UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 19, 2021**

AEROVIRONMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-33261**	**95-2705790**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

900 Innovators Way Simi Valley, California	**93065**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(805) 581-2187**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Explanatory Note:

On February 22, 2021, AeroVironment, Inc. (the "Company") filed a Current Report on Form 8-K (the "Original Report") to announce the Company closed its acquisition of Arcturus UAV, Inc. ("Arcturus UAV") pursuant to its previously announced Stock Purchase Agreement with Arcturus UAV and each of the shareholders and other equity interest holders of Arcturus UAV to purchase 100% of the issued and outstanding equity of Arcturus UAV (the "Acquisition").

This Amendment No. 1 to the Original Report is being filed to provide the financial statements and pro forma financial information required by Items 9.01(a) and 9.01(b), respectively, of Form 8-K, and should be read in conjunction with the Original Report.

The pro forma financial information gives effect to certain pro forma events related to the Acquisition and related transactions, and has been presented for informational purposes only. It does not purport to present the actual or project the future financial position or operating results of the Company following the Acquisition.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired

The audited consolidated financial statements of Arcturus UAV, Inc., as of and for the year then ended December 31, 2020.

(b) Pro Forma Financial Information

The pro forma financial information of AeroVironment, Inc. reflecting the acquisition of Arcturus UAV, Inc.

(d) Exhibits

Exhibit Number	Description
23.1	Consent of Baker Tilly US, LLP, independent registered public accounting firm
99.1	Audited consolidated financial statements of Arcturus UAV, Inc., as of and for the year then ended December 31, 2020.
99.2	Unaudited pro forma condensed combined financial information as of and for the nine months ended January 30, 2021 and for the year ended April 30, 2020.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

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

AEROVIRONMENT, INC.

Date: April 30, 2021

By: /s/ Wahid Nawabi
Wahid Nawabi
President and Chief Executive Officer

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the inclusion in this Current Report of AeroVironment, Inc. on Form 8-K/A of our report dated March 31, 2021 (except for Note 13, as to which the date is April 30, 2021) with respect to our audit of the financial statements of Arcturus UAV, Inc. as of December 31, 2020 and for the year then ended.

/s/ BAKER TILLY US, LLP

Melville, New York
April 30, 2021

Arcturus UAV, Inc.

Financial Statements

December 31, 2020

Independent Auditors' Report

To the Board of Directors of
Arcturus UAV, Inc.

We have audited the accompanying financial statements of Arcturus UAV, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of operations, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arcturus UAV, Inc. as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, in February 2021, the stockholders of the Company sold all of the outstanding stock of the Company. Our opinion is not modified with respect to this matter.

Baker Tilly US, LLP

Melville, New York

March 31, 2021, except for Note 13 to the financial statements, as to which the date is April 30, 2021

Arcturus UAV, Inc.

Balance Sheet
December 31, 2020

		2020
Assets		
Current Assets		
Cash and cash equivalents	$	7,243,325
Accounts receivable		13,424,043
Inventories, net		15,478,714
Prepaid and other current assets		2,010,798
Prepaid income taxes		1,365,232
Total current assets		39,522,112
Property and Equipment, Net		29,048,891
Other Assets		1,150,267
Total assets	$	69,721,270
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$	6,351,309
Accrued expenses		3,769,935
Current portion of long-term debt		329,153
Deferred revenue		1,641,981
Total current liabilities		12,092,378
Long-Term Liabilities		
Long-term debt, net of current portion		3,594,549
Deferred income taxes		1,288,463
Restricted stock units liability (Note 8)		15,740,594
Other long-term liabilities		894,541
Total long-term liabilities		21,518,147
Total liabilities		33,610,525
Stockholders' Equity		
Common stock (no par value, 100,000 shares authorized, issued, and outstanding)		—
Additional paid-in capital		3,952,766
Retained earnings		32,157,979
Total stockholders' equity		36,110,745
Total liabilities and stockholders' equity	$	69,721,270

See notes to financial statements

Arcturus UAV, Inc.

Statement of Operations
Year Ended December 31, 2020

	2020
Revenue:	21,851,989
Product sales	75,065,148
Contract services	96,917,137
Cost of Sales	
Product expenses	13,701,782
Contract services expenses	47,609,224
	61,311,006
Gross profit	
Products	8,150,207
Contract services	27,455,924
	35,606,131
Expenses	
Research and development	679,505
Selling, general and administrative	27,700,279
Total operating expenses	28,379,784
Operating income	7,226,347
Other Income (Expense)	
Interest income	29,724
Interest expense	(288,836)
Other expense	(262,840)
Total other expense, net	(521,952)
Income before provision for income taxes	6,704,395
Provision for Income Taxes	1,418,938
Net income	$ 5,285,457

See notes to financial statements

Arcturus UAV, Inc.

Statement of Changes in Stockholders' Equity
Year Ended December 31, 2020

	Common Stock		Additional Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance, January 1, 2020	100,000	—	3,952,766	26,872,522	30,825,288
Net income	—	—	—	5,285,457	5,285,457
Balance, December 31, 2020	100,000	$ —	$ 3,952,766	$ 32,157,979	$ 36,110,745

See notes to financial statements

Arcturus UAV, Inc.

Statement of Cash Flows
Year Ended December 31, 2020

	2020
Cash Flows From Operating Activities	
Net income	$ 5,285,457
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation of property and equipment	11,873,648
Bad debt expense	319,621
Accrued interest	39,962
Amortization of deferred financing costs	102,075
Change to inventory obsolescence reserve	(277,248)
Deferred rent	684,962
Deferred income taxes	(3,245,107)
Restricted stock units expense	15,740,594
Loss on disposal of fixed assets	3,231,770
Changes in operating assets and liabilities:	
Accounts receivable	(6,326,571)
Inventories	1,866,439
Prepaid expenses and other current assets	(487,044)
Other assets	(23,529)
Accounts payable	3,181,028
Accrued expenses	2,540,441
Income taxes	(6,686,661)
Deferred revenue	(3,725,334)
Net cash provided by operating activities	24,094,503
Cash Flows From Investing Activities	
Additions to property and equipment	(21,007,395)
Net cash used in investing activities	(21,007,395)
Cash Flows From Financing Activities	
Payment of deferred financing fees	(38,000)
Proceeds, line of credit facility	28,898,911
Repayments, line of credit facility	(28,898,911)
Proceeds, payroll protection program loan	3,025,600
Repayments, payroll protection program loan	(3,028,503)
Proceeds, term loan	3,949,835
Repayments of related party and stockholder loans	(3,926,014)
Repayments of capital lease obligation	(4,176)
Net cash used in financing activities	(21,258)
Net change in cash and cash equivalents	3,065,850
Cash and Cash Equivalents, Beginning	4,177,475
Cash and Cash Equivalents, Ending	$ 7,243,325
Supplemental Disclosures of Cash Flows Information	
Cash paid during the year for:	$ 275,216
Interest	
Income taxes	$ 11,350,000

See notes to financial statements

1. Organization

Arcturus UAV, Inc. (the Company) was formed in January 2007 and subsequently incorporated in October 2018 in the state of California. The Company specializes in the design, development, production, support and operation of unmanned aerial vehicles (UAVs). The Company supplies UAVs and related services primarily to organizations within the U.S. Government. The Company's remaining sales are to private industry and foreign governments. The Company is headquartered in California with services provided internationally.

In September 2018, all members and the sole manager of Arcturus UAV, LLC, converted the Company from a California limited liability company to a California general stock corporation effective October 1, 2018.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Nature of Services and Performance Obligations

The Company derives the majority of its revenues from firm fixed price and time and materials contracts with third parties. Revenue is recognized as the Company transfers promised goods or services to its customers in amounts that reflect the consideration to which the Company expects to be entitled to in exchange for those goods or services, which occurs as the Company satisfies its contractual obligations and transfers promised goods or services to its customers. A performance obligation is a distinct service or a bundle of goods or services promised in a contract. The Company identifies performance obligations at the inception of a contract and allocates the transaction price to individual performance obligations to accurately depict the Company's performance in transferring of the goods or services to the customer. Revenue on firm fixed price contract components is recognized when the benefit of the good or service has been transferred to the customer. Revenue on cost plus fixed fee components are measured and recognized as work is performed in accordance with contract terms, provided the billable amounts are not contingent, are consistent with the services delivered and are earned. The Company bills for costs incurred, which includes some recovery on indirect costs based on provisional rates.

Costs for all service contracts are expensed as incurred. Anticipated contract losses are recognized in the period in which they become probable and can be reasonably estimated. There were no provisions for contract losses as of December 31, 2020.

The 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 customer specifications. These contracts may be fixed price, time and materials or cost-reimbursable.

Total revenue recognized at a point in time was approximately $24,755,000 for the year ended December 31, 2020. Total revenue recognized over time was approximately $72,162,000 for the year ended December 31, 2020.

Pre-Deployment Revenue

The Company is often engaged to establish a new unmanned aerial vehicle site using Company owned operating systems and equipment. The site is established in order to operate the associated UAVs within the contract. The pre-deployment phase consists of all activities necessary to bring a site "operational." The pre-deployment phase commences when the project is won at auction and concludes when the first flight occurs at a given site. The Company transfers control of the service to the customer and satisfies its performance obligation over the term of the contract, resulting in revenue recognition over time while related costs are expensed as incurred. The Company uses a method of revenue recognition which allocates revenue based on the percent of the performance obligation completed during the period using an output method based most closely on units delivered to the site.

Intelligence Surveillance and Reconnaissance Services Revenue

The Company earns revenue for the support and operations of UAVs based on fixed-price contracts that are based upon available monthly flight hours. Requested flight hours are at the discretion of the customer, but may not exceed the specified maximum monthly amount. The Company recognizes revenue ratably as services are rendered over time.

Payload Integration and Other Revenue

Revenues derived from product sales and customization of those products, that are not long-term contracts, are recognized upon shipment, delivery, or as service is provided. For these sales of unmanned aerial systems, control transfers upon completion of manufacturing, customer acceptance and transfer of the risk and rewards of ownership, which is typically when the goods have shipped or are delivered.

Some of the Company’s sales are made on time and materials contracts. For such sales, revenue is recognized at an agreed hourly bill rate for services provided while the nonlabor costs are billed at cost with an agreed mark up.

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

Bill-and-Hold Revenues

Certain customer arrangements consist of bill-and-hold characteristics under which transfer of control has been met (including the passing of title and significant risk and reward of ownership to the customers). Therefore, the customers can direct the use of the bill-and-hold inventory while the Company retains physical possession of the product until it is shipped to the customer site at a point in time in the future.

Determination of Transaction Price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. The Company includes any fixed and variable charges within its contracts as part of the total transaction price. The Company's contracts with the U.S. Government are subject to the Federal Acquisition Regulations (FAR) and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government are typically equal to the selling price stated in the contract.

Allocation of Transaction Price

The standalone selling prices are determined based on the prices at which the Company defines in the contract for the services to be performed or goods to be transferred. Significant judgment is not required to determine the standalone selling price of distinct performance obligations.

Contract Assets and Liabilities

Upon completion of the Company's performance obligations, the Company has an unconditional right to consideration as outlined in its contracts with customers. Customer receivables are generally due within 30 to 90 days in accordance with the underlying payment terms. Customer receivables, which are included in accounts receivable in the balance sheets, approximated $13,424,000 as of December 31, 2020. Accounts receivable consists of trade receivables from the Company's customers and is carried at original invoice amounts, less estimates made for allowances. Management makes allowances for doubtful accounts and other reserves against its accounts receivable by analyzing historical bad debts, customer concentrations, customer credit-worthiness, current economic trends, customer deals and changes in customer payment terms to determine the adequacy of the reserve. The Company considered all accounts receivable balances to be collectible at December 31, 2020. Accordingly, no allowance for doubtful accounts has been recorded.

Deferred revenue represents advance consideration received from customers for performance obligations that have not been satisfied. The Company will recognize revenue at a point in time or over time as the related performance obligation is satisfied.

Cash

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash includes currency on hand and demand deposits with financial institutions. The Company maintains its cash in bank deposit accounts, which at times may exceed the federally insured limits. Interest bearing accounts and noninterest bearing accounts, held in an insured institution, are aggregated and are guaranteed by the Federal Deposit Insurance Corporation up to $250,000. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk.

Inventories

Inventories consist of raw materials and finished goods and are valued at the lower of cost or net realizable value with cost being determined in the first-in, first-out basis. Inventories include materials and other allocable costs that are not yet assigned to a long-term contract. These costs are expected to be assigned and utilized within the current operating cycle. Costs associated with in-process production will be matched to revenue upon completion or recognition. Upon recognition, such costs will be reclassified to property and equipment at their carrying value. The Company continually evaluates the composition of its inventory and identifies obsolete and/or slow-moving inventories.

Inventory items identified as obsolete and/or slow-moving are evaluated to determine if write-downs or reserves are required. The reserve for obsolete inventory approximated $1,277,000 at December 31, 2020.

Property and Equipment

Equipment and leasehold improvements are recorded at cost. Upon assignment to a long-term contract and reclassification criteria being met, field operations equipment is recorded at its carrying value for the support and operations of UAVs. Depreciation of equipment is computed on the straight-line basis over the useful lives of the related assets. Leasehold improvements are amortized on the straight-line basis over the shorter of the estimated useful lives of the improvements or the life of the lease.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognized in the statement of operations.

Maintenance and repairs are charged to expense in the year incurred. Expenditures which significantly improve or extend the life of an asset are capitalized. Cost and accumulated depreciation of equipment retired or disposed of are removed from the respective accounts and the resulting gains (losses) are recorded to income.

Long-Lived Assets

The Company accounts for the impairment of long-lived assets in accordance with, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires impairment losses to be recorded on long- lived assets used in operations when indicators of impairment are present (triggering event) and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If impairment exists, the asset is written down to its estimated fair value. At December 31, 2020, the Company determined that there were no triggering events, and therefore, no impairment charges were required to be recorded.

Deferred Rent

The Company records rent expense on a straight-line basis over the terms of the underlying lease agreement. Deferred rent liability included within the balance sheets represent differences between actual rent payments and the straight-line rent recorded. As of December 31, 2020, the Company has a deferred rent liability of approximately $883,000.

Research and Development

The Company's business involves a high technology element. Research and development (R&D) costs incurred by the Company are charged to expense as incurred and are included in the statements of operations. During the fiscal year ended December 31, 2020, the Company expended approximately $680,000 on Company-sponsored research and development activities conducted primarily by its engineering department to develop and improve the Company's products. The Company intends to continue to conduct a significant portion of its future research and development activities internally.

Restricted Stock Unit Awards

The Company recognizes compensation expense for stock units awarded to key employees, primarily in the form of restricted stock units that are generally based upon the grant-date fair value over the appropriate vesting period.

Income Taxes

As a U.S. domestic corporation, the Company is subject to U.S. federal and state income taxes. The Company recognizes certain income and expenses for financial statement purposes in different periods than for tax reporting purposes. Deferred income taxes are provided for these temporary differences, as described in Note 7. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and the loss carryback potential in making the assessment of whether it is more likely than not that some portion, or all of the deferred tax asset will not be realized. As of December 31, 2020, management has determined that the entire deferred tax asset is realizable, and therefore, a valuation allowance was not provided.

In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. As of December 31, 2020, the Company does not have any unrecognized tax benefits. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company does not expect any material changes in its unrecognized tax benefits over the next 12 months.

The Company is subject to income tax at the federal and state level. With limited exception, the assessment period of U.S. Federal and state tax will remain open for three years following the filing of its tax returns.

Risks and Uncertainties

The Company is subject to certain business risks and uncertainties that could affect future operations and financial performance. Among others, these risks and uncertainties include the ability to generate sufficient revenues and cash flows from current products and services to sustain operations, significant competition from others with greater resources, dependence on key individuals, and some dependence on key suppliers that the Company actively attempts to mitigate. Substantially all of the Company’s revenues have been derived from contracts for which the U.S. federal government is the ultimate customer, which exposes the Company to certain risks. Federal government contractors must comply with applicable government procurement statutes and regulations and may be subject to potential contract termination, suspension and debarment from contracting with the government, or other remedies if they fail to comply with such regulations. Management believes the Company has complied with all applicable procurement statutes and regulations. Further, these contract revenues are subject to adjustment upon audit by various government agencies. Management does not expect the results of such audits to have a material effect on the Company’s financial position or results of future operations. Furthermore, changes in federal government budgetary priorities, domestic and international economic conditions and political circumstances, among other factors, could impact the status of the Company’s current contracts and the Company’s ability to win new or follow-on contract awards. In the event of unilateral early termination by the customer or expiration without renewal, the loss of one or more of the Company’s significant contracts could have a material and adverse impact on the Company’s future financial results.

Future Accounting Pronouncements

During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. During 2018, the FASB also issued ASU No. 2018-01, *Land Easement Practical Expedient*, which permits an entity to elect an optional transition practical expedient to not evaluate land easements that existed or expired before the entity's adoption of Topic 842 and that were not previously accounted for under ASC 840; ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which addresses narrow aspects of the guidance originally issued in ASU No. 2016-02; ASU No. 2018-11, *Targeted Improvements*, which provides entities with an additional (and optional) transition method whereby an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption and also provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component; and ASU No. 2018-20, *Narrow-Scope Improvements for Lessors*, which addresses sales and other similar taxes collected from lessees, certain lessor costs, and the recognition of variable payments for contracts with lease and nonlease components. During 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*, which deferred the effective date for certain entities and, during 2020, issued ASU No. 2020-05, *Effective Dates for Certain Entities*, which deferred the effective date of ASU No. 2016-02 for those entities that had not yet issued their financial statements at the time of ASU No. 2020-05's issuance. Topic 842 (as amended) is effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently assessing the effect that Topic 842 (as amended) will have on its results of operations, financial position and cash flows.

During March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities may elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. The Company is currently assessing the effect that electing the optional expedients and exceptions included in ASU No. 2020-04 would have on its results of operation, financial position and cash flows.

3. Inventories

Inventories, net of reserves for obsolescence, consist of the following at December 31, 2020:

Raw materials	$	6,238,908
Finished goods		9,239,806
Total inventories, net	$	15,478,714

4. Property and Equipment

Property and equipment, at cost, consists of the following as of December 31, 2020:

	Estimated Useful Lives	
Machinery, equipment and fixtures	3-10 years	$ 4,336,343
Field operations equipment	1-9 years	43,202,600
Computer equipment and software	3-5 years	784,293
Leasehold improvements	Shorter of useful live or remaining lease term	1,008,302
		49,331,538
Less accumulated depreciation		(20,282,647)
Total property and equipment, net		$ 29,048,891

Total depreciation expense for the year ended December 31, 2020 was approximately $11,874,000.

During the year ended December 31, 2020, the Company recorded a loss on disposal of fixed assets of approximately $3,232,000 as a result of UAVs no longer being operable due to events occurring during operations.

5. Related-Party Transactions

From time to time, the Company advances to/borrows from, and enters into transactions with related parties in the normal course of business. These related parties include commonly controlled entities and a shareholder and officer of the Company.

Due to Related Party

The Company had a promissory note (the First Note) with a commonly controlled entity, Arcturus International, LLC (Arcturus International), which was set to mature on January 1, 2028.

During August 2020, the Company repaid the outstanding principal and interest balance of approximately $650,000. Interest on the First Note was stated at 3.00 percent per annum. Interest expense incurred for the First Note approximated $12,000 for the year ended December 31, 2020.

Loan Payable, Stockholder

The Company had a promissory note (the Second Note) with a stockholder, which was set to mature on January 1, 2028.

During August 2020, the Company repaid the outstanding principal and interest balance of approximately $2,872,000. Interest on the Second Note was stated at 3.00 percent per annum. Interest expense incurred for the Second Note approximated $54,000 for the year ended December 31, 2020.

Stockholders' Notes

During the year ended December 31, 2019, the Company entered into loan agreements with its stockholders. In accordance with the terms of the agreement, the Company loaned funds to the stockholders at a stated interest rate of 3.0 percent per annum and are set to expire on dates ranging from April 10, 2024 to December 11, 2024, at which point the amounts of principal and interest outstanding will be due. As of December 31, 2020, the total amount due to the Company approximated $1,007,000 and is included within other assets in the balance sheet. Interest income accrued approximated $30,000 for the year ended December 31, 2020.

6. Debt

Revolving Line of Credit

On July 18, 2019, the Company entered into a Revolving Line of Credit (RLOC) with a financial institution. While the agreement was to terminate on July 18, 2022, the Company elected to terminate the agreement in August 2020 when it entered into a credit agreement with another financial institution.

The RLOC was collateralized by substantially all of the Company's assets, and required the Company to comply with various financial and nonfinancial covenants and conditions. The amount available under the RLOC was a fixed percentage of eligible accounts receivable and inventory held for resale and was capped at a maximum of $15,000,000. Borrowings bore interest at a rate of the higher of 7.86 percent and LIBOR plus 5.25. Interest expense incurred for the RLOC approximated $155,000 for the year ended December 31, 2020.

Payroll Protection Program

In April 2020, the Company received approximately $3,025,000 in loan proceeds pursuant to the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration. The loan was set to bear interest at 1 percent per annum, mature in April 2022 and contain no collateral or guarantee requirements. On May 18, 2020, the Company returned the entire outstanding balance of approximately $3,028,000, inclusive of interest.

Credit Agreement

On August 20, 2020, the Company entered into a credit agreement (the Credit Agreement) with a financial institution. Borrowings under the Credit Agreement allow for a revolving credit facility (the Credit Facility) with borrowings not to exceed at any one time outstanding $10,000,000. The Credit Agreement also allows for the Company to request term loans (the Term Loan) from the financial institution, in an aggregate principal amount for all such term loans not to exceed $14,000,000.

The Credit Facility terminates on August 20, 2022 and is collateralized by substantially all of the Company's assets, and requires the Company to comply with various financial and nonfinancial covenants and conditions. Borrowings bear interest at the rate per annum equal to, as of any day, the greater of (i) 4.00 percent per annum and (ii) the Prime Rate on such day. As of December 31, 2020, the stated interest rate was approximately 4.00 percent. As of December 31, 2020, the Company had $0 outstanding against the Credit Facility. Deferred loan costs attributable to the Credit Facility had an unamortized balance of approximately $7,000 as of December 31, 2020, and interest expense related to the amortization of deferred loan costs of approximately $3,000 for the year ended December 31, 2020.

As part of the Credit Agreement, the Company obtained a term loan of approximately $3,950,000. The Term Loan requires sixty consecutive equal monthly payments beginning August 2021 and terminates on August 20, 2026. The Term Loan is collateralized by substantially all of the Company's assets, and requires the Company to comply with various financial and nonfinancial covenants and conditions. Borrowings bear interest at a rate of 4.00 percent per annum. As of December 31, 2020, the Company had approximately $3,950,000 outstanding related to the Term Loan. Interest expense incurred for the Term Loan approximated $58,000. Deferred loan costs attributable to the Term Loan had an unamortized balance of approximately $26,000 as of December 31, 2020, and interest expense related to the amortization of deferred loan costs of approximately $2,000 for the year ended December 31, 2020.

Annual maturities of the Term Loan are as follows for the year ending December 31:

Years ending December 31:	
2021	$ 329,153
2022	789,967
2023	789,967
2024	789,967
2025	789,967
Thereafter	460,814
	3,949,835
Less unamortized deferred financing costs	(26,133)
Total	$ 3,923,702

The Company paid off the outstanding balance of the Term Loan in full during February 2021. Refer to Note 12 for additional information.

7. Income Taxes

The provision for income taxes consists of the following at December 31, 2020:

Current:		
Federal	$	2,795,031
States and local		1,869,014
Total current		4,664,045
Deferred:		
Federal		(2,049,450)
States		(1,195,657)
Total deferred		(3,245,107)
Total provision for income taxes	$	1,418,938

The difference between the statutory and effective tax rate as of December 31, 2020 is the result of state taxes.

The components of the deferred tax assets and liabilities are as follows as of December 31, 2020:

Deferred tax assets:		
Accrued expenses	$	120,953
Deferred rent		246,451
Depreciation, state		1,721,946
Restricted stock units		4,392,566
Inventory reserve		356,373
Total deferred tax assets		6,838,289
Deferred tax liabilities:		
Depreciation, federal		(7,952,703)
Amortization		(871)
Prepaid expenses		(173,178)
Total deferred tax liabilities		(8,126,752)
Net deferred tax liabilities	$	(1,288,463)

8. Restricted Stock Units

The Company follows ASC Topic 718, "Compensation-Stock Compensation," which requires that all shared based payments to employees, including restricted stock unit (RSUs) awards, be recognized as compensation expense based on their fair values over the requisite service period. The Company recorded noncash compensation expense relating to stock-based compensation of approximately $15,741,000 for the year ending December 31, 2020.

The Company estimated the fair value of RSUs issued during December 2020 based on the fair value of the Company as determined by the acquisition more fully described in Note 12. The accuracy of these assumptions is critical to the estimate of fair value of these equity instruments. The weighted-average fair value per share of RSUs granted during 2020 was $3,120.89.

A summary of the Company's employee RSU activity and related information is as follows for the year ended December 31, 2020:

	2020		
Options	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**
Outstanding, beginning of year	-	$ -	-
Outstanding, end of year	10,000	$ 3,120.89	9.95
Exercisable, end of year	5,000	$ 3,120.89	9.95

All outstanding RSUs are required to be settled in cash unless otherwise determined by the Company's board of directors in the event of a change in control, which would allow the RSUs to be settled in the form of shares of stock, cash, or a combination thereof. Based on the requirement to be settled in cash, the RSUs have been recorded as a liability in accordance with ASC 718.

As of December 31, 2020, there was approximately $15,468,000 of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted. All such amounts were settled in full upon closing of the acquisition more fully described in Note 12.

9. Commitments and Contingencies

Leases

The Company leases two office spaces in Rohnert Park, California under noncancelable operating leases. In May 2019, the Company extended the expiration date of one of these leases to May 31, 2022. In February 2020, the Company extended the expiration date of the other lease to April 30, 2023.

In November 2018, the Company entered into two leases agreement for new office spaces in Petaluma, California. The leases commenced in March 2019. In October 2019, the Company extended the expiration date of one of the leases to January 31, 2030. In May 2020, the Company extended the expiration date of this lease to May 21, 2030. In October 2019, the Company extended the expiration date of the other lease to December 31, 2029.

In May 2019, the Company entered into a lease agreement for new space in Sonoma County, California. The lease commenced in June 2019 and expires May 31, 2021.

The Company's commitments under long-term operating leases consist principally of obligations arising from its lease for office space expiring at various dates through May 21, 2030. The total rent and rental expense charged to operations under these leases for the year ended December 31, 2020 amounted to approximately $2,630,000.

Future minimum lease payments under all leases with noncancelable lease terms in excess of one year are as follows:

Years ending December 31:		
2021	$	1,741,000
2022		1,626,000
2023		1,492,000
2024		1,491,000
2025		1,544,000
Thereafter		7,068,000
Total	$	14,962,000

Litigation

At December 31, 2020, the Company is not aware of any claims or potential claims that could have a material effect on the result of operations or the financial condition of the Company.

10. Business and Credit Concentrations

Major Customers

At December 31, 2020, included in accounts receivables there was approximately $12,550,000 due from one governmental customer. For the year ended December 31, 2020, approximately 75 percent of revenues were derived from this customer. For the year ended December 31, 2020, approximately 11 percent of revenues were derived from another governmental customer. U.S. government agencies comprise a substantial amount of the Company's accounts receivable and revenue.

Major Vendors

For the year ended December 31, 2020, there were concentration of purchases to two vendors, which approximated 16 percent and 11 percent. Amounts due to each of the vendors approximated 56 percent of accounts payable as of December 31, 2020. Amounts due to another vendor approximated 19 percent of accounts payable as of December 31, 2020.

11. Employee Benefit Plans

The Company has a defined contribution retirement plan (the Plan) for eligible employees under Section 401(k) of the Internal Revenue Code. The Plan covers eligible employees who are at least 21 years of age and have completed six months of employment. Employees may contribute up to 100 percent of their eligible earnings. The Company may elect to make a discretionary matching contributions to the Plan at amounts determined by the Company. The Company may also elect to make nonelective contributions to the Plan which would be allocated in the proportion that each participant's compensation bears to the aggregate compensation of all eligible participants in a Plan year. For the year ended December 31, 2020, the Company made a discretionary matching contribution to the Plan of approximately $197,000.

12. Subsequent Events

The Company has evaluated all subsequent events from the date of the balance sheets through March 31, 2021, which represents the date these financial statements are available to be issued, and other than the below, determined no additional items to be disclosed.

In January 2021, the stockholders of the Company entered into a stock purchase agreement (the Purchase Agreement) with AeroVironment, Inc. (AeroVironment) to sell 100 percent of the outstanding equity interest of the Company. The closing of the acquisition was completed in February 2021. Pursuant to the Purchase Agreement, at the closing of the Acquisition, AeroVironment paid approximately $405,000,000 (subject to certain customary adjustments and escrow arrangements set forth in the Purchase Agreement) to purchase the Company. Upon closing, the Company became a wholly-owned subsidiary of AeroVironment, Inc. Concurrent with the sale, the Company repaid the outstanding balance of the Term Loan more fully described in Note 6.

In connection with the acquisition described above, AeroVironment, as borrower, and the Company, as guarantor, entered into a credit agreement with certain lenders. The credit agreement and its associated Security and Pledge Agreement set forth the terms and conditions for (i) a five-year $100 million revolving credit facility, which includes a $10 million sublimit for the issuance of standby and commercial letters of credit, and (ii) a five-year amortized $200 million term A loan (Term Loan Facility). Upon execution of the credit agreement, AeroVironment drew the full principal of the Term Loan Facility for use in the acquisition of the Company. The Term Loan Facility requires payment of 5 percent of the outstanding obligations in each of the first four loan years, with the remaining 80.0 percent payable in loan year 5, consisting of three quarterly payments of 1.25 percent each, with the remaining outstanding principal amount of the Term Loan Facility due and payable on the final maturity date.

13. Additional Disclosure in Preparation for an SEC Filing

Due to the acquisition described in Note 12, the Company was required to comply with certain form and content requirements of Securities Exchange Commission (SEC) Regulation S-X. As a result, the following financial statements differ from those included within the report issued March 31, 2021 in the following ways:

- Presentation within the statement of operations now separately discloses “Product” and “Service” revenues, expenses, and gross profits.

Unaudited Pro Forma Combined Financial Information

On February 19, 2021, AeroVironment, Inc. (the “Company” or “AeroVironment”) closed its acquisition of Arcturus UAV, Inc., a California corporation (“Arcturus UAV”) pursuant to the Stock Purchase Agreement (the “Arcturus Purchase Agreement”) with Arcturus UAV and each of the shareholders and other equity interest holders of Arcturus UAV (collectively, the “Arcturus Sellers”), to purchase 100% of the issued and outstanding equity of Arcturus UAV (the “Arcturus Acquisition”). Pursuant to the Arcturus Purchase Agreement, at the closing of the Arcturus Acquisition, the Company paid approximately $431,000,000 (subject to certain customary adjustments and escrow arrangements set forth in the Arcturus Purchase Agreement), financed with a combination of approximately $158,573,000 of cash-on-hand, $200,000,000 consisting of a term A loan (“Term Loan Facility”), and the issuance of approximately $72,384,000 of unregistered, restricted shares of common stock. As specified in the Arcturus Purchase Agreement, the number of shares issued was determined based on a value of $50,000,000 and a calculated average price as of the last business day prior to January 11, 2021, the execution date of the Arcturus Purchase Agreement. Arcturus UAV, headquartered in Petaluma, California, designs, engineers, tools, and manufactures unmanned aerial and aircraft systems including airborne platforms, payloads and payload integration, ground control systems, and ground support equipment and other items and services related generally to unmanned aircraft systems. Arcturus UAV became a wholly-owned subsidiary of the Company as of February 19, 2021.

The accompanying unaudited pro forma combined financial information was prepared in accordance with Article 11 of SEC Regulation S-X. The historical consolidated financial information in the unaudited pro forma combined financial information has been adjusted to give effect to pro forma events including transaction accounting adjustments. The unaudited pro forma combined financial information does not give effect to any cost savings, operating synergies or revenue synergies that may result from the acquisition or the costs to achieve any synergies.

The following unaudited pro forma combined financial information presents the unaudited pro forma combined balance sheet as of January 30, 2021 and the unaudited pro forma combined statements of operations for the fiscal year ended April 30, 2020 and the nine months ended January 30, 2021. The unaudited pro forma combined financial information includes the historical results of AeroVironment and Arcturus UAV after giving pro forma effect to the acquisition as described in this section and under “Notes to Unaudited Pro Forma Combined Financial Information.”

The unaudited pro forma combined financial information do not necessarily reflect what the combined company’s financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The Company’s actual financial condition and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. The assumed accounting for the acquisition is based on provisional amounts and the associated purchase accounting is not final. The preliminary allocation of the purchase price to the acquired assets and assumed liabilities of Arcturus UAV was based upon preliminary estimates of fair value. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable under the circumstances. All pro forma adjustments and their underlying assumptions are described more fully in the notes to the unaudited pro forma combined financial information.

AeroVironment, Inc.
Pro Forma Combined Balance Sheet (Unaudited)
As of January 30, 2021
(In thousands except share and per share data)

	Historical		Transaction Accounting Adjustments		
	AeroVironment	Arcturus UAV	Reclass Adjustments	Pro Forma Adjustments	Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	$ 324,543	$ 7,243	$ —	$ (97,304) A,B,C,D	$ 234,482
Short-term investments	48,499	—	—	—	48,499
Accounts receivable, net of allowance for doubtful accounts of $565	26,621	13,424	(424) 1	—	39,621
Unbilled receivables and retentions (inclusive of related party unbilled receivables of $6,834)	61,084	—	424 1	—	61,508
Inventories	53,104	15,479	—	4,052 E	72,635
Prepaid expenses and other current assets	7,693	2,011	—	1,054 B,F	10,758
Prepaid income taxes	—	1,365	(1,365) 2	—	—
Total current assets	521,544	39,522	(1,365)	(92,198)	467,503
Long-term investments	11,222	—	—	—	11,222
Property and equipment, net	22,920	29,049	—	4,933 G	56,902
Operating lease right-of-use assets	11,281	—	—	11,429 F	22,710
Deferred income taxes	5,821	—	(1,288) 3	(4,300) H	233
Intangibles, net	11,552	—	—	86,800 I	98,352
Goodwill	6,340	—	—	288,679 H,I	295,019
Other assets	312	1,150	—	8,586 J,D,K	10,048
Total assets	$ 590,992	$ 69,721	$ (2,653)	$ 303,929	$ 961,989
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	$ 15,837	$ 6,351	$ 112 4	$ (3,241) L	$ 19,059
Accrued expenses	—	3,770	(3,770) 4,5,6	—	—
Wages and related accruals	20,081	—	1,073 5	75,765 C	96,919
Customer advances	4,279	—	1,642 7	—	5,921
Current portion of long-term debt	—	329	—	9,671 M,N	10,000
Current operating lease liabilities	4,403	—	—	1,708 F	6,111
Income taxes payable	2,370	—	(1,365) 2	(363) H	642
Deferred revenue	—	1,642	(1,642) 7	—	—
Other current liabilities	9,158	—	2,585 6	8,300 J	20,043
Total current liabilities	56,128	12,092	(1,365)	91,840	158,695
Long-term debt, net of current portion	—	3,594	—	183,821 M,N	187,415
Non-current operating lease liabilities	8,426	—	—	10,589 F	19,015
Other non-current liabilities	243	895	—	(900) F	238
Deferred income taxes	—	1,288	(1,288) 3	—	—
Restricted stock units liability	—	15,741	—	(15,741) O	—
Liability for uncertain tax positions	1,017	—	—	—	1,017
Commitments and contingencies					
Stockholders' equity:					
Preferred stock, $0.0001 par value:					
Authorized shares—10,000,000; none issued or outstanding	—	—	—	—	—
Common stock, $0.0001 par value:					
Authorized shares—100,000,000					
Issued and outstanding shares—24,676,485 shares	2	—	—	—	2
Additional paid-in capital	184,366	3,953	—	68,431 P,Q	256,750
Accumulated other comprehensive income	347	—	—	—	347
Retained earnings	340,475	32,158	—	(34,111) F,H,Q,R	338,522
Total AeroVironment, Inc. stockholders' equity	525,190	36,111	—	34,320	595,621
Noncontrolling interest	(12)	—	—	—	(12)
Total equity	525,178	36,111	—	34,320	595,609
Total liabilities and stockholders' equity	$ 590,992	$ 69,721	$ (2,653)	$ 303,929	$ 961,989

The accompanying notes are an integral part of the unaudited pro forma combined financial information.

AeroVironment, Inc.
Pro Forma Combined Statement of Operations (Unaudited)
For the nine months ended January 30, 2021
(In thousands except share and per share data)

	Historical		Transaction Accounting Adjustments		
	AeroVironment	Arcturus UAV	Reclass Adjustments	Pro Forma Adjustments	Pro Forma Combined
Revenue:					
Product sales	$ 182,233	$ 17,715	$ —	$ —	$ 199,948
Contract services (inclusive of related party revenue of $35,318)	76,664	60,819	—	—	137,483
	258,897	78,534	—	—	337,431
Cost of sales:					
Product sales	102,039	10,685	—	—	112,724
Contract services	51,955	38,903	—	2,956 T,U	93,814
	153,994	49,588	—	2,956	206,538
Gross margin:					
Product sales	80,194	7,030	—	—	87,224
Contract services	24,709	21,916	—	(2,956)	43,669
	104,903	28,946	—	(2,956)	130,893
Selling, general and administrative	42,640	24,879	—	(5,796) W,BB	61,723
Research and development	36,710	593	—	—	37,303
Income (loss) from operations	25,553	3,474	—	2,840	31,867
Other income:					
Interest income (expense), net	417	—	(185) 8	(3,433) X,Y,Z	(3,201)
Interest income	—	23	(23) 8		
Interest expense	—	(208)	208 8		
Other (expense) income, net	68	(265)	—	—	(197)
Income (loss) before income taxes	26,038	3,024	—	(593)	28,469
Provision for income taxes	2,774	638	—	636 AA	4,048
Equity method investment loss, net of tax	(10,891)	—	—	—	(10,891)
Net income (loss)	12,373	2,386	—	(1,229)	13,530
Net loss attributable to noncontrolling interest	12	—	—	—	12
Net income (loss) attributable to AeroVironment, Inc.	$ 12,385	$ 2,386	$ —	$ (1,229)	$ 13,542
Net income per share attributable to AeroVironment, Inc.					
Basic	$ 0.52				$ 0.55
Diluted	$ 0.51				$ 0.55
Weighted-average shares outstanding:					
Basic	23,924,017			573,794 P	24,497,811
Diluted	24,216,371			573,794 P	24,790,165

The accompanying notes are an integral part of the unaudited pro forma combined financial information.

AeroVironment, Inc.
Pro Forma Combined Statement of Operations (Unaudited)
For the year ended April 30, 2020
(In thousands except share and per share data)

	Historical		Transaction Accounting Adjustments		
	AeroVironment	Arcturus UAV	Reclass Adjustments	Pro Forma Adjustments	Pro Forma Combined
Revenue:					
Product sales	$ 256,758	$ 25,451	$ —	$ —	$ 282,209
Contract services (inclusive of related party revenue of $60,864)	110,538	62,022	—	—	172,560
	367,296	87,473	—	—	454,769
Cost of sales:					
Product sales	139,131	21,561	—	1,013 S	161,705
Contract services	75,063	38,372	—	8,368 T,U,V	121,803
	214,194	59,933	—	9,381	283,508
Gross margin:					
Product sales	117,627	3,890	—	(1,013)	120,504
Contract services	35,475	23,650	—	(8,368)	50,757
	153,102	27,540	—	(9,381)	171,261
Selling, general and administrative	59,490	8,963	—	14,460 W,CC	82,913
Research and development	46,477	414	—	—	46,891
Income (loss) from operations	47,135	18,163	—	(23,841)	41,457
Other income:					
Interest income (expense), net	4,828	—	(252) 9	(4,769) X,Y,Z	(193)
Interest income	—	24	(24) 9	—	—
Interest expense	—	(276)	276 9	—	—
Other (expense) income, net	707	(201)	—	—	506
Income (loss) before income taxes	52,670	17,710	—	(28,610)	41,770
Provision for (benefit from) income taxes	5,848	4,900	—	(6,580) AA	4,168
Equity method investment loss, net of tax	(5,487)	—	—	—	(5,487)
Net income (loss) from continuing operations	41,335	12,810	—	(22,030)	32,115
Discontinued operations:					
Loss on sale of business, net of tax benefit of $76	(265)	—	—	—	(265)
Net loss from discontinued operations	(265)	—	—	—	(265)
Net income (loss)	41,070	12,810	—	(22,030)	31,850
Net loss attributable to noncontrolling interest	4	—	—	—	4
Net income (loss) attributable to AeroVironment, Inc.	$ 41,074	$ 12,810	$ —	$ (22,030)	$ 31,854
Net income (loss) per share attributable to AeroVironment, Inc.—Basic					
Continuing operations	$ 1.74				$ 1.32
Discontinued operations	(0.01)				(0.01)
Net income per share attributable to AeroVironment, Inc.—Basic	$ 1.73				$ 1.31
Net income (loss) per share attributable to AeroVironment, Inc.—Diluted					
Continuing operations	$ 1.72				$ 1.30
Discontinued operations	(0.01)				(0.01)
Net income per share attributable to AeroVironment, Inc.—Diluted	$ 1.71				$ 1.29
Weighted-average shares outstanding:					
Basic	23,806,208			573,794 P	24,380,002
Diluted	24,088,167			573,794 P	24,661,961

The accompanying notes are an integral part of the unaudited pro forma combined financial information

Notes to Unaudited Pro Forma Combined Financial Information.

Note 1 – *Basis of Presentation*

In May 2020, the SEC adopted Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses” (the “Final Rule”). The Final Rule was effective on January 1, 2021. The unaudited pro forma combined financial information is presented in accordance with the Final Rule.

The unaudited pro forma combined balance sheet as of January 30, 2021 combines the historical unaudited consolidated balance sheet of the Company as of January 30, 2021 and the historical audited balance sheet of Arcturus UAV as of December 31, 2020, giving effect to the acquisition as if it had occurred on January 30, 2021. The unaudited pro forma combined statements of operations for the nine months ended January 30, 2021 and fiscal year ended April 30, 2020 gives effect to the acquisition as if it had been completed on May 1, 2019.

The unaudited pro forma combined statement of operations for the nine months ended January 30, 2021 is prepared using the Company’s historical unaudited consolidated statement of operations for the nine months ended January 30, 2021. The unaudited pro forma combined statement of operations for the fiscal year ended April 30, 2020 is prepared using the Company’s historical audited consolidated statement of operations for the fiscal year ended April 30, 2020. As the fiscal year ends for the Company and Arcturus UAV differ by greater than 93 days, Arcturus UAV’s historical statements of operations are recast in accordance with Rule 11-02(c)(3). Arcturus UAV’s statement of operations for the nine months ended January 30, 2020 is recast using the audited statement of operations for the fiscal year ended December 31, 2020 and subtracting the unaudited three months ended March 31, 2020. Arcturus UAV’s statement of operations for the twelve months ending April 30, 2020 is recast using the audited statement of operations for the fiscal year ended December 31, 2019, adding the unaudited results of operations for the three months ended March 31, 2020, and removing the unaudited results of operations for the three months ended March 31, 2019.

Adjustments included in the column under the heading “Transaction accounting adjustments” in the unaudited pro forma combined financial information depict the accounting for the acquisition required by U.S. GAAP. Transaction accounting adjustments reflect the application of required accounting to the acquisition, applying the effects of the acquisition of Arcturus UAV to the Company’s historical financial information. Certain of Arcturus UAV’s historical amounts have been reclassified to conform to the Company’s financial statement presentation, as discussed further in Note 5. The unaudited pro forma combined financial information should be read in conjunction with (1) the Company’s historical unaudited consolidated financial statements and the notes thereto included in its Quarterly Report on Form 10-Q for the three and nine months ended January 30, 2021 filed with the SEC on March 10, 2021; (2) the historical audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended April 30, 2020 as filed with the SEC on June 24, 2020; and (3) Arcturus UAV’s historical audited financial statements as of and for the year ended December 31, 2020 and the notes thereto incorporated by reference within Exhibit 99.1 in this Form 8-K/A.

In accordance with Accounting Standard Codification 805, *Business Combinations* (“ASC 805”), the acquisition will be accounted for using the acquisition method of accounting with the Company as the accounting acquirer and Arcturus UAV as the accounting acquiree. The transaction accounting adjustments for the acquisition consist of those necessary to account for the acquisition. Certain valuations and assessments, including valuations of inventory, property, plant and equipment, intangible assets, and liabilities are still in process. The estimated fair values assigned to the accompanying unaudited pro forma combined financial information is preliminary and represent our current best estimate of fair value and are subject to revision as valuations and other information is finalized. Changes to the fair values of the assets and liabilities between the preliminary estimates and final purchase accounting could have a material impact on the accompanying unaudited pro forma combined financial information.

The unaudited pro forma combined financial information does not necessarily reflect what the combined company’s financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The Company’s actual financial condition and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

Note 2 – *Reclassifications and Conforming Accounting Policies*

The accounting policies used in the preparation of this unaudited pro forma combined financial information are those set out in the Company’s consolidated financial statements as of and for the year ended April 30, 2020. Management has determined that certain adjustments, including those described herein and in Notes 5 and 6, are necessary to conform Seller’s (Arcturus UAV) financial statements to the accounting policies and financial statement presentation used by the Company in the preparation of the unaudited pro forma combined financial information.

The Company adopted FASB Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842), and several amendments codified as ASC 842, on May 1, 2019 while Arcturus UAV was not required to adopt this standard at the time of the Acquisition. The primary impact of adopting ASC 842 relates to the recognition of right-of-use assets and lease liabilities on the unaudited pro forma combined balance sheet. The unaudited pro forma combined balance sheet as of January 30, 2021 has been adjusted to recognize operating right-of-use assets and operating lease liabilities.

The Company adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) on May 1, 2019 while Arcturus UAV was not required to adopt this standard at the time of the Acquisition. The current expected credit loss ("CECL") model under this standard results in earlier recognition of credit losses for loans, investment securities, and purchased financial assets with credit deterioration. The unaudited pro forma combined financial information has been prepared to reflect the adoption of this standard.

The Company will continue to conduct a review of Arcturus UAV's accounting policies during its integration in an effort to determine if there are any material differences that require Reclassified Arcturus UAV's revenues, expenses, assets or liabilities to conform to the Company's accounting policies and classifications. As a result of that review, the Company may identify further differences between the accounting policies of the two companies that, when conformed, could have a material impact on the pro forma combined financial information.

Note 3 - ***Estimated Purchase Price Consideration***

Pursuant to the Arcturus Purchase Agreement, at the closing of the Arcturus Acquisition, the Company paid approximately $431,000,000 (subject to certain customary adjustments and escrow arrangements set forth in the Arcturus Purchase Agreement), financed with a combination of approximately $159,000,000 of cash-on-hand, $200,000,000 of financing pursuant to the Term Loan Facility, and the issuance of approximately $72,384,000 of unregistered, restricted shares of common stock. As specified in the Arcturus Purchase Agreement, the number of shares issued was determined based on a value of $50,000,000 and a calculated average price as of the last business day prior to execution of the Arcturus Purchase Agreement.

The final cash consideration is subject to certain customary adjustments, including for net working capital, cash, debt and unpaid transaction expenses (including change in control related payments triggered by the transaction) of Arcturus UAV at the Arcturus Closing, less $6,500,000 to be held in escrow to address final purchase price adjustments post-Arcturus Closing, if any (the "Adjustment Escrow"), and $1,822,500 to be held in escrow to address Arcturus UAV's and/or the Arcturus Sellers' indemnification obligations (the "Indemnification Escrow"). The Adjustment Escrow, less any negative post-Closing adjustment to the cash consideration paid at Closing, is to be released to the Arcturus Sellers upon completion of the post-Arcturus Closing purchase price adjustment process; the Indemnification Escrow, less any amounts paid or reserved, is to be released to the Arcturus Sellers 12 months following the Arcturus Closing.

Note 4 - ***Estimated Consideration and Preliminary Purchase Price Allocation***

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of Arcturus UAV are recorded at the acquisition date fair values and consolidated with those of the Company. The pro forma adjustments are preliminary and based on estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the acquisition. For the preliminary estimate of fair values of assets acquired and liabilities assumed of Arcturus UAV, the Company utilized discounted cash flow analysis, which were based on the Company's preliminary estimates of future sales, earnings and cash flows after considering such factors as general market conditions, anticipated customer demand, changes in working capital, long term business plans and recent operating performance. This preliminary purchase price allocation has been used to prepare the Transaction accounting adjustments in the unaudited pro forma combined financial information. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations as described in more detail in the explanatory notes below. The final allocation is expected to be completed within the measurement period, as defined in ASC 805, and could differ materially from the preliminary allocation used in the Transaction accounting adjustments detailed below. The final allocation may include (1) changes in fair values of inventory and property, plant and equipment; (2) changes in allocations to identified intangible assets, such as technology, customer relationships, as well as goodwill and (3) other changes to assets acquired and liabilities assumed.

For purposes of this pro forma analysis, the above estimated consideration transferred has been allocated as follows based on a preliminary estimate of the fair value of assets and liabilities acquired (in thousands):

	February 19, 2021
Fair value of consideration transferred:	
Cash consideration, net of cash acquired	$ 358,573
Equity consideration	72,384
Total consideration	430,957
Fair value of assets acquired:	
Accounts receivable	13,424
Inventories, net	19,531
Prepaid and other current assets	2,011
Property and equipment, net	33,982
Other assets	2,515
Technology intangible asset	20,500
Customer relationship intangible assets	66,300
Total assets acquired	158,263
Fair value of liabilities assumed:	
Accounts payable	4,090
Accrued expenses	3,770
Deferred revenue	1,642
Other non-current liabilities	895
Deferred income taxes	5,588
Total liabilities assumed	15,985
Total identifiable net assets	142,278
Goodwill	288,679
Net assets acquired	$ 430,957

The pro forma net asset adjustments of Arcturus as shown above are further described below in Note 6.

Note 5 – *Reclassifications*

The following reclassifications were made as a result of the acquisition to conform to the Company's presentation:

Pro Forma Unaudited Combined Balance Sheet as of January 30, 2021:

1. Reclassified $424,000 from Accounts Receivable to Unbilled Receivables;
2. Reclassified $1,365,000 from Prepaid income taxes to Income taxes payable;
3. Reclassified $1,288,000 from Deferred income taxes – liability to Deferred income taxes - asset;
4. Reclassified $112,000 from Accrued expenses to Accounts Payable
5. Reclassified $1,073,000 from Accrued expenses to Wages and related accruals;
6. Reclassified $2,585,000 from Accrued expenses to Other current liabilities;
7. Reclassified $1,642,000 from Deferred revenue to Customer advances;

Pro Forma Unaudited Combined Statement of Operations for the nine months ended January 30, 2021:

8. Reclassified $23,000 from Interest income and $208,000 from Interest expense to Interest income, net

Pro Forma Unaudited Combined Statement of Operations for the year ended April 30, 2020:

9. Reclassified $24,000 from Interest income and $276,000 from Interest expense to Interest income, net

Note 6 - Transaction accounting adjustments

The unaudited pro forma combined financial information have been adjusted to reflect reclassifications of Arcturus UAV's financial statements to conform to the Company's financial statement presentation (as disclosed in Note 5), adjustments to historical book values of Arcturus UAV to their preliminary estimated fair values in accordance with the acquisition method of accounting, the assumption of Arcturus UAV's liabilities and estimated direct transaction costs.

The Transaction accounting adjustments included in the unaudited pro forma combined financial information are as follows:

Pro Forma Unaudited Combined Balance Sheet as of January 30, 2021:

A. Represents adjustments to the combined company cash and cash equivalents balance, including (i) cash consideration paid for the acquisition of Arcturus UAV of $365,816,000, (ii) proceeds from the term loan of $200,000,000 and (iii) payment of transaction fees and debt issuance costs of $7,160,000.
B. Represents prepaid insurance premiums for a representations and warranties policy of $1,100,000.
C. Represents the portion of cash paid at close related to payments made to employees subsequent to close via Arcturus payroll of $75,765,000. At acquisition, the Company assumed the liability and retained the cash related to the liability.
D. Represents the related party receivable settled as part of the acquisition of $1,007,000.
E. Represents estimated purchase accounting increase to the fair value of Inventories of $4,052,000.
F. Reflects the recognition of right-of-use assets of $11,429,000, short-term lease liabilities of $1,708,000, long-term lease liabilities of $10,589,000, elimination of deferred rent liability of $900,000, rent expense of $14,000, and prepaid rent of $46,000 as a result of the adoption of ASC 842.
G. Represents estimated purchase accounting increase to the fair value of Property and equipment, net of $4,933,000.
H. Represents tax impact of the pro forma adjustments an increase of $4,252,000 to goodwill, included in total referenced in tickmark I, and $315,000 to retained earnings and a decrease of $4,300,000 to deferred tax assets and $363,000 to income taxes payable.
I. Represents fair value of intangibles and goodwill in preliminary purchase price allocation discussed in Note 4 above.
J. Represents restricted cash of $8,300,000 related to the consideration in escrow and related liability.
K. Represents debt issuance costs allocated to the credit revolver of $1,293,000 recorded in Other assets.
L. Represents the elimination of the Company and Arcturus UAV's accrued transaction costs of $3,241,000, which were paid on the acquisition date.
M. Represents the retirement of Arcturus UAV's short-term debt obligation of $329,000 and long-term debt obligation of $3,594,000.
N. Represents the Company entering into the Term Loan Facility concurrent with the acquisition of Arcturus UAV as follows: current portion of long-term debt of $10,000,000 and long term debt, net of current portion of $190,000,000, net of debt issuance costs of $2,585,000.
O. Represents removal of restricted stock unit ("RSU's") compensation liability of $15,741,000 related to preexisting equity arrangements. Holders of the RSU's were paid as equity owners/sellers from the proceeds of the acquisition.
P. Represents the issuance of 573,794 shares of the Company's common stock, as purchase consideration.
Q. Represents the elimination of Arcturus UAV's historical equity.
R. Represents the payment of the Company's transaction costs incurred of $2,254,000.

Pro Forma Unaudited Combined Statement of Operations for the nine and twelve months ended January 30, 2021 and April 30, 2020, respectively:

S. Represents the increase in cost of sales for products of $1,013,000 for the twelve months ended April 30, 2020 for the fair value increase to inventory related to products which are expected to result in sales to customers.
T. Represents the increase in contract services cost of sales of $760,000 and $506,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively for the fair value increase to inventory which are expected to be placed into service as contractor-owned, contractor-operated fixed assets and depreciated over an estimated useful life of three years.
U. Represents the amortization of the technology intangible assets based on an estimated useful life of 7 years over which the economic benefits of the intangible assets are expected to be realized. Amortization is $2,196,000 and $2,929,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively.
V. Represents the incremental depreciation related to the increase in fair value of property and equipment. Contract service cost of sales is $4,933,000 for the twelve months ended April 30, 2020, respectively.
W. Represents the amortization of customer relationship intangible assets based on the useful life of 5 years over which the economic benefits of the intangible assets are expected to be realized. Amortization is $9,945,000 and $13,260,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively.
X. Represents the amortization of debt issuance costs incurred concurrent with the acquisition of Arcturus UAV of $582,000 and $776,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively.
Y. Represents the interest expense incurred from the Term Loan Facility based on the interest rate of 2.18% of $3,059,000 and $4,269,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively. The interest on the term loan is based on a variable rate. An increase of 10% on the rate results in interest expense of $3,365,000 and $4,696,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020,

respectively. A decrease of 10% on the rate results in interest expense of $2,753,000 and $3,842,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively.

Z. Represents the elimination of the interest expense incurred from by Arcturus UAV of $208,000 and $276,000 for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively.

AA. Represents the income tax provision impact of the pro forma adjustments of $636,000 and ($6,580,000) for the nine months ended January 30, 2021 and the twelve months ended April 30, 2020, respectively. The Company's tax expense on the pro forma adjustments is derived based on the applicable federal and blended state tax rates. This includes Arcturus's historical federal and blended state tax rate of 27.91%, AeroVironment's historical federal and blended state tax rate of 22.33% and the estimated combined group's federal and blended state tax rate of 23%.

BB. Represents removal of RSU's compensation expense of $15,741,000 related to preexisting equity arrangements. Holders of the RSU's were paid as equity owners/sellers from the proceeds of the acquisition.

CC. Represents the nonrecurring employee retention bonus expense of $1,200,000 incurred during the six months following the acquisition date.