2,497
The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at April 30, 2017	\$ —

The auction rate securities are valued using a discounted cash flow model. The analysis considers, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the estimated date upon which the security is expected to have a successful auction. As of April 30, 2017, the inputs used in the Company's discounted cash flow analysis included current coupon rates of 1.6%, estimated redemption periods of 2 to 17 years and discount rates of 2.4% to 12.7%. The discount rates were based

on market rates for municipal bond securities, as adjusted for a risk premium to reflect the lack of liquidity of these investments.

**4. Inventories, net**

Inventories consist of the following:

	April 30,	
	2017	2016
	(In thousands)	
Raw materials	\$ 18,365	\$ 11,609
Work in process	16,168	4,259
Finished goods	30,793	26,073
Inventories, gross	65,326	41,941
Reserve for inventory excess and obsolescence	(5,250)	(4,455)
Inventories, net	\$ 60,076	\$ 37,486

Inventory held at third parties as of April 30, 2017 and 2016 was \$4,039,000 and \$5,329,000, respectively.

**5. Intangibles**

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

	April 30,	
	2017	2016
	(In thousands)	
Licenses	\$ 818	\$ 818
Customer relationships	1,600	-
Trademarks and tradenames	60	-
Other	3	-
Less accumulated amortization	(658)	(518)
Intangibles, net	\$ 1,823	\$ 300

The weighted average amortization period at April 30, 2017 and 2016 was six years and four years, respectively. Amortization expense for the years ended April 30, 2017, 2016 and 2015 was \$139,000, \$80,000 and \$249,000, respectively.

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

During the fiscal year ended April 30, 2015, the Company recorded an impairment charge of \$438,000 recorded in SG&A expenses related to an exclusive distribution agreement as the Company determined that it would not be selling any products through the exclusive distribution agreement.

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

	Year ending April 30, (In thousands)
2018	\$ 318
2019	317
2020	298
2021	237
2022	237
	<u>\$ 1,407</u>

**6. Goodwill**

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

Balance at April 30, 2016	\$ —
Goodwill arising from acquisitions	122
Balance at April 30, 2017	<u>\$ 122</u>

The increase of goodwill is attributable to the acquisition of a controlling interest in Altoy as detailed in Note 19 - Business Acquisitions.

**7. Property and Equipment, net**

Property and equipment consist of the following:

	April 30,	
	2017	2016
	(In thousands)	
Leasehold improvements	\$ 9,809	\$ 8,939
Machinery and equipment	53,077	48,034
Furniture and fixtures	1,962	1,730
Computer equipment and software	32,485	30,171
Construction in process	4,608	3,885
Property and equipment, gross	101,941	92,759
Less accumulated depreciation and amortization	(82,721)	(75,997)
Property and equipment, net	<u>\$ 19,220</u>	<u>\$ 16,762</u>

Depreciation expense for the years ended April 30, 2017, 2016 and 2015 was \$6,913,000, \$5,993,000 and \$8,116,000, respectively. At April 30, 2017 and 2016, property and equipment includes computer equipment and software under capital leases with a cost basis of \$1,836,000 and \$1,836,000 and accumulated depreciation of \$1,433,000 and \$1,058,000, respectively. Depreciation of computer equipment and software under capital leases was \$375,000 and \$455,000 for the fiscal years ended April 30, 2017 and 2016 respectively.

**8. Investments in Companies Accounted for Using the Equity Method**

In March of 2014, the Company purchased 49% of the outstanding common stock of Altoy, a Turkish corporation founded in February 2014. During the years ended April 30, 2017, 2016 and 2015, the Company recorded 49% of the net loss of Altoy, or \$119,000, \$138,000 and \$240,000, respectively, in "Other (expense) income" in the consolidated statement of income. At April 30, 2016 and 2015, the carrying value of the investment in Altoy was \$386,000 and \$230,000, respectively, and was recorded in "Other assets, long-term."

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

**9. Warranty Reserves**

Warranty reserve activity is summarized as follows:

	April 30,	
	2017	2016
	(In thousands)	
Beginning balance	\$ 4,134	\$ 2,653
Warranty expense	1,428	4,516
Changes in estimates related to pre-existing warranties	1,651	(424)
Warranty costs settled	(3,982)	(2,611)
Ending balance	\$ 3,231	\$ 4,134

During the fiscal year ended April 30, 2017, the Company revised its estimates based on the results of additional engineering studies and recorded incremental warranty reserve charges totaling \$1,651,000, related to the estimated costs to repair a component of certain small UAS that were delivered in prior periods. At April 30, 2017, the total remaining warranty reserve related to the estimated costs to repair the impacted UAS was \$441,000. As of April 30, 2017 a total of \$1,762,000 of costs related to this warranty have been incurred. The impact to net income attributable to AeroVironment and diluted earnings per share of the change in estimate was approximately \$(1,034,000) and \$(0.04), respectively.

**10. Employee Savings Plan**

The Company has an employee 401(k) savings plan covering all eligible employees. The Company expensed approximately \$3,016,000, \$3,028,000 and \$2,818,000 in contributions to the plan for the years ended April 30, 2017, 2016 and 2015, respectively.

**11. Severance Charges**

During the fiscal year ended April 30, 2017, the Company recorded severance costs totaling \$2,190,000. Of this total, approximately \$850,000 was due to two officers who left the Company during the fiscal year ended April 30, 2017. The remaining severance costs were due to certain strategic headcount reductions consisting entirely of severance payments. Of the total, approximately \$900,000 was recorded to cost of sales and \$1,290,000 was recorded to SG&A. Of the total recorded to cost of sales, approximately \$550,000 related to UAS and approximately \$350,000 to EES. The Company does not report SG&A costs by segment as the CODM only reviews the revenue and gross margin results for each of these segments when making resource allocation decisions. Of the total, approximately \$295,000 was in accrued wages and related accruals at April 30, 2017.



During the fiscal year ended April 30, 2016, the Company made certain strategic headcount reductions with a total cost of approximately \$933,000, consisting entirely of severance payments. The Company recorded this charge during its fourth fiscal quarter ended April 30, 2016. Of the total, approximately \$362,000 was recorded to cost of sales and \$571,000 was recorded to SG&A. Of the total recorded to cost of sales, approximately \$300,000 related to UAS and approximately \$62,000 to EES. The Company does not report SG&A costs by segment as the CODM only reviews the revenue and gross margin results for each of these segments when making resource allocation decisions. Of the total, approximately \$834,000 was in accrued wages and related accruals at April 30, 2016. All amounts were paid out prior to April 30, 2017.

## 12. Stock-Based Compensation

For the years ended April 30, 2017, 2016 and 2015, the Company recorded stock-based compensation expense of approximately \$3,709,000, \$4,562,000 and \$3,768,000, respectively.

On January 14, 2007, the stockholders of the Company approved the 2006 Equity Incentive Plan, or 2006 Plan, effective January 21, 2007, for officers, directors, key employees and consultants. On September 29, 2011, the stockholders of the Company approved an amendment and restatement of the 2006 Plan, or Restated 2006 Plan. Under the Restated 2006 Plan, incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation right awards, performance share awards, performance stock unit awards, dividend equivalents awards, stock payment awards, deferred stock awards, restricted stock unit awards, other stock-based awards, performance bonus awards or performance-based awards may be granted at the discretion of the compensation committee, which consists of outside directors. A maximum of 4,884,157 shares of stock may be issued pursuant to awards under the Restated 2006 Plan. The maximum number of shares of common stock with respect to one or more awards that may be granted to any one participant during any twelve month period is 2,000,000. A maximum of \$5,000,000 may be paid in cash to any one participant as a performance-based award during any twelve month period. The exercise price for any incentive stock option shall not be less than 100% of the fair market value on the date of grant. Vesting of awards is established at the time of grant.

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

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

The fair value of stock options granted was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the years ended April 30, 2017, 2016 and 2015:

	Year Ended April 30,		
	2017	2016	2015
Expected term (in years)	—	6.00	6.00
Expected volatility	— %	36.14 %	44.65 %
Risk-free interest rate	— %	1.88 %	1.92 %
Expected dividend	—	—	—
Weighted average fair value at grant date	\$ —	\$ 10.18	\$ 14.05

No options were granted during the fiscal year ended April 30, 2017.

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, 2017, 2016 and 2015, 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, 2014	713,110	23.20	48,511	7.18	105,079	0.52
Options granted	85,599	31.27	—	—	—	—
Options exercised	(30,000)	23.81	(3,518)	2.13	(1,500)	0.59
Options canceled	(111,592)	24.75	—	—	—	—
Outstanding at April 30, 2015	657,117	23.96	44,993	7.57	103,579	0.59
Options granted	128,000	26.83	—	—	—	—
Options exercised	(43,000)	21.81	(31,161)	5.70	(10,720)	0.59
Options canceled	(58,318)	25.98	(8)	2.13	—	—
Outstanding at April 30, 2016	683,799	24.46	13,824	11.79	92,859	0.59
Options granted	—	—	—	—	—	—
Options exercised	(167,310)	22.32	(9,601)	11.79	(27,219)	0.59
Options canceled	(64,865)	26.76	(4,223)	11.79	—	—
Outstanding at April 30, 2017	451,624	24.92	—	—	65,640	0.59
Options exercisable at April 30, 2017	311,506	\$ 24.52	—	\$ —	65,640	\$ 0.59

The total intrinsic value of all options exercised during the years ended April 30, 2017, 2016 and 2015 was approximately \$1,801,000, \$1,218,000, and \$455,000, respectively. The intrinsic value of all options outstanding at April 30, 2017 and 2016 was \$3,656,000 and \$6,060,000, respectively. The intrinsic value of all exercisable options at April 30, 2017 and 2016 was \$3,208,000 and \$5,047,000, respectively.

A summary of the status of the Company's non-vested stock options as of April 30, 2016 and the year then ended is as follows:

Non-vested Options	Options	Weighted Average Grant Date Fair Value
Non-vested at April 30, 2016	292,513	\$ 10.53
Granted	—	—
Expired	—	—
Canceled	(60,619)	10.71
Vested	(91,776)	10.07
Non-vested at April 30, 2017	140,118	\$ 10.76

As of April 30, 2017, there was approximately \$8,248,000 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 three-year period or a weighted average period of approximately 2.4 years.

The weighted average fair value of options issued for the years ended April 30, 2016 and 2015 was \$10.18 and \$14.05, respectively. No options were granted during the fiscal year ended April 30, 2017. The total fair value of shares vesting during the years ended April 30, 2017, 2016 and 2015 was \$3,332,000, \$2,965,000 and \$2,389,000, respectively.

Proceeds from all option exercises under all stock option plans for the years ended April 30, 2017, 2016 and 2015 were approximately \$3,865,000, \$1,122,000 and \$722,000, respectively. The tax benefit realized from stock-based compensation during the years ended April 30, 2017, 2016 and 2015 was approximately \$0, \$98,000, and \$191,000, respectively.

The following tabulation summarizes certain information concerning outstanding and exercisable options at April 30, 2017:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	As of April 30, 2017	Weighted Average Remaining Contractual Life In Years	Weighted Average Exercise Price	As of April 30, 2017	Weighted Average Exercise Price
\$ 0.59 - 18.32	115,640	4.25	\$ 8.15	108,040	\$ 7.45
18.33 - 22.90	98,000	4.56	19.87	74,000	19.97
22.91 - 26.99	134,600	5.66	25.77	68,600	24.91
27.00 - 29.26	100,000	5.70	28.00	80,000	28.18
29.27 - 32.19	69,024	5.54	30.94	46,506	30.78
\$ 0.59 - 32.19	517,264	5.13	\$ 21.83	377,146	\$ 20.36

The remaining weighted average contractual life of exercisable options at April 30, 2017 was 4.33 years.

Information related to the Company's restricted stock awards at April 30, 2017 and for the year then ended is as follows:

	Restated 2006 Plan	
	Shares	Weighted Average Grant Date Fair Value
Unvested stock at April 30, 2016	427,064	\$ 25.99
Stock granted	126,557	25.33
Stock vested	(134,270)	24.82
Stock canceled	(56,093)	25.29
Unvested stock at April 30, 2017	363,258	\$ 26.30

**13. Long-Term Incentive Awards**

On May 30, 2017, the Company granted an award under the Restated 2006 Plan to key employees. Each award generally consists of: (i) 50% of the target in time based restricted stock awards which vest in equal tranches in July 2017, July 2018 and July 2019, and (ii) 50% of the target in performance based restricted stock units. For the performance based awards, the performance period is the three-year period ending April 30, 2019. A target payout was established at the award date. Each recipient was issued time based restricted stock awards on the award date generally equal to 50% of the award date target. The actual payout for the performance awards at the end of the performance period will be calculated based upon the Company's achievement of established revenue and operating income targets for the performance period. Payouts of the performance awards will be made in shares of restricted stock units.

During the year ended April 30, 2016, the Company granted a three-year performance award under the Restated 2006 Plan to key employees. The performance period for each three-year award is the three-year period ending April 30, 2018. A target payout was established at the award date. The actual payout at the end of the performance period will be calculated based upon the Company's achievement of revenue and gross margin for the performance period. Payouts will be made in cash and restricted stock units. Upon vesting of the restricted stock units, the Company has the discretion to settle the restricted stock units in cash or stock.

During the year ended April 30, 2015, the Company granted a performance award under the Restated 2006 Plan to key employees. The performance period for the award is the three-years ended April 30, 2017. A target payout was established at the award date. The actual payout at the end of the performance period will be calculated based upon the Company's achievement of revenue and gross margin for the fiscal year ended April 30, 2017. Payouts will be made in cash and restricted stock units. Upon vesting of the restricted stock units, the Company has the discretion to settle the restricted stock units in cash or stock. The revenue and operating targets under the plan were not achieved, and therefore, no amounts will be paid out on the 2015 long-term incentive awards.

The cash component of the award is accounted for as a liability. The equity component is accounted for as a stock-based liability, as the restricted stock units may be settled in cash or stock solely at the discretion of the Company. 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.

During the years ended April 30, 2017, 2016 and 2015, the Company did not record any compensation expense for the long-term incentive awards. At April 30, 2017 and 2016, the Company had an accrued liability of \$0 for outstanding awards. At April 30, 2017, the maximum compensation expense that may be recorded for outstanding awards is \$2,690,000.

**14. Income Taxes**

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

	Year Ended April 30,		
	2017	2016	2015
Domestic	\$ 14,415	\$ 8,125	\$ 2,138
Foreign	(206)	(57)	(245)
Total	\$ 14,209	\$ 8,068	\$ 1,893

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 (benefit) expense is as follows:

	Year Ended April 30,		
	2017	2016	2015
U.S. federal statutory income tax rate	34.0 %	35.0 %	35.0 %
State and local income taxes, net of federal benefit	(3.0)	(15.3)	(84.4)
R&D and other tax credits	(19.5)	(49.9)	(172.3)
Valuation allowance	6.4	17.1	96.7
Foreign rate differential	0.2	—	—
Uncertain tax position adjustment	—	—	(1.9)
Return to provision adjustments	(0.4)	6.1	78.3
Permanent items	(4.0)	(2.6)	(5.2)
Other	(1.4)	(1.5)	0.9
Effective income tax rate	12.3 %	(11.1)%	(52.9)%

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

	Year Ended April 30,		
	2017	2016	2015
Current:			
Federal	\$ 1,766	\$ 1,804	\$ 573
State	129	154	(1,292)
Foreign	—	—	—
	1,895	1,958	(719)
Deferred:			
Federal	(451)	(2,859)	(1,972)
State	343	3	1,689
Foreign	(35)	—	—
	(143)	(2,856)	(283)
Total income tax (benefit) expense	\$ 1,752	\$ (898)	\$ (1,002)

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

	April 30,	
	2017	2016
Deferred income tax assets:		
Accrued expenses	\$ 7,074	\$ 8,238
Allowances, reserves, and other	1,801	1,330
Unrealized loss on securities	74	119
Net operating loss and credit carry-forwards	11,854	9,554
Intangibles basis	43	416
Total deferred income tax assets	<u>20,846</u>	<u>19,657</u>
Deferred income tax liabilities:		
Other	(29)	—
Fixed asset basis	(428)	(395)
Total deferred income tax liabilities	<u>(457)</u>	<u>(395)</u>
Valuation allowance	(5,416)	(4,511)
Net deferred tax assets	<u>\$ 14,973</u>	<u>\$ 14,751</u>

At April 30, 2017 and 2016 the Company recorded a valuation allowance of \$5,416,000 and \$4,511,000, respectively, against state R&D credits as the Company is currently generating more tax credits than it will utilize in future years and against foreign net operating losses that are not more likely than not to be utilized. The valuation allowance increased by \$905,000 and \$1,383,000 for April 30, 2017 and April 30, 2016, respectively.

At April 30, 2017 the Company had state credit carryforwards of \$18,173,000 that do not expire and federal tax credit carryforwards of \$7,003,000 that expire in 2035.

At April 30, 2017, the Company had multiple state net operating loss carryforwards and had foreign losses of approximately \$57,000 and \$1,144,000, respectively. The state net operating loss carryforwards begin to expire in 2023. \$1,017,000 of the foreign loss carryforwards begin to expire in 2019 with the remainder having an indefinite carryforward.

At April 30, 2017 and 2016, the Company had approximately \$9,856,000 and \$9,905,000, respectively, of unrecognized tax benefits all of which would impact the Company's effective tax rate if recognized. The Company estimates that none of its unrecognized tax benefits will decrease in the next twelve months 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, 2017 and 2016 (in thousands):

	April 30,	
	2017	2016
Balance as of May 1	\$ 9,905	\$ 8,190
Increases related to prior year tax positions	3	581
Decreases related to prior year tax positions	(26)	—
Increases related to current year tax positions	901	1,144
Decreases related to lapsing of statute of limitations	(927)	(10)
Balance as of April 30,	<u>\$ 9,856</u>	<u>\$ 9,905</u>

The Company records interest and penalties on uncertain tax positions to income tax expense. As of April 30, 2017 and 2016, the Company had accrued approximately \$16,000 and \$55,000, respectively, of interest and penalties related to uncertain tax positions. The Company is currently under audit by various state jurisdictions but does not anticipate any material adjustments from these examinations. The tax years 2014 to 2017 remain open to examination by the IRS for federal income taxes. The tax years 2010 to 2017 remain open for major state taxing jurisdictions.

During the fiscal year ended April 30, 2017, the Company recorded a reversal of a \$968,000 reserve, including the related interest, for uncertain tax positions due to the settlement of prior fiscal year audits.

**15. Accumulated Other Comprehensive Loss**

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

	Available-for-Sale Securities	Total Accumulated Other Comprehensive Loss
Total accumulated other comprehensive loss balance as of April 30, 2016	\$ (201)	\$ (201)
Unrealized gains, net of \$43 of taxes	74	74
Total accumulated other comprehensive loss balance as of April 30, 2017	(127)	(127)

**16. Changes in Accounting Estimates**

During the years ended April 30, 2017, 2016 and 2015, the Company revised its estimates at completion of various fixed-price contracts which resulted in cumulative catch up adjustments during the year in which the change in estimate occurred. The change in estimate was a result of the Company changing the total costs required to complete the contracts due to having more accurate cost information as work progressed in subsequent periods on the various contracts. The changes in estimates resulted in cumulative catch-up adjustments to income from continuing operations for the years ended April 30, 2017, 2016 and 2015 that were not material.

Refer also to Note 9 – Warranty Reserves for further details of change in warranty estimates during the fiscal year ended April 30, 2017.

**17. Related Party Transactions**

Pursuant to a consulting agreement, the Company paid a board member approximately \$80,000, \$96,000 and \$96,000 for fiscal years ended April 30, 2017, 2016 and 2015, respectively, for consulting services independent of his board service.

**18. Commitments and Contingencies**

**Commitments**

The Company's operations are conducted in leased facilities. The Company finances the purchase of certain IT equipment and perpetual software licenses under capital lease arrangements. Following is a summary of non-cancelable operating and capital lease commitments:

	April 30, 2017 (In thousands)	
	Operating leases	Capital leases
2018	\$ 3,492	\$ 304
2019	3,046	168
2020	2,888	—
2021	2,042	—
2022	1,648	—
Thereafter	2,631	—
	\$ 15,747	472
Less: amounts representing interest		(23)
Present value of capital lease obligations		449
Less: Current portion		(288)
Long-term portion of capital lease obligations		\$ 161

Rental expense under operating leases was approximately \$4,612,000, \$4,820,000 and \$4,350,000 for the years ended April 30, 2017, 2016 and 2015, respectively.

Not included in the table above are future rental payments associated with a lease amendment executed by the Company on June 13, 2017 to amend and extend its existing lease for one of its administrative properties. The amendment extends the term of the lease until June 30, 2022 and provides a tenant improvement allowance of up to \$420,332. Beginning July 1, 2017, base monthly rent under the Second Amendment will be \$65,200, which amount shall increase by 2.5%, compounded annually, commencing July 1, 2018. In addition, the Company has two 5-year options to extend the term of lease at the end of the then-current term.

**Contingencies**

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

At April 30, 2017 and 2016, the Company had outstanding letters of credit totaling \$2,070,000 and \$1,080,000, 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, or 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 ("FAR"), 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.

The Defense Contract Management Agency ("DCMA") disallowed a portion of the Company's executive compensation and/or other costs included in the Company's fiscal 2006, 2007 and 2008 incurred cost claims and sought interest for all three years and penalties for fiscal 2006, based on the disallowed costs. The Company appealed these cost disallowances to the Armed Services Board of Contract Appeals. For fiscal 2006, as a result of partial settlements and a decision of the Armed Services Board of Contract Appeals in March 2016, the government's remaining claims were dismissed with prejudice. All of the government's claims related to the Company's 2007 and 2008 incurred cost claims were settled as of October 2015 by payment to the government of \$50,000 and the government's claims related to the Company's 2009 and 2010 incurred cost claims were settled as of October 2015 and April 2016, respectively, without the payment of any consideration. During the fiscal year ended April 30, 2017, the Company settled rates for its incurred cost claims for fiscal years 2011 through 2014 without payment of any consideration.

As a result of the settlement agreements and the Armed Services Board of Contract Appeals ruling, the Company reversed reserves of \$3,607,000 related to those fiscal years as a credit to cost of sales, allocated as \$3,203,000 to the UAS segment and \$404,000 to the EES segment during the fiscal year ended April 30, 2016. At April 30, 2017 and 2016, the Company did not have any remaining reserves for incurred cost claim audits.

#### 19. Business Acquisitions

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

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

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

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

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

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

#### Supplemental Pro Forma Information (unaudited)

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

	Fiscal year ended April 30,	
	2017	2016
Revenue	\$ 265,220	\$ 264,301
Net income	\$ 11,654	\$ 9,168
Net income attributable to AeroVironment	\$ 11,734	\$ 9,239

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

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

The Company incurred approximately \$74,000 of acquisition-related costs. These expenses are included in selling, general and administrative expense on the Company's consolidated income statement for the fiscal year ended April 30, 2017 and are reflected in pro forma net income for the fiscal year ended April 30, 2016, in the table above.

The unaudited pro forma supplemental information is based on estimates and assumptions which we believe are reasonable and are not necessarily indicative of the results that have been realized had the acquisitions been consolidated in the tables above as of May 1, 2015.

#### 20. Segment Data

The Company's product segments are as follows:

- Unmanned Aircraft Systems—The UAS segment focuses primarily on the design, development, production, support and operation of innovative UAS and tactical missile systems that provide situational awareness, multi-band communications, force protection and other mission effects to increase the security and effectiveness of the operations of the Company's customers.
- Efficient Energy Systems—The EES segment focuses primarily on the design, development, production, marketing, support and operation of innovative efficient electric energy systems that address the growing demand for electric transportation solutions.

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

The segment results are as follows (in thousands):

	Year Ended April 30,		
	2017	2016	2015
<b>Revenue:</b>			
UAS	\$ 228,940	\$ 233,738	\$ 220,950
EES	35,933	30,360	38,448
Total	<u>264,873</u>	<u>264,098</u>	<u>259,398</u>
<b>Cost of sales:</b>			
UAS	135,937	132,209	128,233
EES	26,826	19,786	26,897
Total	<u>162,763</u>	<u>151,995</u>	<u>155,130</u>
<b>Gross margin:</b>			
UAS	93,003	101,529	92,717
EES	9,107	10,574	11,551
Total	<u>102,110</u>	<u>112,103</u>	<u>104,268</u>
Selling, general and administrative	56,537	60,077	55,763
Research and development	33,042	42,291	46,491
Income from operations	<u>12,531</u>	<u>9,735</u>	<u>2,014</u>
Other income (expense):			
Interest income, net	1,618	1,032	882
Other income (expense), net	60	(2,699)	(1,003)
Income before income taxes	<u>\$ 14,209</u>	<u>\$ 8,068</u>	<u>\$ 1,893</u>

**Geographic Information**

Sales to non-U.S. customers accounted for 36%, 28% and 9% of revenue for each of the fiscal years ended April 30, 2017, 2016 and 2015, respectively.

**21. Quarterly Results of Operations (Unaudited)**

The following tables present selected unaudited consolidated financial data for each of the eight quarters in the two-year period ended April 30, 2017. In the Company's opinion, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the financial information for the period presented. The Company's fiscal year ends on

April 30. Due to the fixed year end date of April 30, the first and fourth quarters each consist of approximately 13 weeks. The second and third quarters each consist of exactly 13 weeks. The first three quarters end on a Saturday.

	Three Months Ended			
	July 30, 2016	October 29, 2016	January 28, 2017	April 30, 2017
(In thousands except per share data)				
<b>Year ended April 30, 2017</b>				
Revenue	\$ 36,218	\$ 50,116	\$ 53,163	\$ 125,376
Gross margin	\$ 6,683	\$ 17,417	\$ 19,351	\$ 58,659
Net (loss) income attributable to AeroVironment	\$ (11,642)(1)	\$ (4,172)	\$ (2,183)	\$ 30,476 (2)
Net (loss) income per share attributable to AeroVironment—basic(6)	\$ (0.51)	\$ (0.18)	\$ (0.09)	\$ 1.32
Net (loss) income per share attributable to AeroVironment—diluted(6)	\$ (0.51)	\$ (0.18)	\$ (0.09)	\$ 1.30

	Three Months Ended			
	August 2, 2015	November 1, 2015	January 31, 2016	April 30, 2016
(In thousands except per share data)				
<b>Year ended April 30, 2016</b>				
Revenue	\$ 47,050	\$ 64,731	\$ 67,560	\$ 84,757
Gross margin	\$ 16,023	\$ 31,533 (4)	\$ 26,625	\$ 37,922
Net (loss) income	\$ (6,981)(3)	\$ 4,419	\$ 6,164 (5)	\$ 5,364
Net (loss) income per share—basic(6)	\$ (0.30)	\$ 0.19	\$ 0.27	\$ 0.23
Net (loss) income per share—diluted(6)	\$ (0.30)	\$ 0.19	\$ 0.27	\$ 0.23

- (1) Includes the reversal of a \$968,000 reserve, including the related interest, for uncertain tax positions due to the settlement of prior fiscal year tax audits.
- (2) Includes a gain of \$0.6 million related to the acquisition of a controlling interest in our Turkish Joint Venture, Altoy, which was recorded to other income (expense), net in the consolidated statement of operations.
- (3) Includes an other-than-temporary-impairment loss of \$2.2 million related to the Company's investment in the CybAero shares which was recorded to other expense, net in the consolidated statement of operations.
- (4) Includes reversal of \$3.5 million remaining reserve as a result of the settlement by the parties or the dismissal by the Armed Services Board of Contract Appeals of the government's claims related to the Company's incurred cost submittals for fiscal years 2006 through 2009 which was recorded as a credit to cost of sales.
- (5) Includes the impact of \$0.9 million of out-of-period expenses related to sales and use tax and capital leases.
- (6) Earnings per share is computed independently for each of the quarters presented. The sum of the quarterly earnings per share may not equal the total earnings per share computed for the year due to rounding.

SUPPLEMENTARY DATA  
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts (In thousands)		
Allowance for doubtful accounts for the year ended April 30:					
2015	\$ 791	\$ 106	\$ —	\$ (291)	\$ 606
2016	\$ 606	\$ 178	\$ —	\$ (522)	\$ 262
2017	\$ 262	\$ 56	\$ —	\$ (27)	\$ 291
Warranty reserve for the year ended April 30:					
2015	\$ 1,280	\$ 2,919	\$ —	\$ (1,546)	\$ 2,653
2016	\$ 2,653	\$ 4,516	\$ (424)	\$ (2,611)	\$ 4,134
2017	\$ 4,134	\$ 3,079	\$ —	\$ (3,982)	\$ 3,231
Reserve for inventory excess and obsolescence for the year ended April 30:					
2015	\$ 3,234	\$ 2,035	\$ —	\$ (681)	\$ 4,588
2016	\$ 4,588	\$ 2,767	\$ —	\$ (2,900)	\$ 4,455
2017	\$ 4,455	\$ 2,040	\$ —	\$ (1,245)	\$ 5,250
Reserve for self-insured medical claims for the year ended April 30:					
2015	\$ 1,281	\$ 8,953	\$ —	\$ (8,941)	\$ 1,293
2016	\$ 1,293	\$ 9,213	\$ —	\$ (9,330)	\$ 1,176
2017	\$ 1,176	\$ 8,251	\$ —	\$ (8,098)	\$ 1,329

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

Not applicable.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rule 13a-15(b) under the Exchange Act, we have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and were operating at a reasonable level.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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

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

Under the supervision and with the participation of management, including our principal executive and financial officers, we assessed our internal control over financial reporting as of April 30, 2017, based on criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of April 30, 2017 based on the specified criteria.

The effectiveness of our internal control over financial reporting as of April 30, 2017 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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

There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended April 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Item 9B. Other Information.**

On June 26, 2017, we entered into an Amended and Restated Severance Protection Agreement (the "Severance Agreement") with Teresa Covington, who was appointed our Senior Vice President and Chief Financial Officer effective March 1, 2017. The material terms of the Severance Agreement are as follows:

- (a) The Severance Agreement expires on December 31, 2018, provided, however, that if a change in control (as that term is defined in the Severance Agreement) occurs during the term of the agreement, the term will be extended to the date that is 18 months after the date of the occurrence of such change in control.
- (b) Upon termination of her employment by us without cause or by her for good reason (as those terms are defined in the Severance Agreement) within 18 months following a change in control, Ms. Covington is entitled to receive (i) her prorated bonus target for the year in which the termination occurs, (ii) a lump sum cash payment equal to 1.0x the sum of her base salary at the rate in effect on the termination date (or, if higher, the highest base salary rate in effect at any time during the 180-day period prior to a change in control), her annual target bonus for the year in which the termination occurs and 100% of her target payout under all outstanding long-term incentive plan awards, (iii) acceleration of vesting and exercisability of equity awards, (iv) the continuation of certain employee welfare plan benefits for her and her dependents and beneficiaries for a period of 12 months and (v) outplacement services for a period of 12 months, or if earlier, until the first acceptance by her of an offer of employment.
- (c) If her employment is terminated by us without cause or by her for good reason, and a change in control occurs prior to the earlier of the date which is three (3) months following the termination date or February 14th of the calendar year following the year in which the termination date occurs, Ms. Covington is entitled to receive the benefits described in (b) above.
- (d) Ms. Covington will receive the following severance benefits if her employment is terminated by us for any reason other than cause in a context that does not involve a change in control, or upon any termination by reason of her death or disability: (i) her prorated bonus target for the year in which the termination occurs, (ii) a lump sum payment in an amount equal to her base salary at the rate in effect on the termination date, and (iii) the continuation of certain employee welfare plan benefits for her and her dependents and beneficiaries for a period of 12 months.

To receive the severance benefits described above, Ms. Covington must execute a full release of any and all claims against us and comply with certain obligations specified in the agreement for 12 months following the termination date, including non-solicitation and non-disparagement obligations and continued compliance with the obligations under her patent and confidentiality agreement with us. Any waiver of any breach of such obligations must be approved by us.

The descriptions of the Indemnification Agreements, Consulting Agreement and Task Order Severance Agreement set forth in this Item 9B are not complete and are qualified in their entirety by reference to the full text of the form of Indemnification Agreement and the full text of the Consulting Severance Agreement and the Task Order which are filed as Exhibits 10.1, 10.31 and 10.32 36 to this Annual Report on Form 10-K and are incorporated herein by reference.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of AeroVironment, Inc. and Subsidiaries

We have audited AeroVironment, Inc. and subsidiaries' internal control over financial reporting as of April 30, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). AeroVironment, Inc. and subsidiaries' 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, AeroVironment, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of April 30, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AeroVironment, Inc. and subsidiaries as of April 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2017 of AeroVironment, Inc. and subsidiaries and our report dated June 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
June 27, 2017



**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 2017 Annual Meeting of Stockholders, which will be filed no later than 120 days after April 30, 2017, and that information is incorporated by reference herein.

**Codes of Ethics**

We have adopted a Code of Business Conduct and Ethics, or Code of Conduct. The Code of Conduct is posted on our website, <http://investor.avinc.com>. We intend to disclose on our website any amendments to, or waivers of, the Code of Conduct covering our Chief Executive Officer, Chief Financial Officer and/or Controller promptly following the date of such amendments or waivers. A copy of the Code of Conduct may be obtained upon request, without charge, by contacting our Secretary at (626) 357-9983 or by writing to us at AeroVironment, Inc., Attn: Secretary, 800 Royal Oaks Drive, Suite 210, Monrovia, CA 91016. 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 2017 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 2017 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 2017 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 2017 Annual Meeting of Stockholders, and that information is incorporated by reference herein.

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

The information required by Item 14 of Form 10-K will be included in the definitive proxy statement for our 2017 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, 2017 and 2016
- Consolidated Statements of Income for the Years Ended April 30, 2017, 2016 and 2015
- Consolidated Statements of Comprehensive Income for the Years Ended April 30, 2017, 2016 and 2015
- Consolidated Statements of Stockholders' Equity for the Years Ended April 30, 2017, 2016 and 2015
- Consolidated Statements of Cash Flows for the Years Ended April 30, 2017, 2016 and 2015
- 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.

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

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

Exhibit Number	Exhibit
10.31(16)	Form of Director Letter Agreement by and between AeroVironment, Inc. and each non-employee director
10.32#(17)	Separation Agreement by and between AeroVironment, Inc. and Cathleen Cline dated as of April 28, 2016
10.33(17)	Consulting Agreement by and between AeroVironment, Inc. and Cathleen Cline dated as of April 28, 2016
10.34(18)	Severance Agreement and General Release by and between AeroVironment, Inc. and Raymond Cook dated as of December 19, 2016
10.35(3)	Severance Protection Agreement dated as of May 2, 2016, by and between AeroVironment, Inc. and Wahid Nawabi
10.36#	Amended and Restated Severance Protection Agreement dated as of June 26, 2017, by and between AeroVironment, Inc. and Teresa Covington
10.37(3)	Consulting Agreement by and between AeroVironment, Inc. and Charles R. Holland executed as of March 7, 2016
10.38(3)	Task Order #FY16-001 to Consulting Agreement by and between AeroVironment, Inc. and Charles R. Holland executed as of March 7, 2016
10.39	Amendment No. 1 dated November 28, 2016 and Amendment No. 2 dated June 7, 2017 to Standard Consulting Agreement and corresponding Task Orders by and between AeroVironment, Inc. and Charles R. Holland
21.1	Subsidiaries of AeroVironment, Inc.
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report)
31.1	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

- (1) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed March 9, 2007 (File No. 001-33261).
- (2) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed July 1, 2015 (File No. 001-33261).
- (3) Incorporated by reference herein to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-137658).
- (4) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10 K filed on June 29, 2016 (File No. 001 33261).
- (5) Incorporated by reference to the exhibits to the Company's Form 8-K filed on October 5, 2011 (File No. 001-33261).

- (6) Incorporated by reference herein to the exhibits to the Company's Current Report on Form 8-K filed July 28, 2010 (File No. 001-33261).
- (7) Incorporated by reference herein to the exhibits on the Company's Annual Report on Form 10-K filed June 29, 2007 (File No. 001-33261).
- (8) 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).
- (9) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed December 9, 2015 (File No. 001-33261).
- (10) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed March 5, 2014 (File No. 001-33261).
- (11) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed on June 21, 2011 (File No. 001-33261).
- (12) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed November 27, 2013 (File No. 001-33261).
- (13) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10 Q filed December 7, 2016 (File No. 001 33261).
- (14) Incorporated by reference herein to the exhibits to the Company's Current Report on Form 8-K filed February 5, 2015 (File No. 001-33261).
- (15) Incorporated by reference herein to the exhibits to the Company's Current Report on Form 8-K filed July 7, 2015 (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).
- (17) Incorporated by reference herein to the exhibits to the Company's Current Report on Form 8-K filed May 4, 2016 (File No. 001-33261).
- (18) Incorporated by reference herein to the exhibits to the Company's Current Report on Form 8-K filed December 20, 2016 (File No. 001-33261).
- † Confidential treatment has been granted for portions of this exhibit.
- # Indicates management contract or compensatory plan.
- (c) Not applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**AEROVIRONMENT, INC.**

Date: June 27, 2017

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

**POWER OF ATTORNEY**

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

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Wahid Nawabi</u> Wahid Nawabi	President, Chief Executive Officer and Director (Principal Executive Officer)	June 27, 2017
<u>/s/ Teresa P. Covington</u> Teresa P. Covington	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 27, 2017
<u>/s/ Timothy E. Conver</u> Timothy E. Conver	Chairman	June 27, 2017
<u>/s/ Edward R. Muller</u> Edward R. Muller	Director	June 27, 2017
<u>/s/ Arnold L. Fishman</u> Arnold L. Fishman	Director	June 27, 2017
<u>/s/ Stephen F. Page</u> Stephen F. Page	Director	June 27, 2017
<u>/s/ Charles R. Holland</u> Charles R. Holland	Director	June 27, 2017
<u>/s/ Catharine Merigold</u> Catharine Merigold	Director	June 27, 2017
<u>/s/ Charles Thomas Burbage</u> Charles Thomas Burbage	Director	June 27, 2017

2016 AMENDMENT AND RESTATEMENT OF THE  
AEROVIRONMENT, INC.  
2006 EQUITY INCENTIVE PLAN

ARTICLE 1

PURPOSE

The purpose of the AeroVironment, Inc. 2006 Equity Incentive Plan (as amended and restated, the "Plan") is to promote the success and enhance the value of AeroVironment, Inc. (the "Company") by linking the personal interests of the members of the Board, Employees, and Consultants to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "Applicable Accounting Standards" shall mean Generally Accepted Accounting Principles in the United States, International Financial Reporting Standards or such other accounting principles or standards as may apply to the Company's financial statements under United States federal securities laws from time to time.

2.2 "Award" means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Performance Share award, a Performance Stock Unit award, a Dividend Equivalents award, a Stock Payment award, a Deferred Stock award, a Restricted Stock Unit award, an Other Stock-Based Award, a Performance Bonus Award, or a Performance-Based Award granted to a Participant pursuant to the Plan.

2.3 "Award Agreement" means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium, which shall contain such terms and conditions with respect to an Award as the Committee shall determine consistent with the Plan.

2.4 "Board" means the Board of Directors of the Company.

2.5 "Change in Control" means and includes each of the following:

(a) A transaction or series of transactions (other than an offering of Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) (other than the Company, any of its subsidiaries, an employee benefit plan

maintained by the Company or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or

(b) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 2.5(a) or Section 2.5(c)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(i) Which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "Successor Entity") directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(ii) After which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; *provided, however*, that no person or group shall be treated for purposes of this Section 2.5(c)(ii) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(d) The Company's stockholders approve a liquidation or dissolution of the Company.

In addition, if a Change in Control constitutes a payment event with respect to any Award which provides for the deferral of compensation and is subject to Section 409A of the Code, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such Award must also constitute a "change in control event," as defined in Treasury Regulation §1.409A-3(i)(5) to the extent required by Section 409A.

The Committee shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

2.6 "Code" means the Internal Revenue Code of 1986, as amended.



- 2.7 “Committee” means the Compensation Committee of the Board, or another committee or subcommittee of the Board appointed as described in Article 12.
- 2.8 “Consultant” means any consultant or adviser engaged to provide services to the Company or any Subsidiary that qualifies as a consultant under the applicable rules of the Securities and Exchange Commission for registration of shares on a Form S-8 Registration Statement.
- 2.9 “Covered Employee” means an Employee who is, or could be, a “covered employee” within the meaning of Section 162(m) of the Code.
- 2.10 “Deferred Stock” means a right to receive a specified number of shares of Stock during specified time periods pursuant to Article 8.
- 2.11 “Disability” means “disability,” as such term is defined in Section 22(e)(3) of the Code.
- 2.12 “Dividend Equivalents” means a right granted to a Participant pursuant to Article 8 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.
- 2.13 “Eligible Individual” means any person who is an Employee, a Consultant or a member of the Board, as determined by the Committee.
- 2.14 “Employee” means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Subsidiary.
- 2.15 “Equity Restructuring” means a non-reciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization including any large non-recurring cash dividend, that affects the Stock (or other securities of the Company) or the share price and causes a change in the per share value of the Stock underlying outstanding Awards, as determined by the Committee.
- 2.16 “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- 2.17 “Fair Market Value” means, as of any given date, the fair market value of a share of Stock on the date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a share of Stock as of any date shall be the closing sales price for a share of Stock as reported on the NASDAQ Global Market or the NASDAQ Global Select Market (or on any established stock exchange or national market system on which the Stock is then listed) for the date of determination or, if no such prices are reported for that date, the closing sales price for a share of Stock on the last trading date prior to the date of determination.
- 2.18 “Incentive Stock Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.
- 2.19 “Independent Director” means a member of the Board who is not an Employee of the Company.
- 2.20 “Misconduct” shall mean the occurrence of any of, but not limited to, the following: (a) conviction of a Participant of any felony or any crime involving fraud or dishonesty; (b) a Participant’s participation (whether by affirmative act or omission) in a fraud, act or dishonesty or other act of misconduct against the Company and/or any Subsidiary; (c) conduct by a Participant which, based

upon a good faith and reasonable factual investigation by the Company (or, if a Participant is an executive officer, by the Board), demonstrates such Participant's unfitness to serve; (d) a Participant's violation of any statutory or fiduciary duty, or duty of loyalty owed to the Company and/or any Subsidiary; (e) a Participant's violation of state or federal law in connection with the Participant's performance of his or her job which has an adverse effect on the Company and/or any Subsidiary; and (f) a Participant's violation of Company policy which has a material adverse effect on the Company and/or any Subsidiary. Notwithstanding the foregoing, a Participant's Disability shall not constitute Misconduct as set forth herein. The determination that a termination is for Misconduct shall be by the Committee in its sole and exclusive judgment and discretion. Notwithstanding the foregoing, if a Participant is a party to an employment or severance agreement with the Company or any Subsidiary in effect as of the date of grant of an Award which defines "Misconduct" or "Cause" or a similar term, "Misconduct" for purposes of the Plan and such Award shall have the meaning given to such term in such employment or severance agreement.

2.21 "Non-Employee Director" means a member of the Board who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

2.22 "Non-Qualified Stock Option" means an Option that is not intended to be an Incentive Stock Option.

2.23 "Option" means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.24 "Other Stock-Based Award" means an Award granted or denominated in Stock or units of Stock pursuant to Section 8.7 of the Plan.

2.25 "Participant" means any Eligible Individual who, as an Independent Director, Consultant or Employee, has been granted an Award pursuant to the Plan.

2.26 "Performance-Based Award" means an Award granted to selected Covered Employees pursuant to Articles 6 and 8, but which is subject to the terms and conditions set forth in Article 9. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

2.27 "Performance Bonus Award" has the meaning set forth in Section 8.8.

2.28 "Performance Criteria" means the criteria (and adjustments) that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period, determined as follows:

(a) The Performance Criteria that will be used to establish Performance Goals are limited to the following: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added (as determined by the Committee), gross or net sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), stockholders' equity, return on stockholders' equity, return on assets, return on capital, total stockholder returns, return on sales, gross or net profit or operating margin, operating or other costs and expenses, improvements in expense levels, margins, working capital, earnings per share of Stock, price per share of Stock, implementation or completion of critical projects, market share, comparisons with various stock market indices, capital raised in financing transactions or other financing milestones, market recognition (including but not limited to awards and analyst ratings), financial ratios,

and implementation, completion or attainment of objectively determinable objectives relating to research, development, regulatory, commercial or strategic milestones or developments, any of which may be measured either in absolute terms or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices; in each case as determined in accordance with Applicable Accounting Standards, if applicable.

(b) The Committee may, in its sole discretion, provide that one or more objectively determinable adjustments will be made to one or more of the Performance Goals established for any Performance Period. Such adjustments may include one or more of the following: items related to a change in accounting principles, items relating to financing activities, expenses for restructuring or productivity initiatives, non-cash charges, including those relating to share-based awards, other non-operating items, items related to acquisitions or other strategic transactions, items attributable to the business operations of any entity acquired by us during the Performance Period, items related to the disposal of a business or segment of a business, items related to discontinued operations that do not qualify as a segment of a business under Applicable Accounting Standards, items attributable to any stock dividend, stock split, combination or exchange of shares occurring during the Performance Period, any other items of significant income or expense which are determined to be appropriate adjustments, items relating to unusual or extraordinary corporate transactions, events or developments, items related to amortization of acquired intangible assets, items that are outside the scope of the Company's core, on-going business activities, items relating to changes in tax laws, items relating to asset impairment charges, items relating to gains or losses for litigation, arbitration and contractual settlements, or items relating to any other unusual or nonrecurring events or changes in applicable laws, accounting principles or business conditions.

To the extent an Award is intended to be Qualified Performance-Based Compensation, the Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.29 "Performance Goals" means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a Subsidiary, division, business unit, or an individual. The achievement of each Performance Goal shall be determined, to the extent applicable, with reference to Applicable Accounting Standards.

2.30 "Performance Period" means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award.

2.31 "Performance Share" means a right granted to a Participant pursuant to Article 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.32 "Performance Stock Unit" means a right granted to a Participant pursuant to Article 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.33 "Plan" means this amended and restated AeroVironment, Inc. 2006 Equity Incentive Plan, as it may be further amended from time to time.

2.34 “Qualified Performance-Based Compensation” means any compensation that is intended to qualify as “qualified performance-based compensation” as described in Section 162(m)(4)(C) of the Code.

2.35 “Restricted Stock” means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.36 “Restricted Stock Unit” means an Award granted pursuant to Section 8.6.

2.37 “Securities Act” shall mean the Securities Act of 1933, as amended.

2.38 “Stock” means the common stock of the Company, \$0.0001 par value, and such other securities of the Company that may be substituted for Stock pursuant to Article 11.

2.39 “Stock Appreciation Right” or “SAR” means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.

2.40 “Stock Payment” means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Article 8.

2.41 “Subsidiary” means any “subsidiary corporation” as defined in Section 424(f) of the Code and any applicable regulations promulgated thereunder or any other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

2.42 “Substitute Award” shall mean an Award granted under the Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock; provided, however, that in no event shall the term “Substitute Award” be construed to refer to an award made in connection with the cancellation and repricing of an Option or Stock Appreciation Right.

2.43 “Termination of Consultancy” shall mean the time when the engagement of the Participant as a Consultant to the Company or to a Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, by resignation, discharge, death or retirement, but excluding: (a) terminations where there is a simultaneous employment or continuing employment of the Participant by the Company or any Subsidiary, and (b) terminations where there is a simultaneous reestablishment of a consulting relationship or continuing consulting relationship between the Participant and the Company or any Subsidiary. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Consultancy, including, but not by way of limitation, the question of whether a particular leave of absence constitutes a Termination of Consultancy. Notwithstanding any other provision of the Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate a Consultant’s service at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in writing.

2.44 “Termination of Directorship” shall mean the time when the Participant, if he or she is or becomes an Independent Director, ceases to be a Director for any reason, including, but not by way of limitation, a termination by resignation, failure to be elected, death or retirement. The Board, in its sole

and absolute discretion, shall determine the effect of all matters and questions relating to Termination of Directorship with respect to Independent Directors.

2.45 "Termination of Employment" shall mean the time when the employee-employer relationship between the Participant and the Company or any Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death, Disability or retirement; but excluding: (a) terminations where there is a simultaneous reemployment or continuing employment of the Participant by the Company or any Subsidiary, and (b) terminations where there is a simultaneous establishment of a consulting relationship or continuing consulting relationship between the Participant and the Company or any Subsidiary. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a particular leave of absence constitutes a Termination of Employment.

2.46 "Termination of Service" shall mean the last to occur of a Participant's Termination of Consultancy, Termination of Directorship or Termination of Employment, as applicable. A Participant shall not be deemed to have a Termination of Service merely because of a change in the capacity in which the Participant renders service to the Company or any Subsidiary (*i.e.*, a Participant who is an Employee becomes a Consultant) or a change in the entity for which the Participant renders such service (*i.e.*, an Employee of the Company becomes an Employee of a Subsidiary), unless following such change in capacity or service the Participant is no longer serving as an Employee, Independent Director or Consultant of the Company or any Subsidiary.

### ARTICLE 3

#### SHARES SUBJECT TO THE PLAN

##### 3.1 Number of Shares.

(a) Subject to Article 11, the aggregate number of shares of Stock which may be issued or transferred pursuant to Awards under the Plan shall be Four Million Eight Hundred Eighty Four Thousand One Hundred Fifty Seven (4,884,157) shares. To the extent that an Award terminates, expires, or lapses for any reason, or an Award is settled in cash without the delivery of shares of Stock to the Participant, then any shares of Stock subject to the Award shall again be available for the grant of an Award pursuant to the Plan. Additionally, any shares of Stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall again be available for the grant of an Award pursuant to the Plan. If any shares of Restricted Stock are forfeited by a Participant or repurchased by the Company pursuant to Section 6.3 hereof, such shares shall again be available for the grant of an Award pursuant to the Plan. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan.

(b) To the extent permitted by applicable law or any exchange rule, Substitute Awards shall not reduce the shares of Stock authorized for grant under the Plan. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the shares of Stock authorized for grant under the Plan; provided that Awards using such available shares shall not be made after the date

awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company or its Subsidiaries immediately prior to such acquisition or combination.

(c) Notwithstanding the provisions of this Section 3.1, no shares of Stock may again be or, as applicable, may become eligible to be, optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

3.2 Stock Distributed. Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

3.3 Limitation on Number of Shares and Values Subject to Awards.

(a) Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, the maximum aggregate number of shares of Stock with respect to one or more Awards that may be granted to any Participant during any fiscal year of the Company shall be 2,000,000 and the maximum amount of cash that may be paid to any Participant during any fiscal year of the Company with respect to one or more Awards payable in cash shall be \$5,000,000.

(b) Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, the sum of any cash compensation, or other compensation, and the value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of Awards granted to an Independent Director as compensation for services as an Independent Director during any fiscal year of the Company may not exceed \$500,000, increased to \$700,000 in the fiscal year of his or her initial service as an Independent Director. The Administrator may make exceptions to this limit for individual Independent Directors in extraordinary circumstances, as the Administrator may determine in its discretion, provided that the Independent Director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving Independent Directors.

#### ARTICLE 4

##### ELIGIBILITY AND PARTICIPATION

4.1 Eligibility. Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan.

4.2 Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan.

4.3 Foreign Participants. In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however*, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan.

ARTICLE 5  
STOCK OPTIONS

5.1 General. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) Exercise Price. The exercise price per share of Stock subject to an Option shall be determined by the Committee and set forth in the Award Agreement; *provided* that the exercise price for any Option shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant.

(b) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part; *provided, however*, that the term of an Option shall not be more than 10 years from the date the Option is granted. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company, or such other person or entity designated by the Committee, or his, her or its office, as applicable:

(i) A written notice complying with the applicable rules established by the Committee stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Participant or other person then entitled to exercise the Option or such portion of the Option;

(ii) Such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal, state or foreign securities laws or regulations. The Committee may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(iii) In the event that the Option shall be exercised pursuant to Section 10.5 by any person or persons other than the Participant, appropriate proof of the right of such person or persons to exercise the Option; and

(iv) Full payment of the exercise price and applicable withholding taxes to the Secretary of the Company for the shares with respect to which the Option, or portion thereof, is exercised, in a manner permitted by Section 10.1 and 10.2.

5.2 Incentive Stock Options. The terms of any Incentive Stock Options granted pursuant to the Plan must comply with the conditions and limitations contained Section 13.2 and this Section 5.2.

(a) Eligibility. Incentive Stock Options may be granted only to employees (as defined in accordance with Section 3401(c) of the Code) of the Company or a Subsidiary which constitutes a "subsidiary corporation" of the Company (within the meaning of Section 424(f) of the Code and the applicable regulations promulgated thereunder).

(b) Exercise Price. The exercise price per share of Stock shall be set by the Committee; *provided* that subject to Section 5.2(e) the exercise price for any Incentive Stock Option shall not be less than 100% of the Fair Market Value on the date of grant.

(c) Expiration. Subject to Section 5.2(e), an Incentive Stock Option may not be exercised to any extent by anyone after the tenth anniversary of the date it is granted, unless an earlier time is set in the Award Agreement.

(d) Individual Dollar Limitation. The aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(e) Ten Percent Owners. An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company or any "subsidiary corporation" of the Company (within the meaning of Section 424 of the Code) only if such Option is granted at an exercise price per share that is not less than 110% of the Fair Market Value per share of Stock on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(f) Notice of Disposition. The Participant shall give the Company prompt notice of any disposition of shares of Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of grant of such Incentive Stock Option or (ii) one year after the transfer of such shares of Stock to the Participant.

(g) Transferability; Right to Exercise. An Incentive Stock Option shall not be transferable by the Participant other than by will or by the laws of descent or distribution. During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

5.3 Substitute Awards. Notwithstanding the foregoing provisions of this Article 5 to the contrary, in the case of an Option that is a Substitute Award, the price per share of the shares of Stock subject to such Option may be less than the Fair Market Value per share on the date of grant; *provided* that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

## ARTICLE 6

### RESTRICTED STOCK AWARDS

6.1 Grant of Restricted Stock. The Committee is authorized to make Awards of Restricted Stock to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. The Committee shall establish the purchase price, if any, and form of payment for Restricted Stock; *provided, however*, that if a purchase price is charged, such purchase price shall be no less than the par value, if any, of the shares of Stock to be purchased, unless



otherwise permitted by applicable law. In all cases, legal consideration shall be required for each issuance of Restricted Stock.

6.2 Issuance and Restrictions. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

6.3 Repurchase or Forfeiture of Restricted Stock. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, (a) if no price was paid by the Participant for the Restricted Stock, upon a Termination of Service during the applicable restriction period, the Participant's rights in unvested Restricted Stock then subject to restrictions shall lapse, and such Restricted Stock shall be surrendered to the Company and cancelled without consideration, and (b) if a price was paid by the Participant for the Restricted Stock, upon a Termination of Service during the applicable restriction period, the Company shall have the right to repurchase from the Participant the unvested Restricted Stock then subject to restrictions at a cash price per share equal to the price paid by the Participant for such Restricted Stock or such other amount as may be specified in the Award Agreement.

6.4 Certificates or Book Entries for Restricted Stock. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. Certificates or book entries evidencing shares of Restricted Stock must bear an appropriate legend or notation referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of any stock certificate until such time as all applicable restrictions lapse or the Award Agreement may provide that the shares shall be held in escrow by an escrow agent designated by the Company.

## ARTICLE 7

### STOCK APPRECIATION RIGHTS

7.1 Grant of Stock Appreciation Rights. A Stock Appreciation Right may be granted to any Participant selected by the Committee. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose.

7.2 Stock Appreciation Rights.

(a) A Stock Appreciation Right shall have a term set by the Committee, which term shall not be more than ten (10) years from the date the Stock Appreciation Right is granted. A Stock Appreciation Right shall be exercisable in such installments as the Committee may determine. A Stock Appreciation Right shall cover such number of shares of Stock as the Committee may determine.

(b) A Stock Appreciation Right shall entitle the Participant (or other person entitled to exercise the Stock Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the Stock Appreciation Right from the Fair Market Value of a share of Stock on the date of exercise of the Stock Appreciation Right by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised, subject to any limitations the Committee may

impose. Except as described in (c) below, the exercise price per share of Stock subject to each Stock Appreciation Right shall be set by the Committee, but shall not be less than 100% of the Fair Market Value on the date the Stock Appreciation Right is granted.

(c) Notwithstanding the foregoing provisions of Section 7.2(b) to the contrary, in the case of an Stock Appreciation Right that is a Substitute Award, the price per share of the shares of Stock subject to such Stock Appreciation Right may be less than 100% of the Fair Market Value per share on the date of grant, provided that the excess of: (i) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares of Stock subject to the Substitute Award, over (ii) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

7.3 Payment and Limitations on Exercise.

(a) Payment of the amounts determined under Section 7.2(b) above shall be in cash, in Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee in the Award Agreement. To the extent payment for a Stock Appreciation Right is to be made in cash, the Award Agreements shall specify the date of payment which may be different than the date of exercise of the Stock Appreciation Right, to the extent necessary to comply with the requirements of Section 409A of the Code, as applicable. If the date of payment for a Stock Appreciation Right is later than the date of exercise, the Award Agreement may specify that the Participant be entitled to earnings on such amount until paid.

(b) To the extent any payment under Section 7.2(b) is effected in Stock it shall be made subject to satisfaction of all provisions of Article 5 above pertaining to Options.

7.4 Manner of Exercise. All or a portion of an exercisable Stock Appreciation Right shall be deemed exercised upon delivery of all of the following to the Secretary of the Company, or such other person or entity designated by the Committee, or his, her or its office, as applicable:

(a) A written notice complying with the applicable rules established by the Committee stating that the Stock Appreciation Right, or a portion thereof, is exercised. The notice shall be signed by the Participant or other person then entitled to exercise the Stock Appreciation Right or such portion of the Stock Appreciation Right;

(b) Such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal, state or foreign securities laws or regulations. The Committee may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance; and

(c) In the event that the Stock Appreciation Right shall be exercised pursuant to this Section 7.4 by any person or persons other than the Participant, appropriate proof of the right of such person or persons to exercise the Stock Appreciation Right

## OTHER TYPES OF AWARDS

8.1 Performance Share Awards. Any Participant selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.2 Performance Stock Units. Any Participant selected by the Committee may be granted one or more Performance Stock Unit awards which shall be denominated in units of value including dollar value of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.3 Dividend Equivalents.

(a) Any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee.

(b) Dividend Equivalents with respect to an Award with performance-based vesting that are based on dividends paid prior to the vesting of such Award shall only be paid out to the Participant to the extent that the performance-based vesting conditions are subsequently satisfied and the Award vests.

(c) Notwithstanding the foregoing, no Dividend Equivalents shall be payable with respect to Options or SARs.

8.4 Stock Payments. Any Participant selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. The number of shares of Stock or the number of options or other rights to purchase shares of Stock subject to a Stock Payment shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

8.5 Deferred Stock. Any Participant selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting

schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Deferred Stock Award has vested and the Stock underlying the Deferred Stock Award has been issued.

8.6 **Restricted Stock Units.** The Committee is authorized to make Awards of Restricted Stock Units to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Committee shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall, subject to Section 10.7(b), transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited. The Committee shall specify the purchase price, if any, to be paid by the grantee to the Company for such shares of Stock.

8.7 **Other Stock-Based Awards.** Any Participant selected by the Committee may be granted one or more Awards that provide Participants with shares of Stock or the right to purchase shares of Stock or that have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular Participant.

8.8 **Performance Bonus Awards.** Any Participant selected by the Committee may be granted one or more Performance-Based Awards in the form of a cash bonus (a "**Performance Bonus Award**") payable upon the attainment of Performance Goals that are established by the Committee and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Committee. Any such Performance Bonus Award paid to a Covered Employee shall be based upon objectively determinable bonus formulas established in accordance with Article 9.

8.9 **Term.** Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award shall be set by the Committee in its discretion.

8.10 **Exercise or Purchase Price.** The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Stock Units, Deferred Stock, Stock Payments, Restricted Stock Units or Other Stock-Based Award; *provided, however*, that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable law. In all cases, legal consideration shall be required for each issuance of shares of Stock pursuant to an Award.

8.11 **Exercise Upon Termination of Service.** An Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Deferred Stock, Stock Payments, Restricted Stock Units and Other Stock-Based Award shall only be exercisable or payable while the Participant is an Employee, Consultant or a member of the Board, as applicable; *provided, however*, that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award may

be exercised or paid subsequent to a Termination of Service or following a Change in Control of the Company, or because of the Participant's retirement, death or Disability, or otherwise; *provided, however*, that any such provision with respect to Performance Shares or Performance Stock Units shall be subject to the requirements of Section 162(m) of the Code that apply to Qualified Performance-Based Compensation.

## ARTICLE 9

### PERFORMANCE-BASED AWARDS

9.1 **Purpose.** The purpose of this Article 9 is to provide the Committee with the ability to qualify Awards other than Options and SARs and that are granted pursuant to Articles 6 and 8 as Qualified Performance-Based Compensation. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 9 shall control over any contrary provision contained in Articles 6 or 8; *provided, however*, that the Committee may in its discretion grant Awards to Covered Employees that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 9.

9.2 **Applicability.** This Article 9 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

9.3 **Procedures with Respect to Performance-Based Awards.** To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles 6 and 8 which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any Performance Period or any designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period based on the Performance Criteria, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether and the extent to which the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee under such Awards, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

9.4 **Payment of Performance-Based Awards.** Unless otherwise provided in the applicable Award Agreement (and only to the extent otherwise permitted by Section 162(m)(4)(C) of the Code, as to an Award that is intended to qualify as Qualified Performance-Based Compensation), a Participant must be employed by the Company or a Subsidiary on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if and to the extent the Performance Goals for such period are achieved.

9.5 Additional Limitations. Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as Qualified Performance- Based Compensation, and the Plan and the Award Agreement shall be deemed amended to the extent necessary to conform to such requirements.

## ARTICLE 10

### PROVISIONS APPLICABLE TO AWARDS

10.1 Payment. The Committee shall determine the methods by which payments by any Participant with respect to any Awards granted under the Plan shall be made, including, without limitation: (a) cash, (b) promissory note bearing interest at no less than such rate as shall then preclude the imputation of interest under the Code, (c) shares of Stock (including, in the case of payment of the exercise price of an Award, shares of Stock issuable pursuant to the exercise of the Award) held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate payments required, (d) delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise or vesting of an Award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required, *provided*, that payment of such proceeds is then made to the Company upon settlement of such sale, or (e) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act.

10.2 Withholding. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's FICA or employment tax obligation) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold shares of Stock otherwise issuable under an Award (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of shares of Stock which may be withheld or surrendered with respect to the issuance, vesting, exercise or payment of any Award shall be limited to the number of shares of Stock which have a Fair Market Value on the date of withholding or surrender equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income. The Committee shall determine the fair market value of the Stock, consistent with applicable provisions of the Code, for tax withholding obligations due in connection with a broker-assisted cashless Option or Stock Appreciation Right exercise involving the sale of shares to pay the Option or Stock Appreciation Right exercise price or any tax withholding obligation.

10.3 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

10.4 Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

10.5 Limits on Transfer. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution. The Committee by express provision in the Award or an amendment thereto may permit an Award (other than an Incentive Stock Option) to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's Termination of Service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

10.6 Beneficiaries. Notwithstanding Section 10.5, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

10.7 Stock Certificates; Book Entry Procedures.

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates or make any book entries evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered pursuant to the Plan and all shares issued pursuant to book-entry procedures are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities

or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends or notations on any Stock certificate or book-entry to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

(b) Notwithstanding any other provision of the Plan, unless otherwise determined by the Committee or required by any applicable law, rule or regulation, the Company shall not deliver to any Participant certificates evidencing shares of Stock issued in connection with any Award and instead such shares of Stock shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

10.8 Paperless Administration. In the event that the Company establishes for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

10.9 Forfeiture and Claw-Back Provisions. Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Committee shall have the right to provide, in an Award Agreement or otherwise, or to require a Participant to agree by separate written or electronic instrument, that:

(a) (i) Any proceeds, gains or other economic benefit actually or constructively received by the Participant upon any receipt or exercise of the Award, or upon the receipt or resale of any shares of Stock underlying the Award, must be paid to the Company, and (ii) the Award shall terminate and any unexercised portion of the Award (whether or not vested) shall be forfeited, if (x) a Termination of Service occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, or (y) the Participant at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Committee or (z) the Participant incurs a Termination of Service for Misconduct; and

(b) All Awards (including any proceeds, gains or other economic benefit actually or constructively received by the Participant upon any receipt or exercise of any Award or upon the receipt or resale of any shares of Stock underlying the Award) shall be subject to the provisions of any claw-back policy implemented by the Company, including, without limitation, any claw-back policy adopted to comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder, to the extent set forth in such claw-back policy and/or in the applicable Award Agreement.

10.10 Prohibition on Repricing. Subject to Article 11, neither the Board nor the Committee shall, without the approval of the stockholders of the Company, (a) authorize the amendment of any outstanding Option or Stock Appreciation Right to reduce its price per share, or (b) cancel any Option or Stock Appreciation Right in exchange for cash or another Award when the Option or Stock Appreciation Right price per share exceeds the Fair Market Value of the underlying shares of Stock. Subject to Article 11, the Committee shall have the authority, without the approval of the stockholders of the



Company, to amend any outstanding Award to increase the price per share or to cancel and replace an Award with the grant of an Award having a price per share that is greater than or equal to the price per share of the original Award. Furthermore, for purposes of this Section 10.10, except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Awards may not be amended to reduce the exercise price per share of outstanding Options or Stock Appreciation Rights or cancel outstanding Options or Stock Appreciation Rights in exchange for cash, other Awards or Options or Stock Appreciation Rights with an exercise price per share that is less than the exercise price per share of the original Options or Stock Appreciation Rights without the approval of the stockholders of the Company.

## ARTICLE 11

### CHANGES IN CAPITAL STRUCTURE

#### 11.1 Adjustments.

(a) In the event that any dividend or other distribution, reorganization, merger, consolidation, combination, repurchase, or exchange of Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Stock (other than an Equity Restructuring) occurs such that an adjustment is determined by the Committee (in its sole discretion) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust (i) the number and type of shares which may be delivered under the Plan (including but not limited to adjustments of the limitations in Sections 3.1 and 3.3); (ii) the terms and conditions of any outstanding Awards (including without limitation, any applicable performance targets or criteria with respect thereto); and (iii) the grant or exercise price per share and the number of shares of Stock covered by each Award.

(b) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Section 11(a):

(i) The number and type of securities subject to each outstanding Award and the exercise price or grant price thereof, if applicable, will be proportionately adjusted so that the fair value of each such Award and the proportionate interest represented thereby immediately after the Equity Restructuring will equal the fair value of such Award and the proportionate interest represented thereby immediately prior to such Equity Restructuring. The adjustments provided under this Section 11(b)(i) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company.

(ii) The Committee shall make such proportionate adjustments, if any, as it in its discretion may deem appropriate to reflect such Equity Restructuring with respect to the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1 and 3.3).

(c) All adjustments under this Section 11 shall be made (i) in a manner that does not cause a modification to any Awards outstanding on the date of such adjustment within the meaning of Section 409A of the Code and the regulations or published guidance thereunder, (ii) with respect to any Award intended as Qualified Performance-Based Compensation consistent with the requirements of Section 162(m) of the Code; and (iii) with respect to any Incentive Stock Option consistent with the requirements of Section 424 of the Code.

(d) In the event of any transaction or event described in Section 11.1(a), an Equity Restructuring or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate (including without limitation any Change in Control), or of changes in applicable laws, regulations or accounting principles, and whenever the Committee determines that action is appropriate in order to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles, the Committee, in its sole discretion and on such terms and conditions as it deems appropriate, either by amendment of the terms of any outstanding Awards or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 11.1(b) the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(iii) To make adjustments in the number and type of shares of Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

11.2 Acceleration Upon a Change in Control. Notwithstanding Section 11.1, and except as may otherwise be provided in any applicable Award Agreement or other written agreement entered into between the Company or any Subsidiary or affiliate and a Participant, if a Change in Control occurs and a Participant's Awards are not converted, assumed, or replaced by a successor entity, then immediately prior to the Change in Control such Awards shall become fully exercisable and all forfeiture restrictions on such Awards shall lapse. Upon, or in anticipation of, a Change in Control, the Committee may cause any and all Awards outstanding hereunder to terminate at a specific time in the future, including but not limited to the date of such Change in Control, and shall give each Participant the right to exercise such Awards during a period of time as the Committee, in its sole and absolute discretion, shall determine or the right to receive the consideration that stockholders of the Company would receive in connection with such Change in Control less any exercise price or base price for any Award. In the event that the terms of any agreement between the Company or any Subsidiary or affiliate and a Participant contains provisions

that conflict with and are more restrictive than the provisions of this Section 11.2, this Section 11.2 shall prevail and control and the more restrictive terms of such agreement (and only such terms) shall be of no force or effect.

11.3 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the grant or exercise price of any Award.

## ARTICLE 12

### ADMINISTRATION

12.1 Committee. The administrator of the Plan shall be the Committee, which shall consist solely of two or more members of the Board each of whom is a Non-Employee Director, and with respect to awards that are intended to be Performance-Based Awards, an "outside director" within the meaning of Section 162(m) of the Code; *provided* that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 12.1 or otherwise provided in any charter of the Committee. Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Independent Directors and for purposes of such Awards the term "Committee" as used in this Plan shall be deemed to refer to the Board and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 12.5. In addition, in its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which are required to be determined in the sole discretion of the Committee under Rule 16b-3 of the Exchange Act or Section 162(m) of the Code, or any regulations or rules issued thereunder. Appointment of Committee members shall be effective upon acceptance of appointment. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may only be filled by the Board.

12.2 Action by the Committee. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or of any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company or any Subsidiary to assist in the administration of the Plan.

12.3 Authority of Committee. Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;

- (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any reload provision, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines; *provided, however*, that the Committee shall not have the authority to accelerate the vesting or waive the forfeiture of any Performance-Based Awards;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and
- (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

12.4 **Decisions Binding.** The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

12.5 **Delegation of Authority.** To the extent permitted by and subject to the provisions of applicable law, the Committee may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards to Participants other than (a) senior executives of the Company who are subject to Section 16 of the Exchange Act, (b) Covered Employees, or (c) officers of the Company (or members of the Board) to whom authority to grant or amend Awards has been delegated hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation, and the Committee may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.5 shall serve in such capacity at the pleasure of the Committee.

### ARTICLE 13

#### EFFECTIVE AND EXPIRATION DATE

- 13.1 **Effective Date.** This amendment and restatement of the Plan will be effective as of the date on which it is approved by the Company's stockholders.

13.2 Expiration Date. The Plan will expire on, and no Incentive Stock Option or other Award may be granted pursuant to the Plan after July 10, 2021. Any Awards that are outstanding at the expiration of the Plan shall remain in force according to the terms of the Plan and the applicable Award Agreement.

#### ARTICLE 14

##### AMENDMENT, MODIFICATION, AND TERMINATION

14.1 Amendment, Modification, And Termination. With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; *provided, however*, that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) stockholder approval is required for any amendment to the Plan that (i) increases the number of shares available under the Plan (other than any adjustment as provided by Article 11), (ii) reduces the price per share of any outstanding Option or Stock Appreciation Right granted under the Plan or takes any action prohibited under Section 10.10, or (iii) cancels any Option or Stock Appreciation Right in exchange for cash or another Award when the Option or Stock Appreciation Right price per share exceeds the Fair Market Value of the underlying shares of Stock.

14.2 Awards Previously Granted. No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

#### ARTICLE 15

##### GENERAL PROVISIONS

15.1 No Rights to Awards. No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Participants or any other persons uniformly.

15.2 No Stockholders Rights. Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to shares of Stock covered by any Award until the Participant becomes the record owner of such shares of Stock.

15.3 No Right to Employment or Services. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.

15.4 Unfunded Status of Awards. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

15.5 Indemnification. To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from

any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

15.6 **Relationship to other Benefits.** No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

15.7 **Expenses.** The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

15.8 **Titles and Headings.** The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

15.9 **Fractional Shares.** No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares of Stock or whether such fractional shares of Stock shall be eliminated by rounding up or down as appropriate.

15.10 **Limitations Applicable to Section 16 Persons.** Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

15.11 **Government and Other Regulations.** The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act of 1933, as amended, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

15.12 **Section 409A.** To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the adoption of the Plan. Notwithstanding any provision of the Plan to the contrary, in the event that following the adoption of the Plan the Committee determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the adoption of the Plan), the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies

and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance.

15.13 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of California.

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I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of AeroVironment, Inc. on June 23, 2016.

\*\*\*\*\*

I hereby certify that the foregoing Plan was approved by the stockholders of AeroVironment, Inc. on September 30, 2016.

/s/ Melissa A. Brown  
Corporate Secretary

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AEROVIRONMENT, INC.

2006 EQUITY INCENTIVE PLAN

PERFORMANCE RESTRICTED STOCK UNIT AWARD GRANT NOTICE AND  
PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

AeroVironment, Inc., a Delaware corporation (the "**Company**"), pursuant to its Amended and Restated 2006 Equity Incentive Plan (as amended and restated to date, the "**Plan**"), hereby grants to the individual listed below ("**Participant**"), an award of performance-based restricted stock units ("**Restricted Stock Units**" or "**RSUs**") with respect to the number of shares of the Company's Stock listed below (the "**Shares**"). This award for Restricted Stock Units (this "**RSU Award**") is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Unit Award Agreement attached hereto as Exhibit A (the "**Restricted Stock Unit Agreement**") and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Unit Agreement.

**Participant:** \_\_\_\_\_  
**Grant Date:** \_\_\_\_\_  
**Target Number of RSUs:** \_\_\_\_\_  
**Maximum Number of RSUs:** \_\_\_\_\_  
**Distribution Schedule:** Subject to the terms of the Restricted Stock Unit Agreement, the RSUs shall be distributable in accordance with Section 2.1(c) of the Restricted Stock Unit Agreement.  
**Vesting Schedule:** Subject to the terms of the Restricted Stock Unit Agreement, the RSU Award shall vest in accordance with the provisions of Exhibit B to this Grant Notice.

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

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## EXHIBIT A

## TO performance RESTRICTED STOCK UNIT AWARD GRANT NOTICE

## performance RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Performance Restricted Stock Unit Award Grant Notice (the "**Grant Notice**") to which this Performance Restricted Stock Unit Award Agreement (this "**Agreement**") is attached, the Company has granted to Participant the right to receive the number of RSUs set forth in the Grant Notice, subject to all of the terms and conditions set forth in this Agreement, the Grant Notice and the Plan.

## ARTICLE I.

## GENERAL

- 1.1 **Defined Terms.** Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.
- 1.2 **Incorporation of Terms of Plan.** The RSU Award is subject to the terms and conditions of the Plan which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

## ARTICLE II.

## AWARD OF RESTRICTED STOCK UNITS

- 2.1 **Award of Restricted Stock Units.**
- (a) **Award.** In consideration of Participant's continued employment with the Company or any Subsidiary thereof and for other good and valuable consideration, the Company hereby grants to Participant the right to receive the number of RSUs set forth in the Grant Notice, subject to all of the terms and conditions set forth in this Agreement, the Grant Notice and the Plan. Prior to actual issuance of any Shares, the RSUs and the RSU Award represent an unsecured obligation of the Company, payable only from the general assets of the Company.
- (b) **Vesting.** The RSUs subject to the RSU Award shall vest in accordance with the Vesting Schedule set forth on **Exhibit B** to the Grant Notice. Unless and until the RSUs have vested in accordance with the vesting schedule set forth in the Grant Notice, Participant will have no right to any distribution with respect to such RSUs. In the event of Participant's Termination of Service prior to the vesting of all of the RSUs, any unvested RSUs will terminate automatically without any further action by the Company and be forfeited without further notice and at no cost to the Company.
- (c) **Distribution.**
- (i) Shares of Stock shall be distributed to Participant (or in the event of Participant's death, to his or her estate) with respect to such Participant's vested RSUs within thirty (30) days following the vesting date of the RSUs as specified in the Vesting Schedule set forth in the Grant Notice, subject to the terms and provisions of the Plan and this Agreement.
- (ii) Unless otherwise determined by the Committee, all distributions shall be made by the Company in the form of whole shares of Stock. In lieu of any fractional Share, the Company

shall make a cash payment to Participant equal to the Fair Market Value of such fractional Share on the date the RSUs are settled pursuant to this Section 2.1.

(iii) Except as described in this Section 2.1(c), neither the time nor form of distribution of Stock with respect to the RSUs may be changed, except as may be permitted by the Committee in accordance with the Plan and Section 409A of the Code and the Treasury Regulations thereunder.

(d) Generally. Shares issued under the RSU Award shall be issued to Participant or Participant's beneficiaries, as the case may be, at the sole discretion of the Committee, in either (i) uncertificated form, with the Shares recorded in the name of Participant in the books and records of the Company's transfer agent with appropriate notations regarding the restrictions on transfer imposed pursuant to this Agreement; or (ii) certificate form.

2.2 Tax Withholding. Notwithstanding any other provision of this Agreement:

(a) The Company and its Subsidiaries have the authority to deduct or withhold, or require Participant to remit to the Company or the applicable Subsidiary, an amount sufficient to satisfy applicable federal, state, local and foreign taxes (including Participant's social security, Medicare and any other employment tax obligation) required by law to be withheld with respect to any taxable event arising from the receipt of the Shares upon settlement of the RSUs. Participant may satisfy the tax withholding obligation in one or more of the forms specified below, subject to section 10.2 of the Plan:

(i) by cash or check made payable to the Company or the Subsidiary with respect to which the tax withholding obligation arises;

(ii) by the deduction of such amount from other compensation payable to Participant;

(iii) with the consent of the Committee, by requesting that the Company withhold a net number of vested Shares otherwise issuable pursuant to the RSUs having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and its Subsidiaries based on the minimum applicable statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes;

(iv) with the consent of the Committee, by tendering vested shares of Stock having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and its Subsidiaries based on the minimum applicable statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes;

(v) with the consent of the Committee, through the delivery of a notice that Participant has placed a market sell order with a broker acceptable to the Company with respect to the Shares issuable pursuant to the RSUs then vesting, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company or the Subsidiary with respect to which the withholding obligation arises in satisfaction of such withholding taxes; provided that payment of such proceeds is then made to the Company or the applicable Subsidiary at such time as may be required by the Committee, but in any event not later than the settlement of such sale; or

(vi) in any combination of the foregoing.

(b) Unless Participant elects to provide timely payment of all sums required pursuant to Section 2.2(a), the Company and its Subsidiaries shall have the right, but not the obligation, to treat such failure as an election by Participant to satisfy all or any portion of Participant's required payment obligation pursuant to Section 2.2(a)(ii) or Section 2.2(a)(iii) above, or any combination of the foregoing as the Company or its Subsidiaries may determine to be appropriate. If Participant is subject to Section 16 of the Exchange Act at the time the tax withholding obligation arises, the prior approval of the Committee shall be required for any election by the Company to satisfy all or any portion of Participant's required payment obligation pursuant to Section 2.2(a)(iii) above pursuant to this Section 2.2(b).

(c) The Company shall not be obligated to deliver any certificate representing Shares issuable with respect to the RSUs to Participant or his legal representative unless and until Participant or his legal representative shall have paid or otherwise satisfied in full the amount of all federal, state, local and foreign taxes applicable with respect to the taxable income of Participant resulting from the grant of the RSUs, the distribution of the Shares issuable with respect thereto, or any other taxable event related to the RSUs.

2.3 Conditions to Issuance of Shares. The Company shall not be required to issue or deliver any Shares issuable upon the vesting of the RSUs prior to the fulfillment of all of the conditions set forth in Section 10.7 of the Plan and the receipt by the Company of full payment of any applicable withholding tax in any manner permitted under Section 2.2 above.

2.4 Forfeiture and Claw-back Provisions. Participant acknowledges that this RSU Award is subject to the provisions of Section 10.9 of the Plan.

### ARTICLE III.

#### OTHER PROVISIONS

3.1 RSU Award and Interests Not Transferable. This RSU Award and the rights and privileges conferred hereby, including the RSUs awarded hereunder, shall not be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect.

3.2 Rights as Stockholder. Neither Participant nor any person claiming under or through Participant shall have any of the rights or privileges of a stockholder of the Company in respect of any Shares issuable hereunder unless and until certificates representing such Shares (which may be in uncertificated form) will have been issued and recorded on the books and records of the Company or its transfer agents or registrars, and delivered to Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, Participant shall have all the rights of a stockholder of the Company, including with respect to the right to vote the Shares and the right to receive any cash or share dividends or other distributions paid to or made with respect to the Shares.

3.3 Adjustments. The Participant acknowledges that the RSU Award, including the vesting of the RSU Award and the number of Shares subject to the RSU Award, is subject to adjustment upon the occurrence of certain events as provided in Article 11 of the Plan.

3.4 Not a Contract of Employment or other Service Relationship. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue to serve as an Employee or other service provider of the Company or any of its affiliates. Participant understands and agrees that this RSU Award does not alter the at-will nature of his or her employment relationship with the Company and is not a promise of continued employment for the vesting period of the RSU Award or any portion of it.

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

3.6 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal executive offices, and any notice to be given to Participant shall be addressed to Participant at the most recent address in the Company's personnel records. By a notice given pursuant to this Section 3.6, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

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

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

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

3.10 Amendments. Except as provided in the Plan, this Agreement may not be modified, amended or terminated except by an instrument in writing, signed by Participant and by a duly authorized representative of the Company.

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

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

(a) Notwithstanding any other provision of the Plan, this Agreement or the Grant Notice, the Plan, this Agreement and the Grant Notice shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, "Section 409A"). The Committee may, in its discretion, adopt such amendments to the Plan, this Agreement or the Grant Notice or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Committee determines are necessary or appropriate to comply with the requirements of Section 409A.

(b) This Agreement is not intended to provide for any deferral of compensation subject to Section 409A of the Code, and, accordingly, the Shares issuable pursuant to the RSUs hereunder shall be distributed to Participant no later than the later of: (i) the fifteenth (15<sup>th</sup>) day of the third month following Participant's first taxable year in which such RSUs are no longer subject to a substantial risk of forfeiture, and (ii) the fifteenth (15<sup>th</sup>) day of the third month following the first taxable year of the Company in which such RSUs are no longer subject to substantial risk of forfeiture, as determined in accordance with Section 409A and any Treasury Regulations and other guidance issued thereunder.

(c) For purposes of Section 409A of the Code (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), each payment that Participant may be eligible to receive under this Agreement shall be treated as a separate and distinct payment.

3.14 Tax Representations. Participant has reviewed with Participant's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Participant understands that Participant (and not the Company) shall be responsible for Participant's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

3.15 Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Grant Notice, this Agreement, the Plan or the RSUs by electronic means or request the Participant's consent to participate in the Plan or accept the RSUs by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or a third party vendor designated by the Company.

3.16 Confidentiality. Except with the approval of the Committee, Participant shall not disclose to any person, and shall preserve the confidentiality of, the performance vesting terms set forth in this Agreement. The foregoing restrictions on disclosure shall not apply to disclosures required by law or disclosures to the Participant's professional advisors.

3.17 Broker-Assisted Sales.

(a) In the event of any broker-assisted sale of Shares in connection with the payment of withholding taxes as provided in Section 2.2(a)(iii) or Section 2.2(a)(v) or Section 2.2(b): (i) any Shares to be sold through a broker-assisted sale will be sold on the day the tax withholding obligation arises, or as soon thereafter as practicable; (ii) such Shares may be sold as part of a block trade with other participants in the Plan in which all participants receive an average price; (iii) the Participant will be responsible for all broker's fees and other costs of sale, and the Participant agrees to indemnify and hold the Company and its

Subsidiaries harmless from any losses, costs, damages, or expenses relating to any such sale; (iv) to the extent the proceeds of such sale exceed the applicable tax withholding obligation, the Company agrees to pay such excess in cash to the Participant as soon as reasonably practicable; (v) the Participant acknowledges that the Company or its designee is under no obligation to arrange for such sale at any particular price, and that the proceeds of any such sale may not be sufficient to satisfy the applicable tax withholding obligation; and (vi) in the event the proceeds of such sale are insufficient to satisfy the applicable tax withholding obligation, the Participant agrees to pay immediately upon demand to the Company or its Subsidiaries with respect to which the withholding obligation arises, an amount sufficient to satisfy any remaining portion of the Company's or the applicable Subsidiary's withholding obligation.

(b) In the event any tax withholding obligation arising in connection with the RSUs will be satisfied under Section 2.2(a)(iii) or Section 2.2(b) above, then, unless the Participant is subject to Section 16 of the Exchange Act at the time the tax withholding obligation arises (in which case the prior approval of the Committee shall be required for any election by the Company pursuant to this Section 3.17(b)), the Company may elect to instruct any brokerage firm determined acceptable to the Company for such purpose to sell on Participant's behalf a whole number of Shares from those Shares that are issuable upon settlement of the RSUs as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the tax withholding obligation and to remit the proceeds of such sale to the Company or the Subsidiary with respect to which the withholding obligation arises. Participant's acceptance of the RSU Award constitutes the Participant's instruction and authorization to the Company and such brokerage firm to complete the transactions described in this Section 3.17(b), including the transactions described in the previous sentence, as applicable.

TO PERFORMANCE RESTRICTED STOCK UNIT AWARD GRANT NOTICE

VESTING SCHEDULE

**FIRST AMENDMENT TO LEASE**

THIS FIRST AMENDMENT TO LEASE (First Amendment) is dated as of October 10, 2011 by and between Simi Valley-NCR, LLC, a California limited liability company, as lessor (Lessor) and AeroVironment, Inc., a Delaware corporation, as lessee (Lessee).

**RECITALS**

- A. Lessor's predecessor-in-interest and Lessee entered into a Standard Industrial/Commercial Single-Tenant Lease - Net dated February 12, 2007 (the Lease). Capitalized terms not defined herein shall have the meanings set forth in the Lease.
- B. Pursuant to the Lease, Lessee leases an industrial building containing approximately 105,083 square feet located at 85 Moreland Road, Simi Valley, California (the Premises).
- C. The term of the Lease expires on June 30, 2012.
- D. Lessor and Lessee desire to amend the Lease as set forth herein.
- E. Lessor and Lessee desire that the terms, conditions and covenants of the Lease, except to the extent amended herein, remain in full force and effect.

NOW, THEREFORE, upon execution of this First Amendment, the foregoing recitals, the terms and covenants of this First Amendment and other consideration, the receipt and sufficiency are hereby acknowledged, Lessor and Lessee hereby agree as follows:

- 1. **Term.** The term of the Lease shall be extended for a period of sixty (60) months to expire on June 30, 2017.
- 2. **Base Rent.** Commencing November 1, 2011, the monthly Base Rent shall be \$61,999. Commencing November 1, 2013 and annually thereafter, the monthly Base Rent then payable hereunder shall be increased by two and one-half percent (2.5%), compounded annually.
- 3. **Extension Options.** Lessee has two (2) options to extend the Lease, each for a five (5) year period as set forth in Section 3 of the Addendum to Single-Tenant Lease. If Lessee timely exercises its extension option pursuant to Section 3 of the Addendum to Single-Tenant Lease, Base Rent at the commencement of each option shall be equal to the then Market Rent (as defined and determined in accordance with Section 3 of the Addendum to Single Tenant Lease. Monthly Base Rent payable during the term of each option period shall be increased on the first anniversary of the commencement of the option period and annually thereafter by two and one-half percent (2.5%), compounded annually.
- 4. **Lessor Work.** Lessor, at Lessor's sole cost and expense, shall complete the following work prior to January 15, 2012:
  - (i) Seal balconies and replace recessed lights and ceiling below balconies, if damaged;
  - (ii) Install decorative iron fence on the cul de sac entry from Moreland Road and a chain link



fence on the east and south perimeter of Premises and remove landscaping in the area where the fence is being installed; and  
(iii) Replace office HVAC units that have exceeded useful life.

5. **Tenant Improvements.** Lessee covenants and agrees to complete tenant improvements, including but not limited hard wall office construction, conference room construction, laboratory construction, electrical and HVAC repairs installed by Lessee, replacement of carpet, interior upgrades and enhanced security system upgrades (collectively, the Work). Any and all such work shall be in compliance with Sections 6 and 7 of the Lease and all applicable laws, rules, regulations, codes and ordinances. Lessee shall confirm contractors have all required licenses and insurance certificates, complete all necessary plans, and obtain all applicable permits required by governmental authorities. Lessee shall provide Lessor at least fourteen (14) days' notice in writing prior to commencing any work upon the Premises. All work shall be done in a good and workmanlike manner, with good and sufficient materials.

Lessee shall timely pay all claims for labor or materials furnished and obtain unconditional waivers and lien releases from each contractor and subcontractor. Lessee shall do all things reasonably necessary to prevent the filing of any mechanics' or other liens against the Premises or any part thereof by reason of work, labor, services or materials supplied or claimed to have been supplied to Lessee, or anyone holding the Premises, or any part thereof, through or under Lessee. If any such lien shall at any time be filed against the Premises, Lessee shall either cause the same to be discharged of record within twenty (20) days after the date of filing of the same or, if Lessee in Lessee's discretion and in good faith determines that such lien should be contested, shall furnish such security as may be necessary or required to: (i) prevent any foreclosure proceedings against the Premises during the pendency of such contest, and (ii) cause First American Title Company or other mutually satisfactory title company to remove such lien as a matter affecting title to the Premises on a title policy or report with respect to the Premises. If Lessee shall fail to discharge such lien within such period or fail to furnish such security, then, in addition to any other right or remedy of Lessor resulting from Lessee's said default, Lessor may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by procuring the discharge of such lien by giving security or in such other manner as is, or may be, prescribed by law. Lessee shall repay to Lessor on demand all sums disbursed or deposited by Lessor, including Lessor's costs, expenses and actual attorneys' fees incurred by Lessor in connection therewith, with interest thereon at the maximum rate permitted by law.

Lessee shall timely submit for payment all claims for labor or materials furnished and obtain unconditional waivers and liens releases from each contractor, supplier and subcontractor. Lessee shall deliver to Lessor the following for Lessor's review and approval: (i) unconditional waivers and lien releases; (ii) contracts and contractor invoices; (iii) cancelled checks (if applicable); and (iv) other documentation requested by Lessor. Lessor shall have the right to inspect any and all such work prior to paying for the Work. Following receipt and approval by Lessor of the required documentation for the Work, Lessor shall pay the contractors directly or issue joint checks; provided, however, in no event shall such payments in the aggregate exceed the tenant improvement allowance of \$525,415. Such requests for reimbursement shall be for a minimum of \$50,000 and not more frequently than once per month. Lessee represents and warrants that as of the date of this First Amendment, Lessee has no knowledge of any outstanding building code, life safety or ADA issues with respect to the Premises. Lessor shall be responsible for the cost to correct any building code, life safety, and ADA issues existing as of the date of this First Amendment if and when correction is lawfully cited and required by a governmental agency with jurisdiction over such matters.

All alterations, improvements, remodeling, additions or fixtures, other than trade fixtures not permanently affixed to the Premises, which may be made or installed in the Premises, shall at the termination of this Lease become the property of Lessor and remain upon and be surrendered with the Premises, unless otherwise required by Lessor in its sole discretion to be removed from the Premises upon the surrender thereof.

6. Maintenance and Repair. Except as expressly set forth in this First Amendment, the responsibilities set forth in Section 7 of the Lease remain in full force and effect. A licensed roofing contractor selected by Lessor (Roofing Contractor) shall perform an initial assessment, and immediate repairs identified in such assessment (Roof Repairs) shall be completed at Lessor's cost no later than December 15, 2011. After completion of the Roof Repairs, Lessee shall utilize the Roofing Contractor and pay roof repair costs up to and including \$800 per occurrence, and roof repair costs exceeding \$800 per occurrence shall be at Lessor's cost. Following Lessee's repainting of the exterior of the Premises in accordance with Paragraph 5 above, Lessee shall pay for repairs to the exterior of the building (including parking lot repairs, walkways, fences, exterior lighting fixtures, hydrants, irrigation systems and all backflow devices) up to and including \$1,000 per occurrence, and repairs to the exterior of the building exceeding \$1,000 per occurrence shall be at Lessor's cost.

The exterior painting of the building utilizing an acrylic Dunn Edwards brand shall be performed no later than November 1, 2015 on a date to be mutually agreed upon by Lessor and Lessee. Lessor shall obtain three bids from contractors, and Lessee will select one from such bids. Lessee and Lessor will each pay 50% of the cost of such work.

7. Right of First Refusal. During the Term of this Lease, if Lessor shall decide to sell the Premises, Lessee shall have the right to purchase on the following terms and conditions:
- (a) If Lessor delivers to Lessee a copy of a written offer of a third party (Offer), Lessee shall have fifteen (15) calendar days after receipt of the Offer to notify Lessor in writing of Lessee's election to purchase the Premises on the terms of such Offer. If Lessee fails to timely perform in accordance with the terms of such Offer or if Lessee does not elect to purchase on the terms of such Offer, this right of first refusal shall terminate and be of no further force or effect.
  - (b) In the alternative, Lessor may request Lessee to propose terms of purchase and Lessee shall have fifteen (15) calendar days after receipt of Lessor's request for a proposal to notify Lessor in writing of Lessee's proposed terms. If Lessor and Lessee are not able to reach an agreement on terms of sale within thirty (30) days of Lessor's request, this right of first refusal shall terminate and be of no further force or effect; provided that Lessor sells the Premises within one year for at least ninety percent (90%) of the purchase price offered by Lessee.

8. Notices. Notices to Lessor shall be delivered to:

Simi Valley-NCR, LLC  
5150 Overland Avenue  
Culver City, California 90230  
Attention: Nicole Abend

9. Brokerage Commission. Lessor and Lessee represent and warrant that they respectively have not dealt with any brokers in connection with this First Amendment other than UGL Services. Lessor shall pay to UGL Services a one-time commission upon mutual execution and delivery of this First Amendment pursuant to the terms of a separate written agreement between Lessor and UGL Services. Lessee hereby indemnifies and agrees to protect, defend and hold harmless Lessor and its successors and assigns from and against all liability, cost, damage or expense (including, without limitation, attorneys' fees and costs incurred in connection therewith) on account of any other brokerage commission or finder's fee in connection with the Premises, this First Amendment or the Lease.
10. No Lessor Default. Lessee hereby confirms that, as of the date hereof: (i) Lessor is not in default under the Lease, and (ii) Lessee has no existing claim arising out of or relating to the Lease for any action or inaction by Lessor prior to the date hereof.
11. Reaffirmation. Lessee hereby acknowledges that Lessee has no offsets, claims or defenses whatsoever under the Lease, and Lessee hereby reaffirms all of its obligations under the Lease.
12. Authority. If Lessee is a corporation or partnership, each individual executing this First Amendment on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this First Amendment, and Lessee shall, upon Lessor's request, deliver to Lessor evidence of such authority satisfactory to Lessor. If Lessor is a corporation, partnership, limited liability company or other similar entity, each individual executing this First Amendment on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this First Amendment.
13. Counterparts. This First Amendment may be executed in one or more counterparts, each of which shall be deemed to constitute an original, but all of which, when taken together, shall constitute one and the same instrument, with the same effect as if all of the parties to this First Amendment had executed the same counterpart.
14. No Other Modifications. Except as expressly modified herein, all other terms of the Lease shall remain in full force and effect for the term stated in this First Amendment and said Lease is hereby incorporated by reference as if set forth in its entirety.

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**LESSOR:**

SIMI VALLEY-NCR, LLC,  
a California limited liability company

By: Northridge Campus Residence, L.P., a California limited partnership,  
its sole and managing member

By: WLB GROUP GP LLC,  
a California limited liability company, a general partner

By : /s/ Warren Breslow  
Warren L. Breslow Manager

**LESSEE:**

AEROVIRONMENT, INC.,  
a Delaware corporation

By: /s/ Cathleen S. Cline  
Print Name: Cathleen S. Cline  
Print Title: SVP Admin.

By: /s/ Timothy Conver  
Print Name: Timothy Conver  
Print Title: CEO

**SECOND AMENDMENT TO LEASE**

THIS SECOND AMENDMENT TO LEASE ("Second Amendment") is dated as of June 2, 2017 by and between Simi Valley-NCR, LLC, a California limited liability company, as lessor ("Lessor") and AeroVironment, Inc., a Delaware corporation, as lessee ("Lessee").

**RECITALS**

- A. Lessor's predecessor-in-interest and Lessee entered into a Standard Industrial/Commercial Single-Tenant Lease - Net dated February 12, 2007 (the "Original Lease"), as amended by that certain First Amendment to Lease dated October 10, 2011 (the "First Amendment") (collectively the "Lease"). Capitalized terms not defined herein shall have the meanings set forth in the Lease.
- B. Pursuant to the Lease, Lessee leases an industrial building containing approximately 105,083 square feet located at 85 Moreland Road, Simi Valley, California (the "Premises").
- C. The term of the Lease expires on June 30, 2017.
- D. Lessor and Lessee desire to amend the Lease as set forth herein.
- E. Lessor and Lessee desire that the terms, conditions and covenants of the Lease, except to the extent amended herein, remain in full force and effect.

NOW, THEREFORE, upon execution of this Second Amendment, the foregoing recitals, the terms and covenants of this Second Amendment and other consideration, the receipt and sufficiency are hereby acknowledged, Lessor and Lessee hereby agree as follows:

- 1. Term. The term of the Lease shall be extended for a period of five (5) years to expire on June 30, 2022 (such new term, the "2017 Renewal Term").
- 2. Base Rent. Commencing July 1, 2017, the monthly Base Rent shall be \$65,151.46. Commencing July 1, 2018 and annually thereafter, the monthly Base Rent then payable hereunder shall be increased by two and one-half percent (2½%), compounded annually.
- 3. Extension Options. Lessee shall continue to have two (2) options to extend the Lease, each for a five (5) year period as set forth in Section 3 of the Addendum to Single-Tenant Lease and Paragraph 3 of the First Amendment.
- 4. Lessor Work. Lessor, at Lessor's sole cost and expense, shall complete the following work prior to October 31, 2017:
  - (i) Remove or prune trees surrounding the surface parking lot on the Premises to address root intrusions;
  - (ii) Repair damage to the parking lot caused by root intrusions; and
  - (iii) Apply new topcoat to surface parking lot and restripe of parking stalls.

Lessee acknowledges and agrees that: (a) Lessor has completed Lessor's work set forth in Paragraph 4 of the First Amendment, except for Paragraph 4(iii) of the First Amendment which is hereby deleted and no longer a part of Lessor's work, and (ii) Landlord has increased the Tenant Improvement Allowance (defined in Paragraph 5 below) for Lessee's replacement of the heating, ventilation, and air conditioning ("HVAC") units, among other things, as provided in Section 5 below.

5. **Tenant Improvements.** Paragraph 5 of the First Amendment is hereby deleted in its entirety.

Lessee covenants and agrees to complete tenant improvements, including but not limited to construction of permanently affixed capital improvements (excluding fixtures, furnishings and equipment) (collectively, the "Work").

For purposes of this Second Amendment, "Replacement Cost" means the cost to replace an HVAC unit at the Premises with a new like-kind HVAC unit in size and quality. Within 3 months after the execution of this Second Amendment, the parties agree to have a mutually agreeable licensed independent HVAC technician conduct an inspection of each HVAC unit at the Premises who will determine whether the required repair costs for any of the HVAC units exceed 50% of the Replacement Cost. Lessee and Lessor shall each pay 50% of the cost of such inspection and report. Lessee, as part of the Work, agrees to (i) replace any HVAC unit with a new like-kind HVAC unit in size and quality for which such technician determines that the costs to repair such HVAC unit exceed 50% of the Replacement Cost and (ii) timely complete any other repair work identified by such technician.

Lessee shall submit plans and scope of work for Lessor's approval prior to commencement. Any and all such work shall be in compliance with Sections 6 and 7 of the Lease and all applicable laws, rules, regulations, codes and ordinances. Lessee shall confirm contractors have all required licenses and insurance certificates, complete all necessary plans, and obtain all applicable permits required by governmental authorities. Lessee shall provide Lessor at least fourteen (14) days' notice in writing prior to commencing any work upon the Premises. All work shall be done in a good and workmanlike manner, with good and sufficient materials.

Lessee shall timely pay all claims for labor or materials furnished and obtain unconditional waivers and lien releases from each contractor and subcontractor. Lessee shall do all things reasonably necessary to prevent the filing of any mechanics' or other liens against the Premises or any part thereof by reason of work, labor, services or materials supplied or claimed to have been supplied to Lessee, or anyone holding the Premises, or any part thereof, through or under Lessee. If any such lien shall at any time be filed against the Premises, Lessee shall either cause the same to be discharged of record within twenty (20) days after the date of filing of the same or, if Lessee in Lessee's discretion and in good faith determines that such lien should be contested, shall furnish such security as may be necessary or required to: (i) prevent any foreclosure proceedings against the Premises during the pendency of such contest, and (ii) cause First American Title Company or other mutually satisfactory title company to remove such lien as a matter affecting title to the Premises on a title policy or report with respect to the Premises. If Lessee shall fail to discharge such lien within such period or fail to furnish

such security, then, in addition to any other right or remedy of Lessor resulting from Lessee's said default, Lessor may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by procuring the discharge of such lien by giving security or in such other manner as is, or may be, prescribed by law. Lessee shall repay to Lessor on demand all sums disbursed or deposited by Lessor, including Lessor's costs, expenses and actual attorneys' fees incurred by Lessor in connection therewith, with interest thereon at the maximum rate permitted by law.

Lessee shall timely pay all claims for labor or materials furnished and obtain unconditional waivers and liens releases from each contractor, supplier and subcontractor. Lessee's requests for reimbursement shall be: (a) for a minimum of \$50,000 and not more frequently than once per month, (b) for work completed after the date of this Second Amendment and prior to December 31, 2019, and (c) submitted for reimbursement prior to January 31, 2020. Prior to January 31, 2020, Lessee shall deliver to Lessor the following for Lessor's review and approval in connection with reimbursement for Work completed prior to December 31, 2019: (i) unconditional waivers and lien releases; (ii) contracts and contractor invoices; (iii) cancelled checks; and (iv) final plans for the Work. Lessor shall have the right to inspect any and all such work prior to reimbursing Lessee for the Work. Following receipt and approval by Lessor of the required documentation for the Work, Lessee shall pay the contractors directly provided, however, in no event shall the reimbursements by Lessor to Lessee in the aggregate exceed the tenant improvement allowance of Four Hundred Twenty Thousand Three Hundred Thirty Two Dollars (\$420,332).

All alterations, improvements, remodeling, additions or fixtures, other than trade fixtures not permanently affixed to the Premises, which may be made or installed in the Premises, shall at the termination of this Lease become the property of Lessor and remain upon and be surrendered with the Premises, unless otherwise required by Lessor in its sole discretion to be removed from the Premises upon the surrender thereof.

6. Maintenance and Repair. Lessee and Lessor acknowledge and agree that the Roof Repairs and exterior painting required by Paragraph 6 of the First Amendment have been completed.

Except as expressly set forth in this Second Amendment, the responsibilities set forth in Section 7 of the Lease (as modified by Paragraph 6 of the First Amendment) remain in full force and effect. Except as otherwise stated in Paragraph 5 of this Second Amendment, Lessee shall, at Lessee's sole cost and expense, be responsible for procuring and maintaining a contract for the inspection, maintenance and service of all HVAC units. Notwithstanding anything to the contrary in Section 7.1(d) of the Lease, during the 2017 Renewal Term and any Option, Lessee, at Lessee's sole cost and expense shall replace the HVAC units with new like-kind units in size and quality as and when the required repairs exceed 50% of the replacement cost.

In addition to the foregoing, during the three-month period prior to the end of the 2017 Renewal Term and each Option (if exercised), the parties agree to have a mutually agreeable licensed independent HVAC technician conduct an inspection of each HVAC unit at the Premises who will determine whether the costs for the required repairs on each HVAC unit exceed 50% of the Replacement Cost. Lessee and Lessor shall each pay 50%

of the cost of such inspection and report. Lessee, at Lessee's sole cost and expense, shall be responsible for: (i) replacing any HVAC unit for which the HVAC technician determines that the required repair costs exceed 50% of the Replacement Cost with a new like-kind unit in size and quality; and (ii) completing prior to Lease expiration all repairs recommended in such report.

7. Hazardous Substances. Lessee hereby discloses that Lessee is handling, transporting, storing, using and/or disposing of DOT Class 1, Division 3 & 4 explosives ("Explosives") necessary for Lessee's business, which Explosives are used to propel a drone out of a launch tube. Attached hereto as Exhibit B is a copy of Lessee's licenses and permits required to handle the Explosives, which Lessee shall maintain in good standing. Lessee's handling, transporting, storage, use, and disposal of any and all such Explosives shall at all times be performed in a safe and lawful manner and in compliance with Paragraph 6.2 of the Lease (including, but not limited to, remediation and indemnification) and all Applicable Requirements. Lessee shall not allow any Explosives to be discharged or Hazardous Substances to be released at the Project nor contaminate the building, land or the environment. Lessee shall obtain and keep in full force and effect a Commercial General Liability policy pursuant to Paragraph 8.2(a) of the Lease with an annual aggregate (together with excess policies maintained by Lessee) of not less than \$50,000,000. Lessee's obligation to pay the premium for property insurance pursuant to Paragraph 8.3 of the Lease shall include any additional premium relating to the above use.
8. Surrender of the Premises. In addition to the obligations set forth in Section 7.4 of the Lease, Lessee at Lessee's sole cost and expense shall prior to the expiration of the Lease or any earlier termination date restore the Premises as more particularly set forth in Exhibit A attached hereto and made a part hereof. Lessee shall at its sole cost and expense remove all improvements and structures in the clouded and hashed area and return such areas to their condition at the commencement of the Lease, including, but not limited to, broom clean condition, high bay warehouse, utilities stubbed back to exterior walls and mechanical duct work removed.
9. Non-Disturbance Agreement. Landlord shall use commercially reasonable efforts after the execution of this Second Amendment to obtain a non-disturbance agreement from lender in form acceptable to such lender.
10. Brokerage Commission. Lessor and Lessee represent and warrant that they respectively have not dealt with any brokers in connection with this Second Amendment other than Lessor's broker JLL and Lessee's broker Cresa Los Angeles. Lessor shall pay to Cresa Los Angeles a three percent (3%) commission within sixty days of the mutual execution and delivery of this Second Amendment and a commission to JLL pursuant to the terms of a separate written agreement between Lessor and JLL. Lessee hereby indemnifies and agrees to protect, defend and hold harmless Lessor and its successors and assigns from and against all liability, cost, damage or expense (including, without limitation, attorneys' fees and costs incurred in connection therewith) on account of any other brokerage commission or finder's fee in connection with the Premises, this Second Amendment or the Lease.



11. No Lessor Default. Lessee hereby confirms that, as of the date hereof: (i) Lessor is not in default under the Lease, and (ii) Lessee has no existing claim arising out of or relating to the Lease for any action or inaction by Lessor prior to the date hereof.
12. Reaffirmation. Lessee hereby acknowledges that Lessee has no offsets, claims or defenses whatsoever under the Lease, and Lessee hereby reaffirms all of its obligations under the Lease.
13. Authority. If Lessee is a corporation or partnership, each individual executing this Second Amendment on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Second Amendment, and Lessee shall, upon Lessor's request, deliver to Lessor evidence of such authority satisfactory to Lessor. If Lessor is a corporation, partnership, limited liability company or other similar entity, each individual executing this Second Amendment on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Second Amendment.
14. Counterparts. This Second Amendment may be executed in one or more counterparts, each of which shall be deemed to constitute an original, but all of which, when taken together, shall constitute one and the same instrument, with the same effect as if all of the parties to this Second Amendment had executed the same counterpart.
15. No Other Modifications. Except as expressly modified herein, all other terms of the Lease shall remain in full force and effect for the term stated in this Second Amendment and said Lease is hereby incorporated by reference as if set forth in its entirety.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Second Amendment as of the date and year first written above.

**LESSOR:**

SIMI VALLEY-NCR, LLC,  
a California limited liability company

By: Northridge Campus Residence, L.P., a California limited partnership, its sole and managing member

By: JG GROUP GP LLC, a California limited liability company, a general partner

By: /s/ Barry Cayton  
Manager

**LESSEE:**

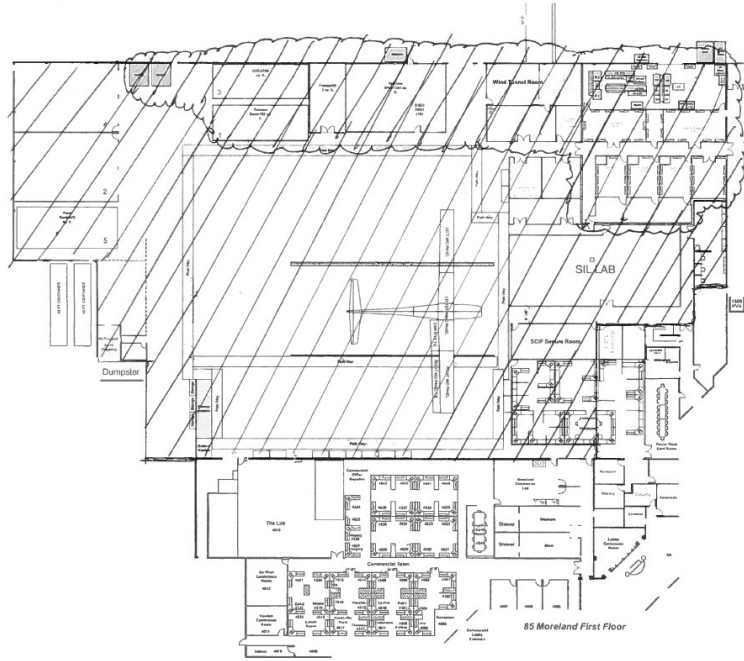
AEROVIRONMENT, INC.,  
a Delaware corporation

By: /s/ Wahid Nawabi  
Print Name: Wahid Nawabi  
Print Title: CEO

By: /s/ Kirk J. Flittie  
Print Name: Kirk J. Flittie  
Print Title: VP & GM

**EXHIBIT A**

The hatched area below indicates the area in which the Lessee shall restore the Premises 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 would be subject to removal by Lessee at Lessee's expense. Said work shall include but not 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 sf shall be excluded from this removal requirement.



**EXHIBIT B**

LESSEE'S FEDERAL EXPLOSIVES LICENSE/PERMIT

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In accordance with the provisions of Title XI, Organized Crime Control Act of 1970, and the regulations issued thereunder (27 CFR Part 555), you may engage in the activity specified in this license or permit within the limitations of Chapter 40, Title 18, United States Code and the regulations issued thereunder, until the expiration date shown. **THIS LICENSE IS NOT TRANSFERABLE UNDER 27 CFR 555.53.** See "WARNINGS" and "NOTICES" on reverse.

Direct ATF Correspondence To A TF - Chief, FELC 244 Needy Road Martinsburg, WV 25405-9431	License/Permit Number <b>9-CA-111-34-0A-01230</b>
Chief, Federal Explosives Licensing Center (FELC) <i>Christopher R. Reeves</i>	Expiration Date <b>January 1, 2020</b>

Name  
AEROVIRONMENT INC

Premises Address (Changes? Notify the FELC at least 10 days before the move.)  
**900 INNOVATORS WAY  
SIMI VALLEY, CA 93065-**

Type of License or Permit  
**34-USER OF EXPLOSIVES**

<b>Purchasing Certification Statement</b> The licensee or permittee named above shall use a copy of this license or permit to assist a transferor of explosives to verify the identity and the licensed status of the licensee or permittee as provided by 27 CFR Part 555. <u>The signature on each copy must be an original signature.</u> A facsimile, scanned or e-mailed copy of the license or permit with a signature intended to be an original signature is acceptable. The signature must be that of the Federal Explosives Licensee (FEL) or a responsible person of the FEL. I certify that this is a true copy of a license or permit issued to the licensee or permittee named above to engage in the business or operations specified above under "Type of License or Permit."	Mailing Address (Changes? Notify the FELC of any changes.) AEROVIRONMENT INC 900 INNOVATORS WAY ATTN: JOEL DISPENZA SIMI VALLEY, CA 93065-
Licensee/Permittee Responsible Person Signature <i>Wahid Nawabi</i>	Position Title CEO
Printed Name WAHID NAWABI	Date 4/2/17

ATF Form 5400 (a) 5-00 15 Part 1  
Revised October 2011

**Federal Explosives License (FEL) Customer Service Information**

Federal Explosives Licensing Center (FELC) 244 Needy Road Martinsburg, WV 25405-9431	Toll-free Telephone Number: (877) 283-3352 Fax Number: (304) 616-4401 E-mail: FELC@atf.gov	ATF Homepage: www.atf.gov
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**Change of Address (27 CFR 555.54(a)(1)).** Licensees or permittees may during the term of their current license or permit remove their business or operations to a new location at which they intend regularly to carry on such business or operations. The licensee or permittee is required to give notification of the new location of the business or operations not less than 10 days prior to such removal with the Chief, Federal Explosives Licensing Center. The license or permit will be valid for the remainder of the term of the original license or permit. **(The Chief, FELC, shall, if the licensee or permittee is not qualified, refer the request for amended license or permit to the Director of Industry Operations for denial in accordance with § 555.54.)**

**Right of Succession (27 CFR 555.59).** (a) Certain persons other than the licensee or permittee may secure the right to carry on the same explosive materials business or operations at the same address shown on, and for the remainder of the term of, a current license or permit. Such persons are: (1) The surviving spouse or child, or executor, administrator, or other legal representative of a deceased licensee or permittee; and (2) A receiver or trustee in bankruptcy, or an assignee for benefit of creditors. (b) In order to secure the right provided by this section, the person or persons continuing the business or operations shall furnish the license or permit for that business or operations for endorsement of such succession to the Chief, FELC, within 30 days from the date on which the successor begins to carry on the business or operations.

(Continued on reverse side)

**Cut Here**

<b>Federal Explosives License/Permit (FEL) Information Card</b> License/Permit Name: AEROVIRONMENT INC Business Name: License/Permit Number: 9-CA-111-34-0A-01230 License/Permit Type: 34-USER OF EXPLOSIVES Expiration: January 1, 2020 Please Note: Not Valid for the Sale or Other Deposition of Explosives.
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**WARNINGS**

1. As provided in Title XI of the Organized Crime Control Act of 1970 (U.S.C. § 842(i)), it is unlawful for any person who (1) is under indictment for, or has been convicted in any court of, a crime punishable by imprisonment for a term exceeding 1 year, (2) is a fugitive from justice, (3) is an unlawful user of, or addicted to any controlled substance (as defined in section 102 of the Controlled Substances Act (21 U.S.C. 802)), (4) has been adjudicated as a mental defective or has been committed to a mental institution, to ship, transport, or receive any explosive materials in interstate or foreign commerce, (5) is an alien, other than an alien who is lawfully admitted for permanent residence (as that term is defined in section 101(a)(20) of the Immigration and Naturalization Act), or meets any other exception under section 842(j)(5), (6) has been discharged from the armed forces under dishonorable conditions, or (7) having been a citizen of the United States, has renounced the citizenship of that person.
2. Federal Regulation 27 CFR 555.53 - Licensees and permits issued under this part are not transferable to another person. In the event of the lease, sale, or other transfer of the business or operations covered by the license or permit, the successor must obtain the license or permit required by this part before commencing business or operations.
3. Alteration or Changes to the License or Permit. Alterations or changes in the original license or permit or in duplications thereof violates 18 U.S.C. 1001, an offense punishable by imprisonment for not more than 5 years and/or a fine of not more than \$250,000.

**NOTICES**

1. Any change in trade name or control of this business or operations MUST be reported within 30 days of the change to the Chief, Federal Explosives Licensing Center (FELC), 244 Needy Road, Martinsburg, WV 25405-9431. (27 CFR 555.56-555.57). A licensee or permittee who reports a Change of Control must, upon expiration of the license or permit, file an ATF Form 5400.13/5400.16.
2. Under § 555.46, Renewal of License/Permit, if a licensee or permittee intends to continue the business or operations described on a license or permit issued under this part during any portion of the ensuing year, the licensee or permittee shall, unless otherwise notified in writing by the Chief, FELC, execute and file with ATF prior to the expiration of the license or permit an application for a license or permit renewal, ATF Form 5400.14/5400.15 Part III, in accordance with the instructions on the form, and the required fee. In the event the licensee or permittee does not timely file an ATF Form 5400.14/5400.15 Part III, the licensee or permittee must file an ATF Form 5400.13/5400.16 as required by § 555.45, and obtain the required license or permit before continuing business or operations. A renewal application will automatically be mailed by ATF to the "mailing address" on the license or permit approximately 60 days prior to the expiration date of the license or permit. If the application is not received 30 days prior to the expiration date, the licensee or permittee should contact the FELC. Note: The user-limited permits are not renewable.
3. This license or permit is conditional upon compliance by you with the Clean Water Act (33 U.S.C. § 1341(a)).
4. THIS LICENSE OR PERMIT MUST BE POSTED AND KEPT AVAILABLE FOR INSPECTION (27 CFR 555.101).

ATF Form 5400.14/5400.15 Part I  
Revised October 2011

**Federal Explosives License (FEL) Customer Service Information**  
(Continued from front)

**Discontinuance of Business (27 CFR 555.61)(27 CFR 555.128).** Where an explosives materials business or operations is succeeded by a new licensee or permittee, the records prescribed by this subpart shall appropriately reflect such facts and shall be delivered to the successor, or may be, within 30 days following business discontinuance, delivered to the ATF Out-of-Business Records Center, 244 Needy Road, Martinsburg, WV 25405, or to any ATF office in the division in which the business was located. Where discontinuance of the business is absolute, the records shall be delivered within 30 days following the business discontinuance to the ATF Out-of-Business Records Center, 244 Needy Road, Martinsburg, WV 25405, or to any ATF office in the division in which the business was located.

Explosive materials must be stored in conformance with requirements set forth in 27 CFR, Part 55. It is unlawful for any person to store any explosive materials in a manner not in conformity with these regulations.

**TO REPORT LOST OR STOLEN EXPLOSIVES, YOU MUST IMMEDIATELY NOTIFY ATF:  
CALL TOLL FREE - (888) ATF-BOMB**

✂ Cut Here

Federal Explosives Licensing Center (FELC) 244 Needy Road Martinsburg, WV 25405-9431	Toll-free number: (877) 283-3352 Fax number: (304) 616-4401 E-mail: FELC@atf.gov
<b>ATF Hotline Numbers</b>	
Arson Hotline: 1-888-ATF-FIRE (1-888-283-3473)	
Bombs Hotline: 1-888-ATF-BOMB (1-888-283-2662)	
Report Illegal Firearms Activity: 1-800-ATF-GUNS (1-800-283-4867)	
Firearms Theft Hotline: 1-888-930-9275	
Report Stolen, Hijacked or Seized Cigarettes: 1-800-659-6242	
Other Criminal Activity: 1-888-ATF-TIPS (1-888-283-8477)	

**AMENDED AND RESTATED SEVERANCE PROTECTION AGREEMENT**

This AMENDED AND RESTATED SEVERANCE PROTECTION AGREEMENT (this "Agreement") dated as of June 26, 2017, is by and between AeroVironment, Inc., a Delaware corporation (the "Company"), and Teresa Covington (the "Executive").

**PURPOSE**

The Board of Directors of the Company (the "Board") recognizes that executives can be concerned about the possibility of a Change in Control (as hereinafter defined) of the Company and that the perceived threat or occurrence of a Change in Control may result in the distraction of its key management personnel because of the uncertainties inherent in such a situation.

The Board has determined that it is essential and in the best interests of the Company and its stockholders to retain the services of the Executive in the event of the threat or occurrence of a Change in Control and to ensure the Executive's continued dedication and efforts in such event without undue concern for the Executive's personal financial and employment security.

The Company and Executive entered into a Severance Protection Agreement dated as of December 10, 2015 (the "Prior Agreement") to induce the Executive to remain in the employ of the Company, particularly in the event of the threat or occurrence of a Change in Control, and to provide the Executive with certain benefits in the event the Executive's employment is terminated as a result of, or in connection with, a Change in Control or, under certain circumstances, apart from a Change in Control.

The Company and Executive desire to enter into this Agreement to amend and restate the Prior Agreement in its entirety as hereinafter provided due to Executive's appointment as Chief Financial Officer of the Company on March 1, 2017.

NOW, THEREFORE, in consideration of the respective agreements of the parties contained herein, it is agreed as follows:

**SECTION 1. Definitions.**

For purposes of this Agreement, the following terms have the meanings set forth below:

**"Accrued Compensation"** means an amount which includes all amounts earned or accrued by the Executive through and including the Termination Date but not paid to the Executive on or prior to such date, including (a) all base salary, (b) reimbursement for all reasonable and necessary expenses incurred by the Executive on behalf of the Company during the period ending on the Termination Date, (c) all vacation, and (d) all bonuses and incentive compensation (other than the Pro Rata Bonus).

**"Base Salary Amount"** means the greater of the Executive's annual base salary (a) at the rate in effect on the Termination Date or (b) if the Executive's termination occurs within eighteen months following a Change in Control, at the highest rate in effect at any time during the 180-day period prior to a Change in Control, and will include all amounts of the Executive's base salary that are deferred under any qualified or non-qualified employee benefit plan of the Company or any other agreement or arrangement.

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

**"Board"** means the Board of Directors of the Company.

“**Bonus Amount**” means the annual target bonus established and payable to the Executive pursuant to any annual bonus or incentive plan maintained by the Company in respect of the fiscal year in which the Termination Date occurs (or actual annual bonus paid or payable in respect of the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs). Bonus Amount includes only the short-term incentive portion of the annual bonus and does not include restricted stock awards, options or other long-term incentive compensation awarded to the Executive.

“**Cause**” for the termination of the Executive’s employment with the Company will be deemed to exist if (a) the Executive has been convicted for committing an act of fraud, embezzlement, theft or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability), (b) the Executive willfully engages in illegal conduct or gross misconduct that is significantly injurious to the Company; however, no act or failure to act, on the Executive’s part shall be considered “willful” unless done or omitted to be done, by the Executive not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company or (c) failure to perform his or her duties in a reasonably satisfactory manner after the receipt of a notice from the Company detailing such failure if the failure is incapable of cure, and if the failure is capable of cure, upon the failure to cure such failure within 30 days of such notice or upon its recurrence.

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

(a) The acquisition by any Person of Beneficial Ownership of twenty-five percent (25%) or more of the outstanding voting power; provided, however, that the following acquisitions shall not constitute a Change in Control for purposes of this subparagraph (a): (A) any acquisition directly from the Company; (B) any acquisition by the Company or any of its Subsidiaries; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subparagraph (c) below; or

(b) Individuals who at the beginning of any two year period constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two year period and whose election, or whose nomination for election by the Company’s stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “**Business Combination**”), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners’ ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination shall not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, twenty-five percent (25%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned

twenty-five percent (25%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the Board of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or the action of the Board, providing for such Business Combination; or

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

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

In addition, if a Change in Control constitutes a payment event with respect to any payment under Section 3 of this Agreement which constitutes a deferral of compensation and is subject to Code Section 409A, the transaction or event described above with respect to such payment must also constitute a "change in control event," as defined in Treasury Regulation Section 1.409A-3(i)(5) to the extent required by Code Section 409A.

"Code" means the Internal Revenue Code of 1986, as amended.

"Code Section 409A" has the meaning set forth in Section 18.

"Company" means AeroVironment, Inc., a Delaware corporation, or by another direct or indirect Subsidiary of AeroVironment, Inc. The term "Company" when referring to the employment relationship and the compensation or benefits related thereto shall include the employer of Executive as the context requires.

"Continuation Period" has the meaning set forth in Section 3.1(b)(iii).

"Disability" means the status of disability determined conclusively by the Company based upon certification of disability by the Social Security Administration or upon such other proof as the Company may reasonably require, effective upon receipt of such certification or other proof by the Company.

"Full Release" means a written release, in a form satisfactory to the Company (and similar to the Agreement set forth in Exhibit A (with such changes as may be reasonably required to such form to help ensure its enforceability in light of any changes in applicable law) pursuant to which the Executive fully and completely releases the Company from all claims that the Executive may have against the Company (other than any claims that may or have arisen under this Agreement). The Executive's Full Release must become effective in accordance with its terms prior to the date that is thirty (30) days following the Termination Date (including the expiration of any revocation period thereunder without the Executive's revocation of the Full Release).

"Good Reason" means the occurrence of any of the events or conditions described in clauses (a) through (d) hereof, without the Executive's prior written consent:

(a)(i) any material adverse change in the Executive's authority, duties or responsibilities (including reporting responsibilities) from the Executive's authority, duties or responsibilities as in effect at any time within three months preceding the date of the Change in Control or at any time thereafter, or (ii) in the case of an Executive who is an executive officer of the Company a significant portion of whose responsibilities relate to the Company's status as a public company, the failure of such Executive to continue to serve as an executive officer of a public company, in each case except in connection with the termination of the Executive's employment for Disability, Cause, as a result of the Executive's death or by the Executive other than for Good Reason;

(b) a material reduction in Executive's base salary;

(c) the imposition of a requirement that the Executive be based at any place outside a 60-mile radius from the Executive's principal place of employment immediately prior to the Change in Control except for reasonably required travel on Company business which is not materially greater in frequency or duration than prior to the Change in Control; or



(d) any material breach by the Company of any provision of this Agreement.

Notwithstanding anything to the contrary in this Agreement, no termination will be deemed to be for Good Reason hereunder unless (i) the Executive provides written notice to the Company identifying the applicable event or condition within 90 days of the occurrence of the event or the initial existence of the condition, and (ii) the Company fails to remedy the event or condition within a period of 30 days following such notice.

**"LTIP Amount"** means the sum of the amounts that the Executive would receive pursuant to each outstanding Long-Term Incentive Plan Award assuming that the target amount for each such award had been earned.

**"Notice of Termination"** means a written notice from the Company or the Executive of the termination of the Executive's employment which indicates the specific termination provision in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

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

**"Pro Rata Bonus"** means an amount equal to the target or actual Bonus Amount multiplied by a fraction, the numerator of which is the number of days elapsed in the then-current fiscal year through and including the Termination Date and the denominator of which is 365.

**"Securities Exchange Act"** means the Securities Exchange Act of 1934, as amended.

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

**"Successor"** means a corporation or other entity acquiring all or substantially all the assets and business of the Company, whether by operation of law, by assignment or otherwise.

**"Termination Date"** means (a) in the case of the Executive's death, the Executive's date of death, (b) in the case of the termination of the Executive's employment with the Company by the Executive for Good Reason, the date the Company's 30-day cure period expires without a cure of the underlying event or condition constituting Good Reason, and (c) in all other cases, the date specified in the Notice of Termination; provided that if the Executive's employment is terminated by the Company for Cause or due to Disability, the date specified in the Notice of Termination will be at least 30 days after the date the Notice of Termination is given to the Executive. Notwithstanding anything to the contrary herein, to the extent necessary to comply with or secure an exemption from Code Section 409A, an Executive's employment shall not be considered to have terminated unless the executive has experienced a "separation from service," as defined in Code Section 409A and the regulations thereunder.

## **SECTION 2. Term of Agreement.**

The term of this Agreement (the **"Term"**) will commence on the date of this Agreement, and will continue in effect until December 31, 2018; provided that in the event a Change in Control occurs during the Term, the Term will be extended to the date 18 months after the date of the occurrence of such Change in Control.

## **SECTION 3. Termination of Employment.**

3.1 If, during the Term, the Executive's employment with the Company is terminated within 18 months following a Change in Control, the Executive will be entitled to the following compensation and benefits:

(a) If the Executive's employment with the Company is terminated (i) by the Company for Cause, (ii) by reason of Disability, (iii) by reason of the Executive's death or (iv) by the Executive other than for Good Reason, the Company will pay to the Executive the Accrued Compensation and, if such termination is by reason of the Executive's Disability or the Executive's death, a Pro Rata Bonus.

(b) If the Executive's employment with the Company is terminated by the Company without Cause or by the Executive for Good Reason, the Executive will be entitled to the following:

(i) the Company will pay the Executive all Accrued Compensation and a Pro Rata Bonus;

(ii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will pay the Executive as severance pay, and in lieu of any further compensation for periods subsequent to the Termination Date, in a single payment an amount in cash equal to the sum of (A) the Base Salary Amount, (B) the Bonus Amount and (C) the LTIP Amount;

(iii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will, for a period of 12 months (the "**Continuation Period**"), at its expense provide to the Executive and the Executive's dependents and beneficiaries the same or equivalent life insurance, disability, medical, dental, and hospitalization benefits (the "**Continuation Period Benefits**") provided to other similarly situated executives who continue in the employ of the Company during the Continuation Period ("**similarly situated executives**"). The obligations of the Company to provide the Executive and the Executive's dependents and beneficiaries with the Continuation Period Benefits shall not restrict or limit the Company's right to terminate or modify the benefits made available by the Company to its similarly situated executives or other employees and following any such termination or modification, the Continuation Period Benefits that Executive (and the Executive's dependents and beneficiaries) shall be entitled to receive shall be so terminated or modified. If any of the Company's insurance benefits are self-funded as of the Termination Date, or if the Company cannot provide the foregoing insurance benefits in a manner that is exempt from Code Section 409A (as defined below) or that is otherwise compliant with applicable law (including, without limitation, Section 2716 of the Public Health Service Act), instead of providing the insurance benefits as set forth above, the Company shall instead pay to the Executive the Executive's monthly premium amount for such benefits (determined by reference to the premiums in effect immediately prior to the Termination Date) as a taxable monthly payment for the Continuation Period (or any remaining portion thereof). The Company's obligation hereunder with respect to the foregoing benefits will be limited to the extent that the Executive becomes eligible to obtain any such benefits pursuant to a subsequent employer's benefit plans, in which case the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the coverages and benefits of the combined benefit plans are no less favorable to the Executive than the coverages and benefits required to be provided hereunder. This Section 3.1(b)(iii) will not be interpreted so as to limit any benefits to which the Executive or the Executive's dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment;

(iv) the Company shall provide the Executive with outplacement services suitable to the Executive's position for a period of 12 months following the Termination Date or, if earlier, until the first acceptance by the Executive of an offer of employment; and

(v) the acceleration of vesting, exercisability and other similar benefits under award agreements regarding options to purchase Company stock, restricted stock, restricted stock units or other equity compensation awards granted to or otherwise applicable to Executive effective as of the Termination Date. You expressly acknowledge and agree that any equity award agreement(s) between you and the Company evidencing your outstanding equity compensation awards are hereby amended to the extent necessary to reflect the terms and conditions of this Section 3.1(b)(v), and that this Agreement supersedes any contrary provision of any such equity compensation award agreement(s) with respect to the subject matter of this Section 3.1(b)(v).

The benefits set forth in subsections (iii) and (iv) above and Section 3.3(a)(iii) below, shall be subject to the following conditions and restrictions: (1) the payment or provision of a benefit in any particular year shall not (except as may be provided in the medical, dental and hospitalization plans in which the Executive participates) affect the benefits to be provided in any other year, (2) to the extent the Executive is entitled to reimbursement of any expenses, the reimbursement shall be made no later than the Executive's taxable year following the taxable year in which the expense was incurred, and (3) no right to reimbursement or in-kind benefits may be subject to liquidation or exchange for any other benefit.

(c) The amounts provided for in Section 3.1(a) and Sections 3.1(b)(i) and (ii) will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the Termination Date (or such earlier date as may be required under applicable law with respect to the Accrued Compensation).

(d) The Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment, except as specifically provided in Section 3.1(b)(iii) and 3.1(b)(iv).

3.2 Notwithstanding anything in this Agreement to the contrary, if, the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason, and a Change in Control occurs prior to the earlier of (a) the date that is three (3) months following the Termination Date or (b) the February 14 of the calendar year following the calendar year in which the Termination Date occurs, the Executive will be entitled to the amounts provided for in Sections 3.1(b) above; provided, however, that the amounts payable pursuant to Section 3.1(b)(ii) that are in excess of the amounts to which the Executive is entitled pursuant to Section 3.3 below as a result of such termination will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the later of (i) the Termination Date or (ii) the Change in Control; and provided, further, that the equity compensation award acceleration pursuant to Section 3.1(b)(v) shall be effective on the later of (i) the Termination Date or (ii) the Change in Control.

3.3 (a) If, during the Term, the Executive's employment with the Company is (i) terminated by the Company for any reason other than Cause and not within 18 months following a Change in Control, (ii) terminated by reason of Disability, or (iii) terminated by reason of the Employee's death, the Executive will be entitled to the following:

(i) the Company will pay the Executive all Accrued Compensation and a Pro Rata Bonus;

(ii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will pay the Executive as severance pay, and in lieu of any further compensation for periods subsequent to the Termination Date, in a single payment an amount in cash equal to the Base Salary Amount; and

(iii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will, for the Continuation Period, at its expense provide to the Executive and the Executive's dependents and beneficiaries the Continuation Period Benefits provided to similarly situated executives. The obligations of the Company to provide the Executive and the Executive's dependents and beneficiaries with the Continuation Period Benefits shall not restrict or limit the Company's right to terminate or modify the benefits made available by the Company to its similarly situated executives or other employees and following any such termination or modification, the Continuation Period Benefits that Executive (and the Executive's dependents and beneficiaries) shall be entitled to receive shall be so terminated or modified. If any of the Company's insurance benefits are self-funded as of the Termination Date, or if the Company cannot provide the foregoing insurance benefits in a manner that is exempt from Code Section 409A (as defined below) or that is otherwise compliant with applicable law (including, without limitation, Section 2716 of the Public Health Service Act), instead of providing the insurance benefits as set forth above, the Company shall instead pay to the Executive the Executive's monthly premium amount for such benefits (determined by reference to the premiums in effect immediately prior to the Termination Date) as a taxable monthly payment for the Continuation Period (or any remaining portion thereof). The Company's obligation hereunder with respect to the foregoing benefits will be limited to the extent that the Executive becomes eligible to obtain any such benefits pursuant to a subsequent employer's benefit plans, in which case the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the coverages and benefits of the combined benefit plans are no less favorable to the Executive than the coverages and benefits required to be provided hereunder. This Section 3.3(a) (iii) will not be interpreted so as to limit any benefits to which the Executive or the Executive's dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment.

(b) The amounts provided for in Section 3.3(a)(i) and (ii) will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the Termination Date (or such earlier date as may be required under applicable law with respect to the Accrued Compensation).

(c) The Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment, except as specifically provided in Section 3.3(a)(iii).

3.4 Except as otherwise noted herein, the compensation to be paid to the Executive pursuant to this Agreement will be in lieu of any similar severance or termination compensation (i.e., compensation based directly on the Executive's annual salary or annual salary and bonus) to which the Executive may be entitled under this Agreement, any other Company severance or termination agreement, plan, program, policy, practice or arrangement. The Executive's entitlement to any compensation or benefits of a type not provided in this Agreement will be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices as in effect from time to time.

**SECTION 4. Notice of Termination.** Following a Change in Control, any purported termination of the Executive's employment by the Company will be communicated by a Notice of Termination to the Executive. For purposes of this Agreement, no such purported termination will be effective without such Notice of Termination.

**SECTION 5. Excise Tax Adjustments.**

5.1 In the event Executive becomes entitled to receive the benefits provided pursuant to this Agreement, and the Company determines that such benefits (the "**Total Payments**") will be subject to the tax (the "**Excise Tax**") imposed by Section 4999 of the Code, or any similar tax that may hereafter be imposed, the Company shall compute the "**Net After-Tax Amount**," and the "**Reduced Amount**," and shall adjust the Total Payments as described below. The Net After-Tax Amount shall mean the present value of all amounts payable to the Executive hereunder, net of all federal income, excise and employment taxes imposed on the Executive by reason of such payments. The Reduced Amount shall mean the largest aggregate amount of the Total Payments that if paid to the Executive would result in the Executive receiving a Net After-Tax Amount that is equal to or greater than the Net After-Tax Amount that the Executive would have received if the Total Payments had been made. If the Company determines that there is a Reduced Amount, the Total Payments will be reduced to the Reduced Amount. Such reduction to the Total Payments shall be made by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options, then by reducing or eliminating any accelerated vesting of other equity awards, then by reducing or eliminating any other remaining Total Payments, in each case in reverse order beginning with the payments which are to be paid the farthest in time from the date of the transaction triggering the Excise Tax.

5.2 For purposes of determining whether the Total Payments will be subject to the Excise Tax and the amounts of such Excise Tax and for purposes of determining the Reduced Amount and the Net After-Tax Amount:

(a) Any other payments or benefits received or to be received by the Executive in connection with a Change in Control of the Company or the Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company, or with any individual, entity, or group of individuals or entities (individually and collectively referred to in this subsection (a) as "**Persons**") whose actions result in a change in control of the Company or any Person affiliated with the Company or such Persons) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless in the opinion of a tax advisor selected by the Company and reasonably acceptable to the Executive ("**Tax Counsel**"), such other payments or benefits (in whole or in part) should be treated by the courts as representing reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code), or otherwise not subject to the Excise Tax;

(b) The amount of the Total Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Total Payments; or (ii) the amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (a) above);

(c) In the event that the Executive disputes any calculation or determination made by the Company, the matter shall be determined by Tax Counsel, the fees and expenses of which shall be borne solely by the Company; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Change in Control of the Company occurs, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the effective date of the Change in Control of the Company, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes, taking into account the reduction in itemized deduction under Section 68 of the Code.

**SECTION 6. Covenants.**

(a) During the Continuation Period pursuant to which the Executive receives the benefits pursuant to Section 3.1(b)(iii) or Section 3.3(b)(iii), the Executive covenants and agrees as follows:

(i) the Executive agrees to comply with his or her obligations under the Patent and Confidentiality Agreement that he or she entered into with the Company;

(ii) the Executive acknowledges that the Executive has knowledge of confidential and proprietary information concerning the current salary, benefits, skills, and capabilities of Company employees and that it would be improper for the Executive to use such Company proprietary information in any manner adverse to the Company's interests. The Executive agrees that he or she will not recruit or solicit for employment, directly or indirectly, any employee of the Company during the Continuation Period; and

(iii) the Executive agrees not to make, directly or indirectly, any oral or written public statements that are disparaging of, or are intended to disparage, discredit or injure, the Company, the products and services it offers or any of its partners, affiliates, successors, assigns, including any of its present or former officers, directors, partners, agents, or employees.

(b) The Company agrees to pay to the Executive all cash compensation to which the Executive is entitled from the Company by the applicable payment date specified in any agreement with the Company or applicable law. Any failure to pay any such cash compensation by the Company shall constitute a material breach of this Agreement by the Company.

**SECTION 7. Successors; Binding Agreement.**

This Agreement will be binding upon and will inure to the benefit of the Company and its Successors, and the Company will require any Successors to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. The Company's failure to obtain, as contemplated by this Section 7, an agreement from any Successor to assume and agree to perform this Agreement shall constitute a material breach of this Agreement by the Company. Neither this Agreement nor any right or interest hereunder will be assignable or transferable by the Executive or by the Executive's beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement will inure to the benefit of and be enforceable by the Executive's legal representatives.

**SECTION 8. Fees and Expenses.**

The Company will pay as they become due all legal fees and related expenses (including the costs of experts) incurred by the Executive, in good faith, in (a) contesting or disputing, any such termination of employment and (b) seeking to obtain or enforce any right or benefit provided by this Agreement or by any other plan or arrangement maintained by the Company under which the Executive is or may be entitled to receive benefits. If the dispute is resolved by a final decision of an arbitrator pursuant to Section 15 in the favor of the Company, the Executive shall reimburse the Company for all such legal fees and related expenses (including costs of experts) paid by the Company on behalf of the Executive. To the extent necessary to comply with Code Section 409A, any reimbursements pursuant to this Section 8 shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. Such reimbursements are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the

Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Executive receives in any other taxable year.

**SECTION 9. Notice.**

For the purposes of this Agreement, notices and all other communications provided for in the Agreement (including the Notice of Termination) will be in writing and will be deemed to have been duly given (i) when personally delivered, (ii) upon acknowledgment of receipt when sent by e-mail or other electronic transmission (excluding acknowledgements generated automatically without an affirmative act by the recipient), or (iii) when sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other, provided that all notices to the Company will be directed to the attention of the Board with a copy to the Secretary of the Company. All notices and communications will be deemed to have been received on the date of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address will be effective only upon receipt.

**SECTION 10. Dispute Concerning Termination.**

If prior to the Termination Date (as determined without regard to this Section 10), the party receiving the Notice of Termination notifies the other party that a dispute exists concerning the termination, the Termination Date shall be extended until the earlier of (i) the date on which the Term ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Termination Date shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence; provided, further, that the foregoing extension shall not apply to the extent it would cause the payments or benefits under this Agreement to fail to be exempt from, or to fail to comply with, Code Section 409A and would result in the imposition of additional taxes on the Executive with respect to such payments under Code Section 409A.

**SECTION 11. Compensation During Dispute.**

If a purported termination occurs and during the Term and the Termination Date is extended in accordance with Section 10 hereof, the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Executive as an employee and a participant in all compensation, benefit and insurance plans in which the Executive was participating when the Notice of Termination was given, until the Termination Date, as determined in accordance with Section 10 hereof. Amounts paid under this Section 11 are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement or otherwise.

**SECTION 12. Nonexclusivity of Rights.**

Nothing in this Agreement will prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company for which the Executive may qualify, nor will anything herein limit or reduce such rights as the Executive may have under any other agreements with the Company (except for any severance or termination agreement). Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company will be payable in accordance with such plan or program, except as specifically modified by this Agreement.

**SECTION 13. No Set-Off.**

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder will not be affected by any circumstances, including any right of set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except for any obligation under the Dodd Frank Act or similar provisions of applicable law to recoup incentive-based compensation erroneously paid to the Executive following a required accounting restatement as reflected in the Company's existing Compensation Recoupment Policy (as such policy may be in effect from time to time) or the terms of any other recoupment, clawback or similar policy of the Company as it may be in effect from time to time.

**SECTION 14. Miscellaneous.**

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representation, oral or otherwise, express or implied, with respect to the subject matter hereof has been made by either party which is not expressly set forth in this Agreement.

**SECTION 15. Governing Law and Binding Arbitration.**

This Agreement will be governed by and construed and enforced in accordance with the laws of the State of California without giving effect to the conflict of laws principles thereof. All disputes relating to this Agreement, including its enforceability, shall be resolved by final and binding arbitration before an arbitrator appointed by the Judicial Arbitration and Mediation Service (JAMS), in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program, attached hereto as Exhibit C, with the arbitration to be held in Simi Valley, California. Judgment upon the award may be entered in any court having jurisdiction thereof.

**SECTION 16. Severability.**

The provisions of this Agreement will be deemed severable and the invalidity or unenforceability of any provision will not affect the validity or enforceability of the other provisions hereof.

**SECTION 17. Entire Agreement.**

This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to severance protection.

**SECTION 18. Code Section 409A.**

It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("**Code Section 409A**") so as not to subject the Executive to payment of any interest or additional tax imposed under Code Section 409A and any ambiguities herein will be interpreted to ensure that such payments and benefits be so exempt or, if not so exempt, comply with Section 409A of the Code. To the extent that any amount payable under this Agreement would trigger the additional tax, penalty or interest imposed by Code Section 409A, this Agreement shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive. If the Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the Termination Date, the Executive shall not be entitled to any payment or benefit pursuant to Section 3.1(b) until the earlier of (i) the date which is six months after the Termination Date, or (ii) the date of the Executive's death. The provisions of this Section 18 shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A. Any amounts otherwise payable to the Executive upon or in the six month period following the Executive's Termination Date that are not so paid by reason of this Section 18 shall be paid (without interest) as soon as practicable (and in all events within five days) after the date that is six months after the Executive's Termination Date (or, if earlier, as soon as practicable, and in all events within five days, after the date of the Executive's death). Each series of installment payments made under this Agreement is hereby designated as a series of "separate payments" within the meaning of Section 409(A) of the Code.

**AEROVIRONMENT, INC.**

/s/ Wahid Nawabi

Name: Wahid Nawabi

Title: President and Chief Executive Officer

**EXECUTIVE**

/s/ Teresa Covington

Teresa Covington



**RELEASE OF ALL CLAIMS AND POTENTIAL CLAIMS**

1. This Release of All Claims and Potential Claims ("Release") is entered into by and between \_\_\_\_\_ ("\_\_\_\_") and AeroVironment, Inc., a Delaware corporation (hereinafter the "Company"). \_\_\_\_\_ and the Company have previously entered into a Severance Protection Agreement dated \_\_\_\_\_ ("Severance Agreement"). In consideration of the promises made herein and the consideration due \_\_\_\_\_ under the Severance Agreement, this Release is entered into between the parties.

2.(a) The purposes of this Release are to settle completely and release the Company, its individual and/or collective officers, directors, stockholders, agents, parent companies, subsidiaries, affiliates, predecessors, successors, assigns, employees (including all former employees, officers, directors, stockholders and/or agents), attorneys, representatives and employee benefit programs (including the trustees, administrators, fiduciaries and insurers of such programs) (referred to collectively as "Releasees") in a final and binding manner from every claim and potential claim for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, that \_\_\_\_\_ has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between \_\_\_\_\_ and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730, but excluding any rights or benefits to which \_\_\_\_\_ is entitled under the Severance Agreement.

(b) This is a compromise settlement of all such claims and potential claims, known or unknown, and therefore this Release does not constitute either an admission of liability on the part of \_\_\_\_\_ and the Company or an admission, directly or by implication, that \_\_\_\_\_ and/or the Company, its subsidiaries, affiliates or predecessors, have violated any law, rule, regulation, contractual right or any other duty or obligation. The parties hereto specifically deny that they have violated any law, rule, regulation, contractual right or any other duty or obligation.

(c) This Release is entered into freely and voluntarily by \_\_\_\_\_ and the Company solely to avoid further costs, risks and hazards of litigation and to settle all claims and potential claims and disputes, known or unknown, in a final and binding manner.

3. For and in consideration of the promises and covenants made by \_\_\_\_\_ to the Company and the Company to \_\_\_\_\_, contained herein, \_\_\_\_\_ and the Company have agreed and do agree as follows:

(a) \_\_\_\_\_ waives, releases and forever discharges Releasees from any claims and potential claims for relief, causes of action and liabilities, known or unknown, that [he/she] has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from the employment relationship between \_\_\_\_\_ and the Company and its subsidiaries, affiliates and predecessors, and the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730 but excluding any rights or benefits to which \_\_\_\_\_ is entitled under the Severance Agreement. In addition, this Release does not cover, and nothing in this Release shall be construed to cover, any claim that cannot be so released as a matter of applicable law.

(b) \_\_\_\_\_ agrees that [he/she] will not directly or indirectly institute any legal proceedings against Releasees before any court, administrative agency, arbitrator or any other tribunal or forum whatsoever by reason of any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between \_\_\_\_\_ and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act.

(c) \_\_\_\_\_ is presently unaware of any injuries that [he/she] may have suffered as a result of working at the Company or its subsidiaries, affiliates or predecessors, and has no present intention of filing a workers' compensation claim. Should any such claim arise in the future, \_\_\_\_\_ waives and releases any right to proceed against the Company or its subsidiaries, affiliates or predecessors, for such a claim. \_\_\_\_\_ also waives any right to bring any disability claim against the Company or its subsidiaries, affiliates or predecessors, or its or their carriers.

4. As a material part of the consideration for this Agreement, \_\_\_\_\_ and [his/her] agents and attorneys, agree to keep completely confidential and not disclose to any person or entity, except immediate family, attorney, accountant, or tax preparers, or in response to a court order or subpoena, the terms and/or conditions of this Release and/or any understandings, agreements, provisions and/or information contained herein or with regard to the employment relationship between \_\_\_\_\_ and the Company and its subsidiaries, affiliates and predecessors.

5. Any dispute, claim or controversy of any kind or nature, including but not limited to the issue of arbitrability, arising out of or relating to this Release, or the breach thereof, or any disputes which may arise in the future, shall be settled in a final and binding before an arbitrator appointed by the Judicial Arbitration and Mediation Service in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program attached as Exhibit C to the Severance Agreement. The prevailing party shall be entitled to recover all reasonable attorneys' fees, costs and necessary disbursements incurred in connection with the arbitration proceeding. Judgment upon the award may be entered in any court having jurisdiction thereof.

6. It is further understood and agreed that \_\_\_\_\_ has not relied upon any advice whatsoever from the Company and/or its attorneys individually and/or collectively as to the taxability, whether pursuant to Federal, State or local income tax statutes or regulations, or otherwise, of the consideration transferred hereunder and that [he/she] will be solely liable for all of [his/her] tax obligations. \_\_\_\_\_ understands and agrees that the Company or its subsidiaries, affiliates or predecessors, may be required by law to report all or a portion of the amounts paid to [him/her] and/or [his/her] attorney in connection with this Release to federal and state taxing authorities. \_\_\_\_\_ waives, releases, forever discharges and agrees to indemnify, defend and hold the Company harmless with respect to any actual or potential tax obligations imposed by law.

7. \_\_\_\_\_ acknowledges that [he/she] has read, understood and truthfully completed the Business Ethics and Conduct Disclosure Statement attached hereto as Exhibit B.

8. It is further understood and agreed that Releasees and/or their attorneys shall not be further liable either jointly and/or severally to \_\_\_\_\_ and/or [his/her] attorneys individually or collectively for costs and/or attorneys fees, including any provided for by statute, nor shall \_\_\_\_\_ and/or [his/her] attorneys be liable either jointly and/or severally to the Company and/or its attorneys individually and/or collectively for costs and/or attorneys' fees, including any provided for by statute.

9. \_\_\_\_\_ understands and agrees that if the facts with respect to which this Release are based are found hereafter to be other than or different from the facts now believed by [him/her] to be true, [he/she] expressly accepts and assumes the risk of such possible difference in facts and agrees that this Release shall be and remain effective notwithstanding such difference in facts.

10. \_\_\_\_\_ understands and agrees that there is a risk that the damage and/or injury suffered by \_\_\_\_\_ may become more serious than [he/she] now expects or anticipates. \_\_\_\_\_ expressly accepts and assumes this risk, and agrees that this Release shall be and remains effective notwithstanding any such misunderstanding as to the seriousness of said injuries or damage.

11. \_\_\_\_\_ understands and agrees that if [he/she] hereafter commences any suit arising out of, based upon or relating to any of the claims and potential claims for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, [he/she] has released herein, \_\_\_\_\_ agrees to pay Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit.

12. It is further understood and agreed that this Release shall be binding upon and will inure to the benefit of \_\_\_\_\_'s spouse, heirs, successors, assigns, agents, employees, representatives, executors and administrators and shall be binding upon and will inure to the benefit of the individual and/or collective successors and assigns of Releasees and their successors, assigns, agents and/or representatives.

13. This Release shall be construed in accordance with and governed for all purposes by the laws of the State of California.

14. \_\_\_\_\_ agrees that [he/she] will not seek future employment with, nor need to be considered for any future openings with the Company, any division thereof, or any subsidiary or related corporation or entity.

15. \_\_\_\_\_ and Releasees waive all rights under Section 1542 of the California Civil Code, which section has been fully explained to them by their respective legal counsel and which they fully understand, and any other similar provision or the law of any other state or jurisdiction. Section 1542 provides as follows:

**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**

16. Notwithstanding anything in this Agreement to the contrary, \_\_\_\_\_ does not waive, release or discharge any rights to indemnification for actions occurring through [his/her] affiliation with the Company or its subsidiaries, affiliates or predecessors, whether those rights arise from statute, corporate charter documents or any other source nor does \_\_\_\_\_ waive, release or discharge any right \_\_\_\_\_ may have pursuant to any insurance policy or coverage provided or maintained by the Company or its subsidiaries, affiliates or predecessors.

17. If any part of this Agreement is found to be either invalid or unenforceable, the remaining portions of this Agreement will still be valid.

18. This Agreement is intended to release and discharge any claims of \_\_\_\_\_ under the Age Discrimination and Employment Act. To satisfy the requirements of the Older Workers' Benefit Protection Act, 29 U.S.C. section 626(f), the parties agree as follows:

- A. \_\_\_\_\_ acknowledges that [he/she] has read and understands the terms of this Agreement.
- B. \_\_\_\_\_ acknowledges that [he/she] has been advised in writing to consult with an attorney, if desired, concerning this Agreement and has received all advice [he/she] deems necessary concerning this Agreement.
- C. \_\_\_\_\_ acknowledges that [he/she] has been given twenty-one (21) days to consider whether or not to enter into this Agreement, has taken as much of this time as necessary to consider whether to enter into this Agreement, and has chosen to enter into this Agreement freely, knowingly and voluntarily.
- D. For a seven day period following the execution of this Agreement, \_\_\_\_\_ may revoke this Agreement by delivering a written revocation to the Company. This Agreement shall not become effective and enforceable until the revocation period has expired.

19. \_\_\_\_\_ acknowledges that [he/she] has been encouraged to seek the advice of an attorney of [his/her] choice with regard to this Release. Having read the foregoing, having understood and agreed to the terms of this Release, and having had the opportunity to and having been advised by independent legal counsel, the parties hereby voluntarily affix their signatures.

20. This Agreement is to be interpreted without regard to the draftsman. The terms and intent of the Agreement shall be interpreted and construed on the express assumption that all parties participated equally in its drafting.

21. This Release constitutes a single integrated contract expressing the entire agreement of the parties hereto. Except for the Severance Agreement, which defines certain obligations on the part of both parties, and this Release, there are no agreements, written or oral, express or implied, between the parties hereto, concerning the subject matter herein.

Dated: \_\_\_\_\_, 20\_\_\_\_\_

\_\_\_\_\_  
[Signature]

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[Print Name]

**AeroVironment, Inc.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

CODE OF BUSINESS CONDUCT AND ETHICS

DISCLOSURE STATEMENT

Are you aware of any illegal or unethical practices or conduct anywhere within AeroVironment, Inc. or its subsidiaries, affiliates or predecessors (the "Company") (including, but not limited to, improper charging practices, or any violations of the Company's Code of Business Conduct and Ethics

Yes

No

(Your answer to all questions on this form will not have any bearing on the fact or terms of your Release with the Company.)

If the answer to the preceding question is "yes," list here, in full and complete detail, all such practices or conduct. (Use additional pages if necessary.)

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Have any threats or promises been made to you in connection with your answers to the questions on this form?

Yes

No

If "yes," please identify them in full and complete detail. Also, notify the Company's General Counsel at 805 581-2198 ext. 1369 immediately.

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I declare under penalty of perjury, under the laws of the State of California and of the United States, that the foregoing is true and correct.

Executed this \_\_\_\_\_ of \_\_\_\_\_, 20\_

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## ARBITRATION

Capitalized terms not defined in this Exhibit C (this "Exhibit") are defined in the Severance Protection Agreement (the "Award Agreement") with respect to which this Exhibit C is a part. AeroVironment, Inc., a Delaware corporation (the "Company"), and Participant agree as follows. Participant's execution of the Award Agreement constitutes acceptance of these terms:

1. **Agreement to Arbitrate Disputes.**

The Company, on behalf of itself and its employees, and the Participant, on behalf of him or herself and any assistant(s) employed or utilized by the Participant, agree to resolve any and all timely and legally cognizable past, present and future controversies, disputes or claims of any nature in any way arising out of or relating to the Plan or the Award Agreement or the relationship between the parties (hereinafter, a "Claim" or "Claims"), by mandatory, binding, individual arbitration. This agreement to arbitrate covers claims of any nature, whether at law or equity, statute or common law.

2. **Mandatory Dispute Resolution Process Prior to Arbitration.**

Each party shall notify the other of any dispute arising under Paragraph 1 of this Exhibit prior to filing a claim in arbitration. The Company will notify the Participant of such dispute by informing the Participant in writing at the Company's office where the Participant is primarily headquartered (or at the Participant's last known address if no longer employed by the Company). The Participant will notify the Company of any dispute in writing addressed to the attention of General Counsel. Within a reasonable period of time, the parties shall meet informally, either in person or by telephone to attempt to resolve the dispute in good faith.

3. **Arbitration Procedural Rules**

In the event the parties are unable to resolve their dispute under Paragraph 2 of this Exhibit, either party may initiate an arbitration under the then-current JAMS' Streamlined or Comprehensive Arbitration Rules and Procedures. The applicable arbitral rules are available for review at [www.jamsadr.com](http://www.jamsadr.com) (under the Rules/Clauses tab).

3.1. The parties will make reasonable efforts to agree upon a mutually satisfactory arbitrator chosen from the JAMS panels. If the parties are unable to agree upon an arbitrator, the Company will request from JAMS a list of qualified arbitrators. The parties will then select an arbitrator in accordance with JAMS Streamlined or Comprehensive Arbitration Rules and Procedures. Unless otherwise mutually agreed, the arbitrator shall be a practicing attorney with at least 15 years of experience and at least five years of experience as an arbitrator.

3.2. The Company and the Participant agree that the arbitration will be conducted by a single arbitrator in the JAMS office (as applicable) closest to Simi Valley, California (or such other location as is mutually agreed to by the parties).

3.3. The nature of the substantive claims asserted will determine which body of substantive laws will apply. In the event that there is a dispute regarding which substantive laws apply, the arbitrator shall decide that issue.

3.4. The parties agree that all proceedings before the arbitrator will remain confidential between the parties, including but not limited to any depositions, discovery, pleadings, exhibits, testimony, or award. The parties will inform third parties (including witnesses) necessary to the proceeding that the proceeding is confidential, and use reasonable efforts to secure that individual's agreement to maintain such confidentiality. The requirement of confidentiality, however, will not apply in the event that either party seeks to confirm an arbitral award and enter a judgment thereon in an appropriate court, or if any such arbitral award is appealed to an appropriate court.

4. **Injunctive or Other Interim Relief.**

The Company or the Participant may apply to the arbitrator seeking injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved. Either party also may, without waiving any remedy under this Paragraph 4, seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights of that party, pending the establishment of the arbitral tribunal (or pending the arbitral tribunal's determination of the merits of the controversy).

5. **Remedies, Written Decision, Fees.**

Final resolution of any dispute through arbitration may include any remedy or relief available under applicable law. At the conclusion of the arbitration, if either party requests, the arbitrator will issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any costs unique to arbitration (such as the costs of the arbitrator and room fees) will be paid by the Company and the parties will otherwise bear their own fees and costs, including attorneys' fees and expert fees. The Company and the Participant acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or related to the Plan and the Award Agreement or their relationship. A successful party may make application to the arbitrator for an award of fees and/or costs and the arbitrator may award such fees and costs consistent with applicable law.

6. **Class Action Waiver.**

The Company and the Participant agree that all Claims pursued against each other will be on an individual basis. To that end, the Company and the Participant hereby waive their right to commence, to become a party to, or to remain a participant in, any group, representative, class, collective, or hybrid class/collective action in any court, arbitration proceeding, or any other forum, against the other. The parties agree that any claim by or against the Company or the Participant shall be heard in arbitration without joinder of parties or consolidation of such claim with any other person or entity's claim, except as otherwise agreed to in writing by the Company and the Participant.

7. **Right to Enforce or Challenge Class Action Waiver In Court.**

All parties agree that this Exhibit does not limit any party's right to initiate an action in state or federal court enforcing or challenging the enforceability of the group, representative, class, collective, or hybrid action waiver set forth herein. If the Participant chooses to exercise that right, the Company will not retaliate against the Participant for doing so. The Company, however, reserves the right to oppose such a challenge to enforcement of this Exhibit.

8. **Void if Class Action Waiver Void.**

If the waivers in Paragraph 6 of this Exhibit are found to be unenforceable in their entirety for any reason in a case in which class action, representative action or similar allegations have been made, the remainder of this arbitration clause in this Exhibit shall also be void. If, however, some, but not all, of the waivers in Paragraph 6 of this Exhibit are found to be unenforceable for any reason in a case in which class action, representative action or similar allegations have been made, the Participant's individual claims shall be decided in arbitration. Any class action, representative action or similar action as to which the class action waiver in Paragraph 6 of this Exhibit is found to be unenforceable shall be decided in court and not in arbitration.

9. **Application of FAA and Questions of Arbitrability.**

The Company and the Participant agree that the Federal Arbitration Act, 9 U.S.C. § 1 et seq. ("FAA") governs the enforceability of any and all of the arbitration provisions in this Exhibit and judgment upon the award rendered by the arbitrator may be entered by any court of competent jurisdiction. Questions related to procedures (including venue and choice of arbitrator), timeliness, and arbitrability (that is whether an issue is subject to arbitration under this Exhibit) shall be decided by the arbitrator, except any issues related to the enforceability of Paragraphs 6 and 7 shall be decided solely by a court of law having jurisdiction over the issue, and except as provided in Paragraphs 7 and 8. Claims filed must be timely, i.e., within the time set by the applicable statute(s) of limitations.

10. **Administrative Remedies.**

The parties further agree that nothing in this Exhibit precludes any party from filing or participating in administrative proceedings before the California Unemployment Insurance Appeals Board, California Workers Compensation Appeals Board, California Labor Commissioner, California Division of Labor Standards Enforcement, the California Department of Fair Employment & Housing, or similar California or federal administrative agencies, to address alleged violations of law enforced by those agencies. If the Participant exercises such administrative remedies, the Company will not retaliate against the Participant for doing so. The Company, however, reserves the right to oppose any such administrative proceeding, including on the grounds that such agency(ies) lack jurisdiction over any dispute, because of the parties' independent contractor relationship. Notwithstanding the foregoing, to the extent permitted by law, if the Participant or the Company seeks to appeal any such administrative award to a court of competent jurisdiction and/or for a trial de novo in such a court, the Participant and the Company agree that that such appeal or trial de novo is subject to the binding arbitration requirement described above in this Exhibit.

11. **The Participant Understands His/Her Agreement to Arbitrate.**

The Participant represents and warrants that he/she understands the meaning and effect of the agreement to arbitrate and has been provided reasonable time and opportunity to consult with legal counsel regarding this agreement to arbitrate.



**AMENDMENT NO. 01 TO  
STANDARD CONSULTING AGREEMENT**

AeroVironment, Inc., (“**AV**” or “**Party**”) and General Charles R. Holland, USAF, Retired (“**Consultant**” or “**Party**”), collectively referred to as the “**Parties**,” previously entered into a Standard Consulting Agreement with an Effective Date of January 01, 2016 (“**Agreement**”), which provides for the Consultant to render certain specified Services to AV during the Term of the Agreement. The Parties have agreed to amend the Agreement as follows:

1. First paragraph of the Agreement is modified to update AV’s corporate address and also update Consultant’s address. **The amended first paragraph reads as follows:** “THIS AGREEMENT is executed and made effective as of January 01, 2016 (the “Effective Date”) between AeroVironment, Inc., a Delaware corporation, and its subsidiaries, with offices at 800 Royal Oaks Drive, Suite 210, Monrovia, CA 91016-6347 (hereinafter referred to as “AV” or Party) and General Charles R. Holland, USAF, Retired, with offices at \_\_\_\_\_, Phone: \_\_\_\_\_, E-mail: <mailto:hollandcr1@gmail.com> (hereinafter referred to as “consultant” or “Party”). AV and the Consultant will be collectively referred to as “the Parties.”
2. Section 2, “Term,” of the Agreement is modified to extend the Term of the Agreement to June 30, 2017. **The amended Section 2 reads as follows:** “Services will be performed between the Effective Date and June 30, 2017 (“Expiration Date”). This Agreement may be extended for additional periods by mutual written agreement between the Parties prior to the Expiration Date of the initial term or any extension thereof. If the Parties do not execute such a written agreement, this Agreement will expire and automatically terminate as of the Expiration Date.”
3. Section 19, “Notice,” of the Agreement is modified to update AV’s corporate address and also update Consultant’s address. **The amended Section 19 reads as follows:** “Any notice between the parties hereto required or permitted to be given under this Agreement shall be sufficient if in writing and sent by registered or certified mail, postage prepaid, or other express delivery service, to the respective addresses set forth below or at such other address as either of the parties may from time to time designate in accordance with the provisions of this Section 19.

AeroVironment:	John Burkholder Senior Counsel 800 Royal Oaks Drive, Suite 210 Monrovia, CA 91016-6347  Telephone: +626-357-9983 ext 4588 Facsimile: +626-359-1894 E-Mail: <a href="mailto:burkholder@avinc.com">burkholder@avinc.com</a>
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Consultant:	General Charles R. Holland, USAF Retired
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*AEROVIRONMENT PROPRIETARY INFORMATION*

All other terms of the Agreement and any other terms of previous Amendments to the Agreement remain in full force and effect. If there is a conflict between the terms of this Amendment and those of the Agreement or any previous Amendment, the terms of this current Amendment shall control.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of January 01, 2017

**AEROVIRONMENT, INC.**

Signature: /s/ Wahid Nawabi

Printed Name: Wahid Nawabi

Title: President and CEO

Date: 11/23/2016

**CONSULTANT:**

**General Charles R. Holland, USAF, Retired**

Signature: /s/ Charles R. Holland

Printed Name: Charles R. Holland

Title: Consultant

Date: 11/24/16

*AEROVIRONMENT PROPRIETARY INFORMATION*

Page 2

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Consultant: General Charles R. Holland, USAF, Retired

TASK ORDER # FY17-001

Project No. 9000.6435.0100.000

**A. Effort and/or Services to be provided by Consultant:**

Consultant will provide marketing support for unmanned air vehicle systems. This includes:

1. Scheduling meetings with key executives from the U.S. Department of Defense.
2. On-going consulting services on AV capture activities.
3. Facilitate and provide assistance scheduling meetings with key participants at various industry conferences.
4. Provide industry advice on ad-hoc basis as requested by the AV Task Manager.

In performance of the work under this Task Order and Consultant Agreement, the Consultant is not permitted to disclose any export-controlled data or furnish any defense services to non-US persons, unless authorized in advance by the US Department of State or Department of Commerce. The Consultant is not permitted to access any US or other government classified information in the course of performance of work under this Task Order and Consulting Agreement, unless the following actions have occurred: (1) AV Security Officer has approved such access in advance; (2) the Parties have executed the "Consultant Certificate Regarding Access to and Handling of Classified Information" (Attachment E to the Consulting Agreement); and (3) and the Consultant has completed all necessary training.

**B. Unless otherwise designated in writing by AV with notice to Consultant, the AV Task Manager is: Wahid Nawabi**

**C. Target Performance Period:** January 1, 2017 through June 30, 2017

**D. Rates:**

**Authorized Days:** As required and authorized by AV Task Manager

**Rate:** \$4,000.00 per day

**Monthly Retainer:** \$4,000.00

**Total Not To Exceed Cost:** \$24,000.00 (excluding expenses)

**E. Expenses:**

Maximum authorized expenses: AV will reimburse Consultant for any AV related business travel expenses (transportation, lodging, meals, etc.) during "Target Performance Period" defined under Section C above, provided all travel expenses are pre-approved in writing by the AV Task Manager.

Travel and/or miscellaneous expenses shall be reimbursed in accordance with current AV standard travel procedures; receipts shall accompany invoices of \$25 or more. No labor or expense costs above those amounts shown here are to be incurred without the prior written approval of the AV Task Manager.

*AEROVIRONMENT PROPRIETARY INFORMATION*

**F. SUBMITTING INVOICES:** This practice will support efficient processing and payment.

1. **INVOICES:** Reference shall be made to the correct Task Order No. and Project No. and/or Charge No. and include the name of the AV Task Manager on all invoices.
2. **PROGRESS STATEMENT:** To stay in compliance with the Federal Acquisition Regulation (FAR), Part 31, each invoice should also be accompanied by a progress statement.
3. **INVOICES SHALL BE SENT TO:** Accounts Payable Group, AeroVironment, Inc., via e-mail to [acp@avinc.com](mailto:acp@avinc.com), and also reference the correct Task Order Number and your organization's name in the subject line of the email, with courtesy copy to AV Task Manager, or by mail to P.O. Box 5031, Monrovia, CA 91107.

AeroVironment, Inc. <u>/s/ Wahid Nawabi</u> Signature <u>Wahid Nawabi</u> Name (Print) <u>President and CEO</u> Title <u>11/28/2016</u> Date	General Charles R. Holland, USAF, Retired <u>/s/ Charles R. Holland</u> Signature <u>Charles R. Holland</u> Name (Print) <u>Consultant</u> Title <u>11/28/2016</u> Date
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AEROVIRONMENT PROPRIETARY INFORMATION

**AMENDMENT NO. 02 TO  
STANDARD CONSULTING AGREEMENT**

AeroVironment, Inc. ("**AV or Party**") and General Charles R. Holland, USAF, Retired ("**Consultant or Party**"), collectively the "**Parties**," previously entered into a Standard Consulting Agreement with an Effective Date of January 1, 2016 ("**Agreement**"), which provides for the Consultant to render certain specified services to AV during the Term of the Agreement. The Parties have agreed to amend the Agreement as follows:

1. Section 2, "Term," of the Agreement is modified to extend the Term of the Agreement to April 30, 2018. **The amended Section 2 reads as follows:**  
"Services will be performed between the Effective Date and April 30, 2018 ("**Expiration Date**"). This Agreement may be extended for additional periods by mutual written agreement between the Parties prior to the Expiration Date of the initial term or any extension thereof. If the Parties do not execute such a written agreement, this Agreement will expire and automatically terminate as of the Expiration Date."

All other terms of the Agreement and any other terms of previous Amendments to the Agreement remain in full force and effect. If there is a conflict between the terms of this Amendment and those of the Agreement or any previous Amendment, the terms of this current Amendment shall control.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of July 1, 2017

**AEROVIRONMENT, INC.**

Signature: /s/ Wahid Nawabi

Printed Name: Wahid Nawabi

Title: President and CEO

Date: 6/7/2017

**CONSULTANT**

GENERAL CHARLES R. HOLLAND, USAF, RETIRED

Signature: /s/ Charles R. Holland

Printed Name: Charles R. Holland

Date: 6/7/2017

*AEROVIRONMENT PROPRIETARY INFORMATION*

Consultant: General Charles R. Holland, USAF, Retired

TASK ORDER # FY18-001

Project No. 0100.COR

**A. Effort and/or Services to be provided by Consultant:**

Consultant will provide marketing support for unmanned air vehicle systems. This includes:

1. Scheduling meetings with key executives from the U.S. Department of Defense.
2. On-going consulting services on AV capture activities.
3. Facilitate and provide assistance scheduling meetings with key participants at various industry conferences.
4. Provide industry advice on ad-hoc basis as requested by the AV Task Manager.

In performance of the work under this Task Order and Consultant Agreement, the Consultant is not permitted to disclose any export-controlled data or furnish any defense services to non-US persons, unless authorized in advance by the US Department of State or Department of Commerce. The Consultant is not permitted to access any US or other government classified information in the course of performance of work under this Task Order and Consulting Agreement, unless the following actions have occurred: (1) AV Security Officer has approved such access in advance; (2) the Parties have executed the "Consultant Certificate Regarding Access to and Handling of Classified Information" (Attachment E to the Consulting Agreement); and (3) and the Consultant has completed all necessary training.

**B. Unless otherwise designated in writing by AV with notice to Consultant, the AV Task Manager is: Wahid Nawabi**

**C. Target Performance Period:** July 1, 2017 through April 30, 2018

**D. Rates:**

**Authorized Days:** As required and authorized by AV Task Manager

**Rate:** \$4,000.00 per day

**Monthly Retainer:** \$4,000.00

**Total Not To Exceed Cost:** \$24,000.00 (excluding expenses)

**E. Expenses:**

Maximum authorized expenses: AV will reimburse Consultant for any AV related business travel expenses (transportation, lodging, meals, etc.) during "Target Performance Period" defined under Section C above, provided all travel expenses are pre-approved in writing by the AV Task Manager.

Travel and/or miscellaneous expenses shall be reimbursed in accordance with current AV standard travel procedures; receipts shall accompany invoices of \$25 or more. No labor or expense costs above those amounts shown here are to be incurred without the prior written approval of the AV Task Manager.

AEROVIRONMENT PROPRIETARY INFORMATION

**F. SUBMITTING INVOICES:** This practice will support efficient processing and payment.

1. **INVOICES:** Reference shall be made to the correct Task Order No. and Project No. and/or Charge No. and include the name of the AV Task Manager on all invoices.
2. **PROGRESS STATEMENT:** To stay in compliance with the Federal Acquisition Regulation (FAR), Part 31, each invoice should also be accompanied by a progress statement.
3. **INVOICES SHALL BE SENT TO:** Accounts Payable Group, AeroVironment, Inc., via e-mail to [acp@avinc.com](mailto:acp@avinc.com), and also reference the correct Task Order Number and your organization's name in the subject line of the email, with courtesy copy to AV Task Manager, or by mail to P.O. Box 5031, Monrovia, CA 91107.

AeroVironment, Inc. <u>/s/ Wahid Nawabi</u> Signature  <u>President and CEO</u> Title  <u>6/6/2017</u> Date	General Charles R. Holland, USAF, Retired  <u>/s/ Charles R. Holland</u> Signature    <u>6/5/2017</u> Date
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AEROVIRONMENT PROPRIETARY INFORMATION

*Subsidiaries of AeroVironment, Inc.*

Name	Jurisdiction of Organization
AeroVironment International PTE. LTD.	Singapore
AV GmbH	Germany
AV Rhode Island, LLC	Rhode Island
SkyTower, Inc.	Delaware
Altay Savunma Sanayi ve Havacilik Anonim Sirketi*	Turkey
AeroVironment, Inc.	Afghanistan

\* AeroVironment, Inc. has an 85% ownership interest

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## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-140237) pertaining to the AeroVironment, Inc. Nonqualified Stock Option Plan, the AeroVironment, Inc. 2002 Equity Incentive Plan, and the AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated, and Registration Statement (Form S-8 No. 333-178349) pertaining to the AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated, of our reports dated June 27, 2017, with respect to the consolidated financial statements and schedule of AeroVironment, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of AeroVironment, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended April 30, 2017.

/s/ Ernst & Young LLP

Los Angeles, California  
June 27, 2017

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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 27, 2017

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

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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, Teresa P. Covington, certify that:

1. I have reviewed this annual report on Form 10-K of AeroVironment, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 27, 2017

/s/ Teresa P. Covington  
Teresa P. Covington  
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, 2017 (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 27, 2017

/s/ WAHID NAWABI  
Wahid Nawabi  
Chief Executive Officer and President

Date: June 27, 2017

/s/ TERESA P. COVINGTON  
Teresa P. Covington  
Senior Vice President and Chief Financial Officer

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