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

FORM 10-Q

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

For the quarterly period ended October 30, 2021

OR

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

For the transition period from to

Commission File Number: 001-33261

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

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

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

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

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

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

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

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

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

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

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

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

As of December 1, 2021, the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 24,813,218.

AeroVironment, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 30, 2021 (Unaudited)	April 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 104,770	$ 148,741
Short-term investments	6,311	31,971
Accounts receivable, net of allowance for doubtful accounts of $566 at October 30, 2021 and $595 at April 30, 2021	26,552	62,647
Unbilled receivables and retentions (inclusive of related party unbilled receivables of $9,215 at October 30, 2021 and $544 at April 30, 2021)	119,031	71,632
Inventories	81,944	71,646
Income taxes receivable	11,708	—
Prepaid expenses and other current assets	13,761	15,001
Total current assets	364,077	401,638
Long-term investments	11,271	12,156
Property and equipment, net	68,217	58,896
Operating lease right-of-use assets	26,058	22,902
Deferred income taxes	2,900	2,061
Intangibles, net	110,620	106,268
Goodwill	335,888	314,205
Other assets	6,276	10,440
Total assets	$ 925,307	$ 928,566
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 21,443	$ 24,841
Wages and related accruals	21,697	28,068
Customer advances	10,322	7,183
Current portion of long-term debt	10,000	10,000
Current operating lease liabilities	6,440	6,154
Income taxes payable	214	861
Other current liabilities	31,313	19,078
Total current liabilities	101,429	96,185
Long-term debt, net of current portion	182,769	187,512
Non-current operating lease liabilities	21,665	19,103
Other non-current liabilities	10,302	10,141
Liability for uncertain tax positions	3,518	3,518
Deferred income taxes	5,390	—
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value:		
Authorized shares—10,000,000; none issued or outstanding at October 30, 2021 and April 30, 2021	—	—
Common stock, $0.0001 par value:		
Authorized shares—100,000,000		
Issued and outstanding shares—24,805,829 shares at October 30, 2021 and 24,777,295 shares at April 30, 2021	2	2
Additional paid-in capital	261,612	260,327
Accumulated other comprehensive (loss) income	(1,677)	343
Retained earnings	339,965	351,421
Total AeroVironment, Inc. stockholders' equity	599,902	612,093
Noncontrolling interest	332	14
Total equity	600,234	612,107
Total liabilities and stockholders' equity	$ 925,307	$ 928,566

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended		Six Months Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Revenue:				
Product sales	$ 70,998	$ 65,528	$ 124,114	$ 123,885
Contract services (inclusive of related party revenue of $10,342 and $11,452 for the three months ended October 30, 2021 and October 31, 2020, respectively; and $20,694 and $27,838 for the six months ended October 30, 2021 and October 31, 2020, respectively)	51,010	27,137	98,903	56,230
	122,008	92,665	223,017	180,115
Cost of sales:				
Product sales	38,937	34,209	71,527	66,293
Contract services	40,616	17,605	80,312	37,560
	79,553	51,814	151,839	103,853
Gross margin:				
Product sales	32,061	31,319	52,587	57,592
Contract services	10,394	9,532	18,591	18,670
	42,455	40,851	71,178	76,262
Selling, general and administrative	24,819	14,977	51,947	26,988
Research and development	14,297	11,976	28,005	23,079
Income (loss) from operations	3,339	13,898	(8,774)	26,195
Other (loss) income:				
Interest (expense) income, net	(1,379)	115	(2,654)	323
Other (expense) income, net	(10,048)	72	(10,394)	105
(Loss) income before income taxes	(8,088)	14,085	(21,822)	26,623
(Benefit from) provision for income taxes	(9,511)	2,491	(10,468)	3,698
Equity method investment income (loss), net of tax	1,133	(9,522)	(8)	(10,810)
Net income (loss)	2,556	2,072	(11,362)	12,115
Net (income) loss attributable to noncontrolling interest	(31)	22	(94)	59
Net income (loss) attributable to AeroVironment, Inc.	$ 2,525	$ 2,094	$ (11,456)	$ 12,174
Net income (loss) per share attributable to AeroVironment, Inc.				
Basic	$ 0.10	$ 0.09	$ (0.47)	$ 0.51
Diluted	$ 0.10	$ 0.09	$ (0.47)	$ 0.50
Weighted-average shares outstanding:				
Basic	24,641,614	23,936,950	24,630,838	23,914,737
Diluted	24,885,870	24,196,912	24,630,838	24,190,316

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended		Six Months Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net income (loss)	$ 2,556	$ 2,072	$ (11,362)	$ 12,115
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale investments, net of deferred tax (expense) benefit of $0 and $(3) for the three months ended October 30, 2021 and October 31, 2020, respectively; and $0 and $1 for the six months ended October 30, 2021 and October 31, 2020, respectively	1	(9)	(3)	(61)
Change in foreign currency translation adjustments	(1,284)	—	(2,017)	75
Total comprehensive income (loss)	1,273	2,063	(13,382)	12,129
Net (income) loss attributable to noncontrolling interest	(31)	22	(94)	59
Comprehensive income (loss) attributable to AeroVironment, Inc.	$ 1,242	$ 2,085	$ (13,476)	$ 12,188

See accompanying notes to consolidated financial statements (unaudited).

AeroVironment, Inc.
Consolidated Statements of Stockholders' Equity
For the six months ended October 30, 2021 and October 31, 2020 (Unaudited)
(In thousands except share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total AeroVironment, Inc.	Non-Controlling	
	Shares	Amount	Capital	Earnings	Income (Loss)	Equity	Interest	Total
Balance at April 30, 2021	24,777,295	$ 2	$ 260,327	$ 351,421	$ 343	$ 612,093	$ 14	$ 612,107
Net (loss) income	—	—	—	(11,456)	—	(11,456)	94	(11,362)
Unrealized loss on investments	—	—	—	—	(3)	(3)	—	(3)
Foreign currency translation	—	—	—	—	(2,017)	(2,017)	—	(2,017)
Stock options exercised	4,000	—	119	—	—	119	—	119
Restricted stock awards	52,226	—	—	—	—	—	—	—
Restricted stock awards forfeited	(15,751)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(11,941)	—	(1,176)	—	—	(1,176)	—	(1,176)
Change in non-controlling interest	—	—	—	—	—	—	224	224
Stock based compensation	—	—	2,342	—	—	2,342	—	2,342
Balance at October 30, 2021	24,805,829	$ 2	$ 261,612	$ 339,965	$ (1,677)	$ 599,902	$ 332	$ 600,234

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total AeroVironment, Inc.	Non-Controlling	
	Shares	Amount	Capital	Earnings	Income (Loss)	Equity	Interest	Total
Balance at April 30, 2020	24,063,639	$ 2	$ 181,481	$ 328,090	$ 328	$ 509,901	$ —	$ 509,901
Net income (loss)	—	—	—	12,174	—	12,174	(59)	12,115
Unrealized loss on investments	—	—	—	—	(61)	(61)	—	(61)
Foreign currency translation	—	—	—	—	75	75	—	75
Stock options exercised	3,500	—	86	—	—	86	—	86
Restricted stock awards	60,592	—	—	—	—	—	—	—
Restricted stock awards forfeited	(515)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(23,236)	—	(1,778)	—	—	(1,778)	—	(1,778)
Stock based compensation	—	—	3,509	—	—	3,509	—	3,509
Balance at October 31, 2020	24,103,980	$ 2	$ 183,298	$ 340,264	$ 342	$ 523,906	$ (59)	$ 523,847

AeroVironment, Inc.
Consolidated Statements of Stockholders' Equity
For the three months ended October 30, 2021 and October 31, 2020 (Unaudited)
(In thousands except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total AeroVironment, Inc. Equity	Non-Controlling Interest	Total
Balance at July 31, 2021	24,811,802	$ 2	$ 261,192	$ 337,440	$ (394)	$ 598,240	$ 77	$ 598,317
Net income	—	—	—	2,525	—	2,525	31	2,556
Unrealized gain on investments	—	—	—	—	1	1	—	1
Foreign currency translation	—	—	—	—	(1,284)	(1,284)	—	(1,284)
Restricted stock awards	3,638	—	—	—	—	—	—	—
Restricted stock awards forfeited	(9,611)	—	—	—	—	—	—	—
Change in non-controlling interest	—	—	—	—	—	—	224	224
Stock based compensation	—	—	420	—	—	420	—	420
Balance at October 30, 2021	24,805,829	$ 2	$ 261,612	$ 339,965	$ (1,677)	$ 599,902	$ 332	$ 600,234

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total AeroVironment, Inc. Equity	Non-Controlling Interest	Total
Balance at August 1, 2020	24,104,564	2	181,406	338,170	351	519,929	(37)	519,892
Net income (loss)	—	—	—	2,094	—	2,094	(22)	2,072
Unrealized loss on investments	—	—	—	—	(9)	(9)	—	(9)
Restricted stock awards forfeited	(245)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(339)	—	(22)	—	—	(22)	—	(22)
Stock based compensation	—	—	1,914	—	—	1,914	—	1,914
Balance at October 31, 2020	24,103,980	$ 2	$ 183,298	$ 340,264	$ 342	$ 523,906	$ (59)	$ 523,847

See accompanying notes to consolidated financial statements (unaudited).

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

	Six Months Ended	
	October 30, 2021	October 31, 2020
Operating activities		
Net (loss) income	$ (11,362)	$ 12,115
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:		
Depreciation and amortization	30,019	5,693
(Income) losses from equity method investments, net	(520)	10,810
Amortization of debt issuance costs	258	—
Realized gain from sale of available-for-sale investments	—	(11)
Provision for doubtful accounts	(35)	(156)
Other non-cash expense (income)	157	(473)
Non-cash lease expense	3,358	2,393
Loss on foreign currency transactions	30	2
Deferred income taxes	(840)	(621)
Stock-based compensation	2,342	3,509
Loss on disposal of property and equipment	3,036	2
Amortization of debt securities	113	(12)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	37,134	43,115
Unbilled receivables and retentions	(46,619)	5,264
Inventories	(10,075)	(6,244)
Income taxes receivable	(10,667)	—
Prepaid expenses and other assets	272	(1,029)
Accounts payable	(3,587)	(5,028)
Other liabilities	3,642	(10,736)
Net cash (used in) provided by operating activities	(3,344)	58,593
Investing activities		
Acquisition of property and equipment	(13,147)	(6,052)
Equity method investments	(6,245)	(1,173)
Business acquisitions, net of cash acquired	(46,150)	—
Redemptions of available-for-sale investments	30,531	92,226
Purchases of available-for-sale investments	—	(116,945)
Other	224	—
Net cash used in investing activities	(34,787)	(31,944)
Financing activities		
Principal payment of loan	(5,000)	—
Holdback and retention payments for business acquisition	(5,991)	—
Tax withholding payment related to net settlement of equity awards	(1,176)	(1,778)
Exercise of stock options	119	86
Other	(16)	—
Net cash used in financing activities	(12,064)	(1,692)
Effects of currency translation on cash and cash equivalents	(275)	—
Net (decrease) increase in cash, cash equivalents, and restricted cash	(50,470)	24,957
Cash, cash equivalents and restricted cash at beginning of period	157,063	255,142
Cash, cash equivalents and restricted cash at end of period	$ 106,593	$ 280,099
Supplemental disclosures of cash flow information		
Cash paid, net during the period for:		
Income taxes	$ 1,923	$ 2,364
Interest	$ 2,283	$ —
Non-cash activities		
Unrealized loss on available-for-sale investments, net of deferred tax benefit of $0 and $1 for the six months ended October 30, 2021 and October 31, 2020, respectively	$ 3	$ 61
Change in foreign currency translation adjustments	$ (2,017)	$ 75
Issuances of inventory to property and equipment, ISR in-service assets	$ 12,472	$ —
Acquisitions of property and equipment included in accounts payable	$ 415	$ 818

See accompanying notes to consolidated financial statements (unaudited).

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

1. Organization and Significant Accounting Policies

Organization

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements have been included. The results of operations for the three and six months ended October 30, 2021 are not necessarily indicative of the results for the full year ending April 30, 2022. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2021, included in the Company's Annual Report on Form 10-K.

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

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

On February 19, 2021, the Company closed its acquisition of Arcturus UAV, Inc. ("Arcturus"), a California corporation, pursuant to a Stock Purchase Agreement (the "Arcturus Purchase Agreement") with Arcturus and each of the shareholders and other equity interest holders of Arcturus (collectively, the "Arcturus Sellers"), purchasing 100% of the issued and outstanding equity interests of Arcturus (the "Arcturus Acquisition"). The assets, liabilities and operating results of Arcturus have been included in the Company's unaudited consolidated financial statements. Refer to Note 18—Business Acquisitions for further details.

On February 23, 2021, the Company purchased certain assets of, and assumed certain liabilities of, the Intelligent Systems Group business segment ("ISG") of Progeny Systems Corporation, a Virginia corporation (the "ISG Seller"), pursuant to the terms of an Asset Purchase Agreement (the "ISG Purchase Agreement") of the same date, by and among the Company, ISG Seller and the sole shareholder of ISG Seller (the "Beneficial Owner," and such acquisition of ISG, the "ISG Acquisition"). The assets, liabilities and operating results of ISG have been included in the Company's unaudited consolidated financial statements. Refer to Note 18—Business Acquisitions for further details.

On May 3, 2021, the Company closed its acquisition of Telerob Gesellschaft für Fernhantierungstechnik mbH, a German company based in Ostfildern (near Stuttgart), Germany ("Telerob GmbH"), including Telerob GmbH's wholly-owned subsidiary, Telerob USA, Inc. (“Telerob USA,” and collectively with Telerob GmbH, “Telerob”) pursuant to its previously announced Share Purchase Agreement (the “Telerob Purchase Agreement”) with Unmanned Systems Investments GmbH, a German limited liability company incorporated under the laws of Germany (the “Telerob Seller”), and each of the unit holders of the Seller (collectively, the “Telerob Shareholders”), to purchase 100% of the issued and outstanding shares of Telerob Seller’s wholly-owned subsidiary Telerob GmbH (the “Telerob Acquisition”). The assets, liabilities and operating results of Telerob GmbH have been included in the Company’s unaudited consolidated financial statements. Refer to Note 18—Business Acquisitions for further details.

On September 15, 2021, the Company entered into a Share Sale and Purchase Agreement (the “Purchase Agreement”) with Toygun Savunma Sanayi ve Havacilik Anonim Sirketi (“Toygun”) whereby the Company sold 35% of the common shares of Altoy to Toygun. As a result of the sale, the Company decreased its interest in Altoy from 85% to 50%. The Company is considered to still have control of Altoy and therefore consolidates Altoy into the consolidated financial statements of the Company as of October 30, 2021. Under the terms of the Purchase Agreement, the Company is expected to sell additional shares to Toygun in fiscal year 2023 at which point the Company will no longer control and therefore will no longer consolidate Altoy in the Company’s consolidated financial statements. At that time, the Company will account for its investment in Altoy as an equity method investment and record its proportion of any gains or losses of Altoy in equity method investments, net of tax.

Recently Adopted Accounting Standards

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

Revenue Recognition

The Company’s revenue is generated pursuant to written contractual arrangements to design, develop, manufacture and/or modify complex products and to provide related engineering, technical and other services according to the specifications of the customers. These contracts may be firm fixed price (“FFP”), cost plus fixed fee (“CPFF”), or time and materials (“T&M”). The Company considers all such contracts to be within the scope of ASC Topic 606.

Performance Obligations

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

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

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

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

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

Performance obligations satisfied over time accounted for 51% and 55% of revenue during the three and six months ended October 30, 2021, respectively. Performance obligations satisfied over time accounted for 40% and 39% of revenue during the three and six months ended October 31, 2020, respectively. Performance obligations satisfied at a point in time accounted for 49% and 45% of revenue during the three and six months ended October 30, 2021, respectively. Performance obligations satisfied at a point in time accounted for 60% and 61% of revenue during the three and six months ended October 31, 2020, respectively.

On October 30, 2021, the Company had approximately $252,036,000 of remaining performance obligations under fully funded contracts with its customers, which the Company also refers to as funded backlog. The Company currently expects to recognize approximately 68% of the remaining performance obligations as revenue in fiscal 2022 and an additional 32% in fiscal 2023.

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

Contract Estimates

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

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

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

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

The impact of adjustments in contract estimates on the Company's operating earnings can be reflected in either operating costs and expenses, or revenue. The aggregate impact of adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was not significant for the three or six month periods ended October 30, 2021 and October 31, 2020. No adjustment on any one contract was material to the Company's unaudited consolidated financial statements for the three or six month periods ended October 30, 2021 and the three or six month periods ended October 31, 2020.

Revenue by Category

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

	Three Months Ended		Six Months Ended	
Revenue by major product line/program	**October 30, 2021**	**October 31, 2020**	**October 30, 2021**	**October 31, 2020**
Small UAS	$ 54,714	$ 58,265	$ 94,638	$ 114,467
TMS	18,418	18,961	37,594	28,495
MUAS	26,525	—	48,904	—
Other	22,351	15,439	41,881	37,153
Total revenue	$ 122,008	$ 92,665	$ 223,017	$ 180,115

	Three Months Ended		Six Months Ended	
Revenue by contract type	**October 30, 2021**	**October 31, 2020**	**October 30, 2021**	**October 31, 2020**
FFP	$ 98,393	$ 68,425	$ 179,159	$ 129,300
CPFF	21,594	24,230	40,711	50,799
T&M	2,021	10	3,147	16
Total revenue	$ 122,008	$ 92,665	$ 223,017	$ 180,115

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

Revenue by customer category	Three Months Ended October 30, 2021	Three Months Ended October 31, 2020	Six Months Ended October 30, 2021	Six Months Ended October 31, 2020
U.S. government	$ 72,076	$ 55,594	$ 143,151	$ 109,390
Non-U.S. government	49,932	37,071	79,866	70,725
Total revenue	$ 122,008	$ 92,665	$ 223,017	$ 180,115

Revenue by geographic location	Three Months Ended October 30, 2021	Three Months Ended October 31, 2020	Six Months Ended October 30, 2021	Six Months Ended October 31, 2020
Domestic	$ 68,663	$ 46,398	$ 137,051	$ 99,828
International	53,345	46,267	85,966	80,287
Total revenue	$ 122,008	$ 92,665	$ 223,017	$ 180,115

Contract Balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable, unbilled receivables, and customer advances and deposits on the consolidated balance sheet. In the Company's services contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals, which is generally monthly, or upon the achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets recorded in unbilled receivables and retentions on the consolidated balance sheet. However, the Company sometimes receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities recorded in customer advances on the consolidated balance sheet. Contract liabilities are not a significant financing component as they are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements. These assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. For the Company's product revenue, the Company generally receives cash payments subsequent to satisfying the performance obligation via delivery of the product, resulting in billed accounts receivable. Changes in the contract asset and liability balances during the six month period ended October 30, 2021 were not materially impacted by any other factors. For the Company's contracts, there are no significant gaps between the receipt of payment and the transfer of the associated goods and services to the customer for material amounts of consideration.

Revenue recognized for the three and six month periods ended October 30, 2021 that was included in contract liability balances at the beginning of April 30, 2021 was $580,000 and $889,000, and revenue recognized for the three and six month periods ended October 31, 2020 that was included in contract liability balances at the beginning of April 30, 2020 was $3,451,000 and $5,423,000.

Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and assess performance. The Company's CODM, collectively the Chief Executive Officer and Chief Operations Officer, makes operating decisions, assesses performance and makes resource allocation decisions, including the allocation for research and development ("R&D"). Accordingly, the Company identifies three reportable segments. Refer to Note 20—Segments for further details.

Restricted Cash

The Company classifies cash accounts which are not available for general use as restricted cash. Pursuant to the terms of the Arcturus Purchase Agreement, the Company maintains escrow accounts to address final purchase price adjustments post-Arcturus Closing, if any and to address Arcturus UAV's and/or the Sellers' indemnification obligations. The restricted funds in the escrow account are recorded in other assets on the consolidated balance sheet. As of October 30, 2021 and April 30, 2021 restricted cash was $1,823,000 and $8,322,000, respectively.

Investments

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

Fair Values of Financial Instruments

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

Government Contracts

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

For example, during the course of its audits, the DCAA may question the Company's incurred costs, and if the DCAA believes the Company has accounted for such costs in a manner inconsistent with the requirements under Federal Acquisition Regulations, the DCAA auditor may recommend to the Company's administrative contracting officer to disallow such costs. Historically, the Company has not experienced material disallowed costs as a result of government audits. However, the Company can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. The Company's revenue recognition policy calls for revenue recognized on all cost reimbursable government contracts to be recorded at actual rates unless collectability is not reasonably assured. At October 30, 2021 and April 30, 2021, the Company had no reserve for incurred cost claim audits.

Earnings (Loss) Per Share

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

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

	Three Months Ended		Six Months Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net income (loss) attributable to AeroVironment, Inc.	$ 2,525	$ 2,094	$ (11,456)	$ 12,174
Denominator for basic earnings (loss) per share:				
Weighted average common shares	24,641,614	23,936,950	24,630,838	23,914,737
Dilutive effect of employee stock options, restricted stock and restricted stock units	244,256	259,962	—	275,579
Denominator for diluted earnings (loss) per share	24,885,870	24,196,912	24,630,838	24,190,316

Due to the net loss for the six months ended October 30, 2021, no shares reserved for issuance upon exercise of stock options or shares of unvested restricted stock were included in the computation of diluted loss per share as their inclusion would have been anti-dilutive. Potentially dilutive shares not included in the computation of diluted weighted-average common shares because their effect would have been anti-dilutive were 4,742 and 266,077 for the three and six months ended October 30, 2021, respectively. Potentially dilutive shares not included in the computation of diluted weighted-average common shares because their effect would have been anti-dilutive were 23 and 269 for the three and six months ended October 31, 2020, respectively.

Recently Issued Accounting Standards

Accounting pronouncements issued but not effective until after October 30, 2021 are not expected to be applicable to the Company.

2. Discontinued Operations

On June 29, 2018, the Company completed the sale of substantially all of the assets and related liabilities of its efficient energy systems business segment (the "EES Business") to Webasto Charging Systems, Inc. ("Webasto") pursuant to an Asset Purchase Agreement (the "Purchase Agreement") between Webasto and the Company. In accordance with the terms of the Purchase Agreement, as amended by a side letter agreement executed at the closing, the Company received cash consideration of $31,994,000 upon closing, which resulted in a gain of $11,420,000 and has been recorded in gain on sale of business, net of tax in the consolidated statements of operations. During the year ended April 30, 2019, the Company recorded a reduction to the gain resulting from a working capital adjustment of $486,000. During the year ended April 30, 2020, the Company and Webasto engaged an independent accounting firm to resolve a working capital dispute with a maximum exposure of $922,000 pursuant to the terms of the Purchase Agreement. In June 2020, the independent accounting firm determined the final adjustment to the working capital dispute to be $341,000 which has been recorded net of tax as a loss of discontinued operations in the consolidated statements of operations for the year ended April 30, 2020.

The Company was entitled to receive additional cash consideration of $6,500,000 (the "Holdback") upon tendering consents to assignment of two remaining customer contracts to Webasto. The Holdback was not recorded in the Company's unaudited consolidated financial statements as the amount was not realized or realizable as of October 30, 2021.

During the three months ended October 27, 2018, Webasto filed a recall report with the National Highway Traffic Safety Administration that named certain of the Company's EES products as subject to the recall. Under the terms of the Purchase Agreement, the Company may be responsible for certain costs of such recall of named products the Company manufactured, sold or serviced prior to the closing of the sale of the EES Business. On August 14, 2019, Benchmark Electronics, Inc. ("Benchmark"), the company that assembled the products subject to the recall, served a demand for arbitration to the Company and Webasto, and a third-party part supplier pursuant to its contracts with the Company and Webasto, respectively. The Company filed a responsive pleading in the Benchmark arbitration on October 29, 2019, consisting of a general denial, affirmative defenses, and a reservation of the right to file counter-claims at a later date. Webasto challenged the validity of the Benchmark arbitration by filing an action in New York Superior Court. In December 2019, Webasto and Benchmark reached a settlement of their disputed claims. Benchmark withdrew its Notice of Arbitration against Webasto and the Company, but reserved its right to pursue indemnity claims against suppliers. The recall remains a significant part of the Webasto lawsuit described below.

On February 22, 2019, Webasto filed a lawsuit, which was amended in April 2019, alleging several claims against the Company for breach of contract, indemnity, and bad faith, including allegations regarding inaccuracy of certain diligence disclosures and failure to provide certain consents to contract assignments, and related to a previously announced product recall. Webasto seeks to recover the costs of the recall and other damages totaling a minimum of $6,500,000 in addition to attorneys' fees, costs, and punitive damages. On August 16, 2019, the Company filed a counterclaim against Webasto seeking payment of the Holdback and declaratory relief regarding Webasto's cancellation of an assigned contract. Webasto again amended the complaint in May 2021 to include additional claims. On June 2, 2021, the Company filed an answer to Webasto's second amended complaint filed in May 2021.

In order to avoid the future cost, expense, and distraction of continued litigation, the Company engaged in settlement negotiations with Webasto in May 2021. While the negotiations did not result in a settlement of any of the Company's or Webasto's claims at such time, as a result of the settlement negotiations, the Company established a litigation reserve, which reflected the scope of a rejected offer intended to communicate the Company's serious and good faith intention to attempt to reach a settlement for the stated purposes. The offer did not reflect the Company's view of the merits of the claims made; however, as a result of the preparation of the good faith offer and the Company's willingness to pursue settlement for that amount, the Company recorded litigation reserve expenses in the amount of $9,300,000 during the year ended April 30, 2021 recorded in other expense on the consolidated statements of operations and in other non-current liabilities on the consolidated balance sheet. In December 2021, the Company agreed in principle subject to formal documentation with Webasto to settle all existing claims related to the sale of our former EES business for $20,000,000 and Webasto keeping the Holdback. Under the terms of the expected written settlement agreement that is being negotiated by the Company and Webasto, the Company's payment of the settlement amount will occur over a 24 month period after the execution of the settlement agreement. As a result of the agreement in principle to settlement the litigation, the Company recorded additional litigation reserve expenses in the amount of $10,000,000 during the three months ended October 30, 2021 recorded in other expense on the consolidated statements of operations and in other current liabilities on the consolidated balance sheet. Should the Company not be able to negotiate and sign a mutually acceptable settlement agreement with Webasto, the Company will continue with discovery in the litigation and defend itself vigorously.

Concurrent with the execution of the Purchase Agreement, the Company entered into a transition services agreement (the "TSA") to provide certain general and administrative services to Webasto for a defined period. Income from performing services under the TSA was $0 for the three and six months ended October 30, 2021, and $0 and $38,000 and has been recorded in other (expense) income, net in the unaudited consolidated statements of operations for the three and six months ended October 31, 2020, respectively.

3. Investments

Investments consist of the following (in thousands):

	October 30, 2021	April 30, 2021
Short-term investments:		
Available-for-sale securities:		
Municipal securities	6,311	22,245
U.S. government securities	—	4,009
Corporate bonds	—	5,717
Total short-term investments	$ 6,311	$ 31,971
Long-term investments:		
Available-for-sale securities:		
Municipal securities	—	988
U.S. government securities	—	4,000
Total long-term available-for-sale investments	—	4,988
Equity method investments		
Investment in limited partnership fund	11,271	7,168
Total equity method investments	11,271	7,168
Total long-term investments	$ 11,271	$ 12,156

Available-For-Sale Securities

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

The following table is a summary of the activity related to the available-for-sale investments recorded in short-term and long-term investments as of October 30, 2021 and April 30, 2021, respectively (in thousands):

	October 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 6,309	$ 2	$ —	$ 6,311
Total available-for-sale investments	$ 6,309	$ 2	$ —	$ 6,311

	April 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 23,227	$ 8	$ (2)	$ 23,233
U.S. government securities	8,008	1	—	8,009
Corporate bonds	5,718	—	(1)	5,717
Total available-for-sale investments	$ 36,953	$ 9	$ (3)	$ 36,959

The amortized cost and fair value of the available-for-sale debt securities by contractual maturity at October 30, 2021 were as follows (in thousands):

	Cost	Fair Value
Due within one year	$ 6,309	$ 6,311
Due after one year through five years	—	—
Total	$ 6,309	$ 6,311

4. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurement Using			
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale securities	$ —	$ 6,311	$ —	$ 6,311
Contingently returnable consideration	—	—	289	289
Total	$ —	$ 6,311	$ 289	$ 6,600

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

Description	Fair Value Measurement Using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Contingent consideration	$ —	$ —	$ 889	$ 889
Total	$ —	$ —	$ 889	$ 889

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

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

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

Description	Fair Value Measurements Using Significant Unobservable Inputs Assets (Level 3)	Fair Value Measurements Using Significant Unobservable Inputs Liabilities (Level 3)
Balance at May 1, 2021	$ 479	$ —
Business acquisition	—	889
Transfers to Level 3	—	—
Total losses (realized or unrealized)		
Included in selling, general and administrative	190	—
Settlements	—	—
Balance at October 30, 2021	$ 289	$ 889
The amount of total (gains) or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at October 30, 2021	$ —	$ —

The fair value measurement tables above have been corrected to present the fair value of the contingently returnable consideration associated with the acquisition of ISG of $479,000 as of April 30, 2021 and subsequent changes in fair value, which is recorded in other assets on the consolidated balance sheet. The tables previously included the fair value of the contingent consideration, rather than the returnable contingent consideration. The returnable contingent consideration represents the difference between the $6,000,000 cash consideration paid to the sellers in escrow and the fair value of the contingent consideration of $5,521,000 as of April 30, 2021.

Pursuant to the ISG Purchase Agreement, the sellers may receive up to a maximum of $6,000,000 in additional cash consideration ("contingent consideration"), if certain revenue targets are achieved during the 3 years following closing.

The contingent consideration was valued using a Black-Scholes option-pricing model. The analysis considered, among other items, contractual terms of the ISG Purchase Agreement, the Company's discount rate, the timing of expected future cash flows and the probability that the revenue targets required for payment of the contingent consideration will be achieved. During the three months ended October 30, 2021, the target for the first year was achieved, and the related consideration of $2,000,000 is expected to be released from an escrow account that is not controlled by the Company and therefore not recorded on the consolidated balance sheet, during the three months ended January 29, 2022. The fair value of the contingently returnable consideration is equal to the difference between the maximum value of the contingent consideration and the fair value of the contingent consideration and is recorded in other assets on the consolidated balance sheet.

Pursuant to the Telerob Purchase Agreement, the Telerob Sellers may receive up to a maximum of €6,000,000 (approximately $7,272,000) in additional cash consideration if specific revenue and contract award targets for Telerob are achieved during the 36 month period after closing. The contingent consideration was valued using a Black-Scholes option-pricing model. The analysis considered, among other items, contractual terms of the Telerob Purchase Agreement, the Company's discount rate, the timing of expected future cash flows and the probability that the revenue and contract award targets required for payment of the contingent consideration will be achieved. The fair value of the contingent consideration is recorded in other accrued liabilities on the consolidated balance sheet.

Refer to Note 18—Business Acquisitions.

5. Inventories, net

Inventories consist of the following (in thousands):

	October 30, 2021	April 30, 2021
Raw materials	$ 30,261	$ 23,997
Work in process	31,242	13,825
Finished goods	32,549	44,113
Inventories, gross	94,052	81,935
Reserve for inventory excess and obsolescence	(12,108)	(10,289)
Inventories, net	$ 81,944	$ 71,646

6. Equity Method Investments

In December 2017, the Company and SoftBank Corp. ("Softbank") formed a joint venture, HAPSMobile Inc. ("HAPSMobile"), which is a Japanese corporation. Concurrent with the formation of HAPSMobile, the Company executed a Design and Development Agreement (the "DDA") with HAPSMobile. As of October 30, 2021, the Company's ownership stake in HAPSMobile was approximately 7%, with the remaining 93% held by SoftBank. In connection with the formation of the joint venture on December 27, 2017, the Company initially purchased shares of HAPSMobile representing a 5% ownership interest in exchange for an investment of 210,000,000 yen ($1,860,000). The Company subsequently purchased additional shares of HAPSMobile in order to maintain a 5% ownership stake in the joint venture. The first such purchase occurred on April 17, 2018, at which time the Company invested 150,000,000 yen ($1,407,000) for the purchase of additional shares of HAPSMobile. On January 29, 2019, the Company invested an additional 209,500,000 yen ($1,926,000) to maintain its 5% ownership stake. On February 9, 2019, the Company elected to purchase 632,800,000 yen ($5,671,000) of additional shares of HAPSMobile to increase the Company's ownership in the joint venture from 5% to 10%, and on May 10, 2019, the Company purchased 500,000,000 yen ($4,569,000) of additional shares of HAPSMobile to maintain its 10% ownership stake. The Company's ownership percentage was subsequently diluted from 10% to approximately 5%. On December 4, 2019, the Company purchased 540,050,000 yen ($4,982,000) of additional shares of HAPSMobile to increase its ownership stake to approximately 7%.

On May 29, 2021, the Company entered into an amendment to the DDA with HAPSMobile. The parties agreed to the amendment in anticipation of the Company and SoftBank entering into a Master Design and Development Agreement

(“MDDA”) with each other to continue the design and development of the Solar High Altitude Pseudo-Satellite (“Solar HAPS”) aircraft developed under the DDA.

On May 29, 2021, the Company and SoftBank entered into a MDDA to continue the development of Solar HAPS. Pursuant to the MDDA, which has a five-year term, SoftBank will issue orders to the Company for the Company to perform design and development services and produce deliverables as specified in the applicable order(s). Upon the execution of the MDDA, SoftBank issued to the Company, and the Company accepted, the first order under the MDDA which has a maximum value of approximately $51,200,000. Concurrent with the execution of the MDDA, each of SoftBank and the Company agreed to lend HAPSMobile loans which are convertible into shares of HAPSMobile under certain conditions, and to cooperate with each other to explore restructuring and financing options for HAPSMobile to continue the development of Solar HAPS. The Company committed to lend 500,000,000 yen. On June 7, 2021 the Company funded 130,000,000 yen ($1,195,000) of the loan agreement. On August 13, 2021, the Company made the second payment of the loan agreement in the amount of 180,000,000 yen ($1,638,000). On October 29, 2021, the Company made the final payment under the loan agreement in the amount of 190,000,000 yen ($1,674,000).

As the Company has the ability to exercise significant influence over the operating and financial policies of HAPSMobile pursuant to the applicable Joint Venture Agreement and related organizational documents, the Company’s investment is accounted for as an equity method investment. For the three and six months ended October 30, 2021, the Company recorded its proportionate net loss of HAPSMobile, or $190,000 and $1,845,000, respectively, in equity method investment loss, net of tax in the unaudited consolidated statement of operations. For the three and six months ended October 31, 2020, the Company recorded its ownership percentage of the net loss of HAPSMobile, or $9,522,000 and $10,810,000, respectively, in equity method investment loss, net of tax in the unaudited consolidated statement of operations, of which $8,363,000 related to the Company’s proportion of a loss for HAPSMobile’s impairment of its investment in Loon LLC. At October 30, 2021 and April 30, 2021, the carrying value of the investment in HAPSMobile was $2,661,000 and $0, respectively, was recorded in other assets.

Investment in Limited Partnership Fund

In July 2019, the Company made its initial capital contribution to a limited partnership fund focusing on highly relevant technologies and start-up companies serving defense and industrial markets. During the six months ended October 30, 2021 and October 31, 2020, the Company made additional contributions of $1,738,000 and $1,173,000, respectively. Under the terms of the limited partnership agreement, the Company has committed to make additional capital contributions of $639,000 to the fund. The Company accounts for investments in limited partnerships as equity method investments as the Company is deemed to have influence when it holds more than a minor interest. For the three and six months ended October 30, 2021, the Company recorded its ownership percentage of the net gain of the limited partnership, or $1,852,000 and $2,365,000, respectively, net of $529,000 of tax expense, respectively, in equity method investment income (loss) in the unaudited consolidated statements of operations. For the three and six months ended October 31, 2020, the Company recorded its ownership percentage of the net loss of the limited partnership, or $0 and $(280,000), respectively, in equity method investment income (loss) in the unaudited consolidated statements of operations. At October 30, 2021 and April 30, 2021, the carrying value of the investment in the limited partnership of $11,271,000 and $7,168,000, respectively, was recorded in long-term investments.

7. Warranty Reserves

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The warranty reserve is included in other current liabilities. The related expense is included in cost of sales. Warranty reserve activity is summarized as follows for the three and six months ended October

30, 2021 and October 31, 2020, respectively (in thousands):

	Three Months Ended		Six Months Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Beginning balance	$ 2,754	$ 2,031	$ 2,341	$ 2,015
Balance acquired from acquisition	—	—	256	—
Warranty expense	440	310	896	761
Warranty costs settled	(544)	(215)	(843)	(650)
Ending balance	$ 2,650	$ 2,126	$ 2,650	$ 2,126

8. Intangibles, net

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

	October 30, 2021	April 30, 2021
Technology	$ 57,887	$ 46,850
Licenses	1,008	1,008
Customer relationships	72,872	68,073
Backlog	2,303	—
In-process research and development	550	550
Non-compete agreements	320	320
Trademarks and tradenames	68	68
Other	105	3
Intangibles, gross	135,113	116,872
Less accumulated amortization	(24,493)	(10,604)
Intangibles, net	$ 110,620	$ 106,268

The weighted average amortization period at October 30, 2021 and April 30, 2021 was five years, respectively. Amortization expense for the three and six months ended October 30, 2021 was $6,843,000 and $13,816,000, respectively. Amortization expense for the three and six months ended October 31, 2020 was $715,000 and $1,424,000, respectively.

Technology, backlog and customer relationship intangible assets were recognized in conjunction with the Company's acquisition of Telerob on May 3, 2021. Technology and customer relationship intangible assets were recognized in conjunction with the Company's acquisition of Arcturus on February 19, 2021. Technology and customer relationship intangible assets were recognized in conjunction with the Company's acquisition of ISG on February 23, 2021. Refer to Note 18—Business Acquisitions for further details.

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

	Year ending April 30,
2022	$ 15,131
2023	27,719
2024	26,870
2025	18,156
2026	13,114
	$ 100,990

9. Goodwill

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

	Small UAS	TMS	MUAS	All other	Total
Balance at April 30, 2021	$ 6,340	$ —	$ 288,611	$ 19,254	$ 314,205
Additions to goodwill	—	—	1,395	20,288	21,683
Impairment of goodwill	—	—	—	—	—
Balance at October 30, 2021	$ 6,340	$ -	$ 290,006	$ 39,542	$ 335,888

The goodwill balance at April 30, 2021 is attributable to the acquisitions of Pulse, ISG, and Arcturus acquisitions. The MUAS addition to goodwill relates to measurement period adjustments for pre-acquisition tax returns. The addition to All other goodwill is attributable to the Telerob acquisition. Refer to Note 18—Business Acquisitions for further details.

10. Debt

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

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

The Credit Facilities provide the Company with a choice of interest rates between (a) LIBOR (with a 0% floor) plus the Applicable Margin; or (b) Base Rate (defined as the highest of (a) the Federal Funds Rate plus one-half percent (0.50%), (b) the Bank of America prime rate, and (c) the one (1) month LIBOR plus one percent (1.00%) plus the Applicable Margin. The Applicable Margin is based upon the Consolidated Leverage Ratio (as defined in the Credit Agreement) and whether the Company elects LIBOR (ranging from 1.50 - 2.25%) or Base Rate (ranging from 0.50 - 1.25%). The Company is also responsible for certain commitment fees from 0.20-0.35% depending on the Consolidated Leverage Ratio, and administrative agent expenses incurred in relation to the Credit Facilities. In the event of a default, an additional 2% default interest rate in addition to the applicable rate if specified or the Base Rate plus Applicable Margin if an applicable rate is not specified.

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

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

The Credit Agreement contains certain customary representations and warranties and affirmative and negative covenants, including certain restrictions on the ability of the Company and its subsidiaries (as defined in the Credit Agreement) to incur any additional indebtedness or guarantee indebtedness of others, to create liens on properties or assets, or to enter into certain asset and stock-based transactions. In addition, the Credit Agreement includes certain financial maintenance covenants, requiring that (x) the Consolidated Leverage Ratio (as defined in the Credit Agreement) shall not be more than 3.00 to 1.00 as of the end of any fiscal quarter and (y) the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Agreement) shall not be less than 1.25 to 1.00 as of the end of any fiscal quarter. As of October 30, 2021, the Company is in compliance with all covenants.

Based upon the Company's revised projections, there is a substantial risk that it may be required to make a prepayment to reduce the outstanding balance of its Term Loan Facility or to obtain an amendment to the Credit Agreement to remain in compliance with all of the financial covenants in the Credit Agreement during the fiscal quarter ending January 29, 2022. The Company currently estimates the range of the potentially required prepayment to be $50,000,000 to $60,000,000. The Company is in discussion with the lenders regarding obtaining an amendment to the Credit Agreement to allow it to remain in compliance with the financial covenants; however, if the Company is not able to obtain such an amendment to the Credit Agreement, it has both the ability and intent to make any required prepayment. The Company expects to be in compliance with all financial covenants under the terms of its Credit Agreement, including any amendment to such agreement, during the quarter ending April 30, 2022 regardless of whether a required prepayment is made or loan amendment is obtained.

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

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

	Six Months Ended October 30, 2021 (In thousands)
Term loans	$ 195,000
Revolving credit facility	—
Total debt	195,000
Less current portion	10,000
Total long-term debt, less current portion	185,000
Less unamortized debt issuance costs - term loans	2,231
Total long-term debt, net of unamortized debt issuance costs - term loans	$ 182,769
Unamortized debt issuance costs - revolving credit facility	$ 1,111
Current period interest rate	2.1%

Future long-term debt principal payments at October 30, 2021 were as follows:

	(In thousands)
2022	$ 5,000
2023	10,000
2024	10,000
2025	10,000
2026	160,000
	$ 195,000

11. Leases

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

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

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

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

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

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

	Six Months Ended October 30, 2021	Six Months Ended October 31, 2020
Operating lease cost	$ 3,358	$ 2,393
Short term lease cost	419	276
Variable lease cost	368	2
Sublease income	(88)	(48)
Total lease costs, net	$ 4,057	$ 2,623

Supplemental lease information were as follows:

	Six Months Ended October 30, 2021 (In thousands)	Six Months Ended October 31, 2020 (In thousands)
Cash paid for amounts included in the measurement of operating lease liabilities	$ 3,503	$ 2,727
Right-of-use assets obtained in exchange for new lease liabilities	$ 6,310	$ 5,757
Weighted average remaining lease term	69 months	44 months
Weighted average discount rate	3.4%	3.4%

Maturities of operating lease liabilities as of October 30, 2021 were as follows (in thousands):

2022	$ 3,135
2023	6,357
2024	5,653
2025	4,701
2026	3,422
Thereafter	8,025
Total lease payments	31,293
Less: imputed interest	(3,188)
Total present value of operating lease liabilities	$ 28,105

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

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

	Six Months Ended October 30, 2021	Six Months Ended October 31, 2020
Balance, net of $1 and $0 deferred taxes, as of April 30, 2021 and April 30, 2020, respectively	$ 343	$ 328
Unrealized loss on available-for-sale investments, net of deferred tax benefit of $0 and $1 for the six months ended October 30, 2021 and October 31, 2020, respectively	(3)	(61)
Change in foreign currency translation adjustments	(2,017)	75
Balance, net of $1 and $1 deferred taxes, as of October 30, 2021 and October 31, 2020, respectively	$ (1,677)	$ 342

13. Customer-Funded Research & Development

Customer-funded R&D costs are incurred pursuant to contracts (revenue arrangements) to perform R&D activities according to customer specifications. These costs are direct contract costs and are expensed to cost of sales as costs are incurred. Revenue from customer-funded R&D contracts is recognized in accordance with Topic 606 over time as costs are incurred. Revenue from customer-funded R&D was approximately $19,175,000 and $36,086,000 for the three and six months ended October 30, 2021, respectively. Revenue from customer-funded R&D was approximately $20,742,000 and $44,168,000 for the three and six months ended October 31, 2020, respectively.

14. Long-Term Incentive Awards

During the three months ended July 31, 2021, the Company granted awards under its amended and restated 2006 Equity Incentive Plan (the “Restated 2006 Plan”) to key employees (“Fiscal 2022 LTIP”). Awards under the Fiscal 2022 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2022, July 2023 and July 2024, and (ii) performance-based restricted stock units (“PRSUs”), which vest based on the Company’s achievement of revenue and operating income targets for the three-year period ending April 30, 2024. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 250% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company’s achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of common stock. For the three and six months ended October 30, 2021, the Company recorded $201,000 and $509,000 of compensation expense related to the Fiscal 2022 LTIP. The Company recorded no compensation expense related to the Fiscal 2022 LTIP for the three and six months ended October 31, 2020. At October 30, 2021, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2022 LTIP is $13,111,000.

During the three months ended August 1, 2020, the Company granted awards under its amended and restated 2006 Equity Incentive Plan (the “Restated 2006 Plan”) to key employees (“Fiscal 2021 LTIP”). Awards under the Fiscal 2021 LTIP consist of: (i) time-based restricted stock awards, which vest in equal tranches in July 2021, July 2022 and July 2023, and (ii) performance-based restricted stock units (“PRSUs”), which vest based on the Company’s achievement of revenue and operating income targets for the three-year period ending April 30, 2023. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 250% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company’s achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of common stock. For the three and six months ended October 30, 2021, the Company recorded a reversal of $(572,000) and $(507,000) of compensation expense related to the Fiscal 2021 LTIP, respectively, due to a change in estimate resulting from a decrease in the estimated achievement. For the three and six months ended October 31, 2020, the Company recorded $347,000 and $438,000 of compensation expense related to the Fiscal 2021 LTIP, respectively. At October 30, 2021, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2021 LTIP is $7,337,000.

During the three months ended July 27, 2019, the Company granted awards under the Restated 2006 Plan to key employees (“Fiscal 2020 LTIP”). Awards under the Fiscal 2020 LTIP consist of: (i) time-based restricted stock awards, which vest in equal tranches in July 2020, July 2021 and July 2022, and (ii) PRSUs, which vest based on the Company’s achievement of revenue and operating income targets for the three-year period ending April 30, 2022. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 200% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company’s achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of common stock. For the three and six months ended October 30, 2021, the Company recorded a reversal of $(617,000) and $(619,000) of compensation expense related to the Fiscal 2020 LTIP, respectively, due to a change in estimate resulting from a decrease in the estimated achievement. For the three and six months ended October 31, 2020, the Company recorded $264,000 and $345,000 of compensation expense related to the Fiscal 2020 LTIP, respectively. At October 30, 2021, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2020 LTIP is $3,983,000.

During the three months ended July 28, 2018, the Company also granted awards under the Restated 2006 Plan to key employees ("Fiscal 2019 LTIP"). Awards under the Fiscal 2019 LTIP consist of: (i) time-based restricted stock awards, which vest in equal tranches in July 2019, July 2020 and July 2021, and (ii) PRSUs, which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2021. During the three months ended July 31, 2021, the Company issued a total of 12,101 fully-vested shares of common stock to settle the PRSUs in the Fiscal 2019 LTIP. For the three and six months ended October 30, 2021, the Company recorded no compensation expense. For the three and six months ended October 31, 2020, the Company recorded $189,000 and $264,000 of compensation expense related to the Fiscal 2019 LTIP, respectively.

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

15. Income Taxes

For the three and six months ended October 30, 2021, the Company recorded a benefit from income taxes of $(9,511,000) and $(10,468,000), respectively, yielding effective tax rates of 117.6% and 48.0%, respectively. For the three and six months ended October 31, 2020, the Company recorded a provision for income taxes of $2,491,000 and $3,698,000, respectively, yielding effective tax rates of 17.7% and 13.9%, respectively. The variance from statutory rates for the three months ended October 30, 2021 was primarily due to a change in estimate of full year projected income (loss) before income taxes, federal R&D credits and the recording of discrete excess tax benefits resulting from the vesting of restricted stock awards and exercises of stock options. The variance from statutory rates for the six months ended October 30, 2021 was primarily due to federal R&D credits and the recording of discrete excess tax benefits resulting from the vesting of restricted stock awards and exercises of stock options. The variance from statutory rates for the three and six months ended October 31, 2020 was primarily due to federal R&D credits, foreign derived intangible income deductions and the recording of discrete excess tax benefits resulting from the vesting of restricted stock awards and exercises of stock options.

16. Share Repurchase

In September 2015, the Company's Board of Directors authorized a program to repurchase up to $25,000,000 of the Company's common stock with no specified termination date for the program. No shares were repurchased under the program during the three and six months ended October 30, 2021 or October 31, 2020. As of October 30, 2021 and April 30, 2021, approximately $21,200,000 remained authorized for future repurchases under this program.

17. Related Party Transactions

Related party transactions are defined as transactions between the Company and entities either controlled by the Company or that the Company can significantly influence. Although SoftBank has a controlling interest in HAPSMobile, the Company determined that it has the ability to exercise significant influence over HAPSMobile. As such, HAPSMobile and SoftBank are considered related parties of the Company. Under the DDA and related efforts with HAPSMobile, the Company designed and built prototype solar powered high altitude aircraft and ground control stations for HAPSMobile and conducted low altitude and high altitude flight tests of the prototype aircraft on a best efforts basis, up to a maximum net value of $185,202,000. The Company will continue the development of Solar HAPS with Softbank under the MDDA. Upon the execution of the MDDA, SoftBank issued the first order under the MDDA, which has a maximum value of approximately $51,200,000.

The Company recorded revenue under both the MDDA and DDA of $10,342,000 and $20,694,000 for the three and six months ended October 30, 2021, respectively. The Company recorded revenue under the DDA and preliminary design agreements between the Company and SoftBank of $11,452,000 and $27,838,000 for the three and six months ended October 31, 2020, respectively. At October 30, 2021 and April 30, 2021, the Company had unbilled related party receivables from HAPSMobile of $9,215,000 and $544,000 recorded in unbilled receivables and retentions on the consolidated balance sheets, respectively. Refer to Note 6—Equity Method Investments for further details.

18. Business Acquisitions

Telerob Acquisition

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

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

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

The following table summarizes the provisional allocation of the purchase price over the estimated fair value of the assets and liabilities assumed in the acquisition of Telerob (in thousands):

	May 3, 2021
Fair value of assets acquired:	
Accounts receivable	$ 1,045
Unbilled receivable	829
Inventories, net	15,074
Prepaid and other current assets	314
Property and equipment, net	1,571
Operating lease assets	1,508
Other assets	154
Technology	11,500
Backlog	2,400
Customer relationships	5,000
Other intangible assets	102
Goodwill	21,140
Total assets acquired	$ 60,637
Fair value of liabilities assumed:	
Accounts payable	$ 1,136
Wages and related accruals	560
Customer advances	1,243
Current operating lease liabilities	361
Other current liabilities	3,310
Non-current operating lease liabilities	1,147
Other non-current liabilities	224
Deferred income taxes	5,617
Total liabilities assumed	13,598
Total identifiable net assets	$ 47,039
Fair value of consideration:	
Cash consideration, net of cash acquired	$ 46,150
Contingent consideration	889
Total	$ 47,039

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

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

Telerob Supplemental Pro Forma Information (unaudited)

The following unaudited pro forma summary presents consolidated information of the Company as if the business acquisition had occurred on May 1, 2020 (in thousands):

	Three Months Ended		Six Months Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Revenue	$ 122,008	$ 101,081	$ 223,017	$ 196,224
Net (loss) income attributable to AeroVironment, Inc.	$ 4,454	$ 277	$ (7,844)	$ 9,133

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

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

The Company incurred approximately $137,000 and $548,000 of acquisition-related expenses for the three and six months ended October 30, 2021. These expenses are included in selling, general and administrative on the Company's unaudited consolidated statement of operations.

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

Arcturus Acquisition

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

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

The final cash consideration is subject to certain customary adjustments, including for net working capital, cash, debt and unpaid transaction expenses (including change in control related payments triggered by the transaction) of Arcturus at the Arcturus closing, less $6,500,000 to be held in escrow to address final purchase price adjustments post-Arcturus closing, if any (the "Adjustment Escrow"), and $1,822,500 to be held in escrow to address Arcturus's and/or the Sellers' indemnification obligations (the "Indemnification Escrow"). During the three months ended July 31, 2021, the Adjustment Escrow of $6,500,000, less $509,000 of post-closing adjustments, was released to the Arcturus Sellers. To further address potential breaches of Arcturus's and the Sellers' representations and warranties beyond the application of the Indemnification Escrow, the Company also obtained representation and warranty insurance policies providing $40,000,000 in coverage, subject to customary terms, exclusions and retention amounts.

The following table summarizes the allocation of the purchase price over the estimated fair value of the assets and liabilities assumed in the acquisition of Arcturus (in thousands):

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

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

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

Arcturus Supplemental Pro Forma Information (unaudited)

The following unaudited pro forma summary presents consolidated information of the Company as if the business acquisition had occurred on May 1, 2019 (in thousands):

	Three Months Ended October 31, 2020	Six Months Ended October 31, 2020
Revenue	$ 116,123	$ 228,960
Net income attributable to AeroVironment, Inc.	$ 4,151	$ 21,010

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

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

The Company incurred approximately $108,000 and $1,492,000 acquisition-related expenses for the three and six months ended October 30, 2021, respectively. These expenses are included in selling, general and administrative expense on the Company's unaudited consolidated statement of operations.

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

ISG Acquisition

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

In connection with the ISG Acquisition, the Company (i) paid a base purchase price of $29,700,000 in cash at closing and (ii) may pay additional cash consideration of up to $6,000,000, which is held in escrow account not controlled by the Company, based on the achievement of certain revenue targets by ISG during the 3 years following closing, in each case, subject to the terms and conditions of the ISG Purchase Agreement, including certain customary adjustments. During the three months ended October 30, 2021, the revenue target for the first year was achieved and $2,000,000 of the additional cash consideration was earned.

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

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

The following table summarizes the allocation of the purchase price over the estimated fair value of the assets and liabilities assumed in the ISG Acquisition (in thousands):

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

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

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

ISG Supplemental Pro Forma Information (unaudited)

The following unaudited pro forma summary presents consolidated information of the Company as if the business acquisition had occurred on May 1, 2019 (in thousands):

	Three Months Ended October 31, 2020	Six Months Ended October 31, 2020
Revenue	$ 95,548	$ 185,881
Net income attributable to AeroVironment, Inc.	$ 2,400	$ 12,786

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

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

The Company incurred approximately $85,000 and $736,000 acquisition-related expenses for the three and six months ended October 30, 2021, respectively. These expenses are included in selling, general and administrative expenses on the Company's unaudited consolidated statement of operations.

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

19. Pension

As part of the Telerob acquisition, the Company acquired a small foreign-based defined benefit pension plan. The Rheinmetall-Zusatzversorgung (“RZV”) service plan covers three employees based on individual contracts issued to the employees. No other employees are eligible to participate. The Company has reinsurance policies were taken out for participating former employees, which were pledged to the employees. The measurement date for the Company’s pension plan was May 3, 2021 in conjunction with the acquisition.

The table below includes the projected benefit obligation and fair value of plan assets as of May 3, 2021. The net projected benefit obligation (in thousands) is recorded in other non-current liabilities.

Projected benefit obligation	$	(4,126)
Fair value of plan assets		3,951
Unfunded status of the plan	$	(175)

The projected benefit obligation includes assumptions of a discount rate of 1% and pension increase for in-payment benefits of 1.5% for May 3, 2021 and October 30, 2021. The accumulated benefit obligation is approximately equal to our projected benefit obligation. The plan assets consist of reinsurance policies for each of the three pension commitments. The reinsurance policies are fixed-income investments considered a level 2 fair value hierarchy based on observable inputs of the policy. The Company does not expect to make any contributions to the Plan in the fiscal year ending April 30, 2022. The Company assumed expected return on plan assets of 2.15% for May 3, 2021 and October 30, 2021.

Expected benefits payments as of May 3, 2021 (in thousands):

2022	$	182
2023		183
2024		183
2025		184
2026		184
2027-2031		920
Total expected benefit payments	$	1,836

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

	Three Months Ended October 30, 2021 (In thousands)	Six Months Ended October 30, 2021 (In thousands)
Expected return on plan assets	$ 31	$ 63
Interest cost	(15)	(30)
Foreign currency exchange rate changes	72	6
Net periodic benefit cost	$ 88	$ 39

20. Segments

The Company's product segments are as follows:

Small Unmanned Aircraft Systems —The Small UAS segment focuses primarily on products designed to operate reliably at very low altitudes in a wide range of environmental conditions, providing a vantage point from which to collect and deliver valuable information as well as related support services including training, spare parts, product repair, product replacement, and the customer contracted operation.

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

Medium Unmanned Aircraft Systems—The MUAS segment, which originates with the acquisition of Arcturus, focuses on designs, engineers, tools, and manufactures unmanned aerial and aircraft systems including airborne platforms, payloads and payload integration, ground control systems, and ground support equipment and other items and services related generally to unmanned aircraft systems including ISR services.

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

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

	Three Months Ended October 30, 2021				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 54,714	$ 18,418	$ 26,525	$ 22,351	$ 122,008
Gross margin	27,754	6,222	2,223	6,256	42,455
Income (loss) from operations	13,377	47	(7,000)	(3,085)	3,339
Acquisition-related expenses	297	163	108	280	848
Amortization of acquired intangible assets and other purchase accounting adjustments	707	-	6,358	3,257	10,322
Adjusted income (loss) from operations	$ 14,381	$ 210	$ (534)	$ 452	$ 14,509

	Three Months Ended October 31, 2020				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 58,265	$ 18,961	$ -	$ 15,439	$ 92,665
Gross margin	29,695	5,943	-	5,213	40,851
Income (loss) from operations	15,386	(995)	-	(493)	13,898
Acquisition-related expenses	171	94	58	91	414
Amortization of acquired intangible assets and other purchase accounting adjustments	715	-	-	-	715
Adjusted income (loss) from operations	$ 16,272	$ (901)	$ 58	$ (402)	$ 15,027

	Six Months Ended October 30, 2021				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 94,638	$ 37,594	$ 48,904	$ 41,881	$ 223,017
Gross margin	44,674	12,211	5,404	8,889	71,178
Income (loss) from operations	15,335	(416)	(13,381)	(10,312)	(8,774)
Acquisition-related expenses	721	414	1,492	1,475	4,102
Amortization of acquired intangible assets and other purchase accounting adjustments	1,414	-	11,549	6,483	19,446
Adjusted income (loss) from operations	$ 17,470	$ (2)	$ (340)	$ (2,354)	$ 14,774

	Six Months Ended October 31, 2020				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 114,467	$ 28,495	$ -	$ 37,153	$ 180,115
Gross margin	57,178	7,863	-	11,221	76,262
Income (loss) from operations	30,583	(5,140)	-	752	26,195
Acquisition-related expenses	171	94	58	91	414
Amortization of acquired intangible assets and other purchase accounting adjustments	1,376	-	-	-	1,376
Adjusted income (loss) from operations	$ 32,130	$ (5,046)	$ 58	$ 843	$ 27,985

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

	October 30, 2021					
	Small UAS	TMS	MUAS	All other	Corporate	Total
Identifiable assets	$ 97,657	$ 85,105	$ 390,126	$ 101,147	$ 251,272	$ 925,307

	April 30, 2021					
	Small UAS	TMS	MUAS	All other	Corporate	Total
Identifiable assets	$ 113,072	$ 71,707	$ 402,037	$ 39,581	$ 302,169	$ 928,566

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

The following is a discussion and analysis of our financial condition and the results of operations as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the "Consolidated Financial Statements" and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions. Such forward-looking statements are based on current expectations, estimates and projections about our industry, our management's beliefs and assumptions made by our management. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021, as updated by our subsequent filings under the Securities and Exchange Act of 1934, as amended ("the Exchange Act").

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

Critical Accounting Policies and Estimates

The following should be read in conjunction with the critical accounting estimates presented in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021.

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

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

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

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

We review cost performance 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 estimate of completion for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. During the three and six months ended October 30, 2021 and October 31, 2020, changes in accounting estimates on contracts recognized over time are presented below.

For the three months ended October 30, 2021 and October 31, 2020, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

	Three Months Ended	
	October 30, 2021	October 31, 2020
Gross favorable adjustments	$ 289	$ 1,140
Gross unfavorable adjustments	(1,137)	(891)
Net (unfavorable) favorable adjustments	$ (848)	$ 249

For the three months ended October 30, 2021, favorable cumulative catch-up adjustments of $0.3 million were primarily due to final cost adjustments on six contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of $1.1 million were primarily related to higher than expected costs on 18 contracts, which individually were not material.

For the three months ended October 31, 2020, favorable cumulative catch-up adjustments of $1.1 million were primarily due to final cost adjustments on nine contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of $0.9 million were primarily related to higher than expected costs on 30 contracts, which individually were not material.

For the six months ended October 30, 2021 and October 31, 2020, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

	Six Months Ended	
	October 30, 2021	October 31, 2020
Gross favorable adjustments	$ 872	$ 1,505
Gross unfavorable adjustments	(1,851)	(1,015)
Net (unfavorable) favorable adjustments	$ (979)	$ 490

For the six months ended October 30, 2021, favorable cumulative catch-up adjustments of $0.9 million were primarily due to final cost adjustments on 18 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of $1.9 million were primarily related to higher than expected costs on 17 contracts, which individually were not material.

For the six months ended October 31, 2020, favorable cumulative catch-up adjustments of $1.5 million were primarily due to final cost adjustments on 13 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 21 contracts, which individually were not material.

Fiscal Periods

Due to our fixed year end date of April 30, our first and fourth quarters each consist of approximately 13 weeks. The second and third quarters each consist of exactly 13 weeks. Our first three quarters end on a Saturday. Our 2022 fiscal year ends on April 30, 2022 and our fiscal quarters end on July 31, 2021, October 30, 2021 and January 29, 2022, respectively.

Results of Operations

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

Three Months Ended October 30, 2021 Compared to Three Months Ended October 31, 2020

	Three Months Ended	
	October 30, 2021	October 31, 2020
Revenue	$ 122,008	$ 92,665
Cost of sales	79,553	51,814
Gross margin	42,455	40,851
Selling, general and administrative	24,819	14,977
Research and development	14,297	11,976
Income from operations	3,339	13,898
Other (loss) income:		
Interest (expense) income, net	(1,379)	115
Other (expense) income, net	(10,048)	72
Income before income taxes	(8,088)	14,085
(Benefit from) provision for income taxes	(9,511)	2,491
Equity method investment loss, net of tax	1,133	(9,522)
Net income	$ 2,556	$ 2,072

We operate the business as three reportable segments, Small Unmanned Aircraft Systems ("Small UAS"), Tactical Missile Systems ("TMS") and Medium Unmanned Aircraft Systems ("MUAS"). The Small UAS segment consists of our existing small UAS product lines. The TMS segment consists of our existing tactical missile systems product lines. The MUAS segment consists of our recently acquired Arcturus business. All other includes HAPS, MacCready Works, which includes the recently acquired ISG and Telerob businesses. The following table (in thousands) sets forth our revenue, gross margin and adjusted operating income (loss) from operations generated by each reporting segment for the periods indicated. Adjusted operating income is defined as operating income before intangible amortization, amortization of purchase accounting adjustments, and acquisition related expenses.

	Three Months Ended October 30, 2021				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 54,714	$ 18,418	$ 26,525	$ 22,351	$ 122,008
Gross margin	27,754	6,222	2,223	6,256	42,455
Income (loss) from operations	13,377	47	(7,000)	(3,085)	3,339
Acquisition-related expenses	297	163	108	280	848
Amortization of acquired intangible assets and other purchase accounting adjustments	707	-	6,358	3,257	10,322
Adjusted income (loss) from operations	$ 14,381	$ 210	$ (534)	$ 452	$ 14,509

	Three Months Ended October 31, 2020				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 58,265	$ 18,961	$ -	$ 15,439	$ 92,665
Gross margin	29,695	5,943	-	5,213	40,851
Income (loss) from operations	15,386	(995)	-	(493)	13,898
Acquisition-related expenses	171	94	58	91	414
Amortization of acquired intangible assets and other purchase accounting adjustments	715	-	-	-	715
Adjusted income (loss) from operations	$ 16,272	$ (901)	$ 58	$ (402)	$ 15,027

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

	Three Months Ended		Six Months Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Cost of sales:				
Product sales	$ 2,320	$ 677	$ 3,987	$ 1,300
Contract services	3,141	—	5,503	—
Selling, general and administrative	4,861	38	9,956	76
Total	$ 10,322	$ 715	$ 19,446	$ 1,376

Revenue. Revenue for the three months ended October 30, 2021 was $122.0 million, as compared to $92.7 million for the three months ended October 31, 2020, representing an increase of $29.3 million, or 32%. The increase in revenue was due to an increase in service revenue of $23.9 million and an increase in product revenue of $5.5 million. The increase in service revenue was primarily due to an increase in MUAS service revenue, resulting from our acquisition of Arcturus in February 2021, partially offset by a decrease in TMS service revenue. The increase in product revenue was primarily due to an increases in UGV and MUAS product revenue, resulting from our acquisitions of Telerob and Arcturus, respectively, partially offset by a decrease in small UAS product revenue.

Cost of Sales. Cost of sales for the three months ended October 30, 2021 was $79.6 million, as compared to $51.8 million for the three months ended October 31, 2020, representing an increase of $27.7 million, or 54%. The increase in cost of sales was a result of an increase in service cost of sales of $23.0 million and an increase in product costs of sales of $4.7 million. The increase in service cost of sales was primarily due to the increase in service revenues resulting from the acquisitions of Arcturus and ISG, and an increase in intangible amortization expense and other purchase accounting adjustments. The increase in product costs of sales was primarily due to an increase in intangible amortization expense and other purchase accounting adjustments, an increase in product revenue and an unfavorable product mix. Cost of sales for the three months ended October 30, 2021 included $5.5 million of intangible amortization and other related non-cash purchase accounting expenses as compared to $0.7 million for the three months ended October 31, 2020. As a percentage of revenue, cost of sales increased from 56% to 65%, primarily due to an increase in the proportion of service revenue to total revenues resulting from the acquisitions of Arcturus and ISG, an increase in intangible amortization expense and other purchase accounting adjustments, and an unfavorable product mix.

Gross Margin. Gross margin for the three months ended October 30, 2021 was $42.5 million, as compared to $40.9 million for the three months ended October 31, 2020, representing an increase of $1.6 million, or 4%. The increase in gross margin was due to an increase in service margin of $0.9 million and an increase in product margin of $0.7 million. The increase in product margin was primarily due to the increase in product sales, partially offset by an increase in intangible amortization expense and other purchase accounting adjustments and an unfavorable product mix. The increase in service margin was primarily due to an increase in service revenue, partially offset by an increase in intangible amortization expense and other purchase accounting adjustments. As a percentage of revenue, gross margin decreased from 44% to 35%, primarily due to an increase in the proportion of service revenue to total revenues resulting from the acquisitions of Arcturus and ISG, an increase in intangible amortization expense and other purchase accounting adjustments, and an unfavorable product mix. With the acquisitions of Arcturus and ISG we expect that we will continue to experience a higher proportion of service revenue, which generally have lower gross margins than our product sales, in future quarters as compared to our historical trends in future quarters.

Selling, General and Administrative. SG&A expense for the three months ended October 30, 2021 was $24.8 million, or 20% of revenue, as compared to SG&A expense of $15.0 million, or 16% of revenue, for the three months ended October 31, 2020. The increase in SG&A expense was primarily due to an increase in headcount and related costs associated with our Arcturus, ISG and Telerob acquisitions and an increase in intangible amortization and acquisition related expenses, partially offset by a decrease in bonus and equity based compensation expense. SG&A included $5.7 million and $0.4 million of acquisition-related expenses and intangible amortization expenses for the three months ended October 30, 2021 and October 31, 2020, respectively.

Research and Development. R&D expense for the three months ended October 30, 2021 was $14.3 million, or 12% of revenue, as compared to R&D expense of $12.0 million, or 13% of revenue, for the three months ended October 31, 2020. R&D expense increased by $2.3 million, or 19%, for the three months ended October 30, 2021, primarily due to an increase in development activities regarding enhanced capabilities for our products, development of new product lines and to support our recently acquired businesses.

Interest (Expense) Income, net. Interest expense, net for the three months ended October 30, 2021 was $1.4 million compared to interest income, net of $0.1 million for the three months ended October 31, 2020. The increase in interest expense was primarily due to an increase in interest expense resulting from the term debt issued concurrent with the acquisition of Arcturus.

Other (Expense) Income, net. Other expense, net, for the three months ended October 30, 2021 was $10.0 million compared to other income, net of $0.1 million for the three months ended October 31, 2020. The increase was due to an additional legal accrual of $10.0 million for the expected settlement of all claims made by the buyers of our former EES business.

(Benefit from) Provision for Income Taxes. Our effective income tax rate was 117.6% for the three months ended October 30, 2021, as compared to 17.7% for the three months ended October 31, 2020. The increase in the effective income tax rate was primarily due to a change in estimate during the current quarter to reduce projected annual income (loss) before income taxes, combined with the year over year decrease in projected annual income (loss) before income taxes.

Equity Method Investment Income (Loss), net of Tax. Equity method investment income, net of tax for the three months ended October 30, 2021 was $1.1 million compared to equity method investment loss, net of tax of $9.5 million for the three months ended October 31, 2020. The increase was primarily due to a loss of $8.4 million for our proportion of HAPSMobile impairment of its investment in Loon LLC during the three months ended October 31, 2020. The equity method investment income during the current quarter was due to an increase in our limited partnership investment.

Six Months Ended October 30, 2021 Compared to Six Months Ended October 31, 2020

	Six Months Ended October 30, 2021	Six Months Ended October 31, 2020
Revenue	$ 223,017	$ 180,115
Cost of sales	151,839	103,853
Gross margin	71,178	76,262
Selling, general and administrative	51,947	26,988
Research and development	28,005	23,079
(Loss) income from operations	(8,774)	26,195
Other (loss) income:		
Interest (expense) income, net	(2,654)	323
Other (expense) income, net	(10,394)	105
(Loss) income before income taxes	(21,822)	26,623
(Benefit from) provision for income taxes	(10,468)	3,698
Equity method investment loss, net of tax	(8)	(10,810)
Net (loss) income	$ (11,362)	$ 12,115

The following table (in thousands) sets forth our revenue, gross margin and adjusted operating income (loss) from operations generated by each reporting segment for the periods indicated. Adjusted operating income is defined as operating income before intangible amortization, amortization of purchase accounting adjustments, and acquisition related expenses.

	Six Months Ended October 30, 2021				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 94,638	$ 37,594	$ 48,904	$ 41,881	$ 223,017
Gross margin	44,674	12,211	5,404	8,889	71,178
Income (loss) from operations	15,335	(416)	(13,381)	(10,312)	(8,774)
Acquisition-related expenses	721	414	1,492	1,475	4,102
Amortization of acquired intangible assets and other purchase accounting adjustments	1,414	-	11,549	6,483	19,446
Adjusted income (loss) from operations	$ 17,470	$ (2)	$ (340)	$ (2,354)	$ 14,774

	Six Months Ended October 31, 2020				
	Small UAS	TMS	MUAS	All other	Total
Revenue	$ 114,467	$ 28,495	$ -	$ 37,153	$ 180,115
Gross margin	57,178	7,863	-	11,221	76,262
Income (loss) from operations	30,583	(5,140)	-	752	26,195
Acquisition-related expenses	171	94	58	91	414
Amortization of acquired intangible assets and other purchase accounting adjustments	1,376	-	-	-	1,376
Adjusted income (loss) from operations	$ 32,130	$ (5,046)	$ 58	$ 843	$ 27,985

Revenue. Revenue for the six months ended October 30, 2021 was $223.0 million, as compared to $180.1 million for the six months ended October 31, 2020, representing an increase of $42.9 million, or 24%. The increase in revenue was due to an increase in service revenue of $42.7 million and an increase in product revenue of $0.2 million. The increase in service revenue was primarily due to an increase in MUAS service revenue, resulting from our acquisition of Arcturus in February 2021, and small UAS service revenue, partially offset by a decrease in HAPS service revenue. The increase in product revenue was primarily due to an increase in TMS revenue, an increase in UGV and MUAS product revenue, resulting from our acquisitions of Telerob and Arcturus, respectively, partially offset by a decrease in small UAS product revenue.

Cost of Sales. Cost of sales for the six months ended October 30, 2021 was $151.8 million, as compared to $103.9 million for the six months ended October 31, 2020, representing an increase of $48.0 million, or 46%. The increase in cost of sales was a result of an increase in service cost of sales of $42.8 million and an increase in product costs of sales of $5.2 million. The increase in service cost of sales was primarily due to the increase in service revenues resulting from the acquisitions of Arcturus and ISG, and an increase in intangible amortization expense and other purchase accounting adjustments. The increase in product costs of sales was primarily due to an increase in intangible amortization expense and other purchase accounting adjustments and an unfavorable product mix. Cost of sales for the six months ended October 30, 2021 included $9.5 million of intangible amortization and other related non-cash purchase accounting expenses as compared to $1.3 million for the six months ended October 31, 2020. As a percentage of revenue, cost of sales increased from 58% to 68%, primarily due to an increase in the proportion of service revenue to total revenues resulting from the acquisitions of Arcturus and ISG, an increase in intangible amortization expense and other purchase accounting adjustments, and an unfavorable product mix.

Gross Margin. Gross margin for the six months ended October 30, 2021 was $71.2 million, as compared to $76.3 million for the six months ended October 31, 2020, representing a decrease of $5.1 million, or 7%. The decrease in gross margin was due to a decrease in product margin of $5.0 million and a decrease in service margin of $0.1 million. The decrease in product margin was primarily due to an increase in intangible amortization expense and other purchase accounting adjustments and an unfavorable product mix. The decrease in service margin was primarily due to an increase in intangible amortization expense and other purchase accounting adjustments, partially offset by the increase in service revenue. As a percentage of revenue, gross margin decreased from 42% to 32%, primarily due to an increase in the proportion of service revenue to total revenues resulting from the acquisitions of Arcturus and ISG, an increase in intangible amortization expense and other purchase accounting adjustments, and an unfavorable product mix. With the acquisitions of Arcturus and ISG we expect that we will continue to experience a higher proportion of service revenue, which generally have lower gross margins than our product sales, in future quarters as compared to our historical trends.

***Selling, General and Administrative*.** SG&A expense for the six months ended October 30, 2021 was $51.9 million, or 23% of revenue, as compared to SG&A expense of $27.0 million, or 15% of revenue, for the six months ended October 31, 2020. The increase in SG&A expense was primarily due to an increase in headcount and related costs associated with our Arcturus, ISG and Telerob acquisitions and an increase in intangible amortization and acquisition related expenses. SG&A included $14.0 million and $0.5 million of acquisition-related expenses and intangible amortization expenses for the six months ended October 30, 2021 and October 31, 2020, respectively.

Research and Development. R&D expense for the six months ended October 30, 2021 was $28.0 million, or 13% of revenue, as compared to R&D expense of $23.1 million, or 13% of revenue, for the six months ended October 31, 2020. R&D expense increased by $4.9 million, or 21%, for the six months ended October 30, 2021, primarily due to an increase in development activities regarding enhanced capabilities for our products, development of new product lines and to support our recently acquired businesses.

Interest (Expense) Income, net. Interest expense, net for the six months ended October 30, 2021 was $2.7 million compared to interest income, net of $0.3 million for the six months ended October 31, 2020. The increase in interest expense was primarily due to an increase in interest expense resulting from the term debt issued concurrent with the acquisition of Arcturus.

Other (Expense) Income, net. Other expense, net, for the six months ended October 30, 2021 was $10.4 million compared to other income, net of $0.1 million for the six months ended October 31, 2020. The increase was due to an additional legal accrual of $10.0 million for the expected settlement of all claims made by the buyers of our former EES business.

(Benefit from) Provision for Income Taxes. Our effective income tax rate was 48.0% for the six months ended October 30, 2021, as compared to a provision for 13.9% for the six months ended October 31, 2020. The increase in the effective income tax rate was primarily due to lower projected annual income (loss) before income taxes in the current fiscal year as compared to the prior fiscal year.

Equity Method Investment Loss, net of Tax. Equity method investment loss, net of tax for the six months ended October 30, 2021 was $8 thousand compared to $10.8 million for the six months ended October 31, 2020. The decrease was primarily due to a loss of $8.4 million for our proportion of HAPSMobile impairment of its investment in Loon LLC during the three months ended October 31, 2020. During the six months ended October 30, 2021 equity method losses from HAPSMobile were largely offset by equity method income from our limited partnership investment.

Backlog

Consistent with ASC 606, we define funded backlog as remaining performance obligations under firm orders for which funding is currently appropriated to us under a customer contract. As of October 30, 2021, our funded backlog was approximately $252.0 million.

In addition to our funded backlog, we also had unfunded backlog of $155.1 million as of October 30, 2021. Unfunded backlog does not meet the definition of a performance obligation under ASC Topic 606. We define unfunded backlog as the total remaining potential order amounts under cost reimbursable and fixed price contracts with (i) multiple one-year options and indefinite delivery, indefinite quantity (“IDIQ”) contracts, or (ii) incremental funding. Unfunded backlog does not obligate the customer to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, if at all. Management believes that unfunded backlog does not provide a reliable measure of future estimated revenue under our contracts. Unfunded backlog, with the exception of the remaining potential value of the Flight Control Systems (“FCS”) domain, does not include the remaining potential value associated with a U.S. Army IDIQ-type contract for small UAS because values for each of the other domains within the contract have not been disclosed by the customer, and we cannot be certain that we will secure all task orders issued against the contract.

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

Liquidity and Capital Resources

On February 19, 2021, in connection with the consummation of the Arcturus Acquisition, we entered into a Credit Agreement for (i) a five-year $100 million revolving credit facility, which includes a $10 million sublimit for the issuance of standby and commercial letters of credit, and (ii) a five-year amortized $200 million term A loan (together the “Credit Facilities”). The Term Loan Facility requires payment of 5% of the outstanding obligations in each of the first four loan years, with the remaining 80.0% payable in loan year five, consisting of three quarterly payments of 1.25% each, with the remaining outstanding principal amount of the Term Loan Facility due and payable on the final maturity date. Proceeds from the Term Loan Facility were used in part to finance a portion of the cash consideration for the Arcturus Acquisition. Borrowings under the Revolving Facility may be used for working capital and other general corporate purposes. Refer to Note 10—Debt to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details. In addition, Telerob has a line of credit of €5.5 million available for issuing letters of credit of which €1.6 million ($1.8 million) was outstanding as of October 30, 2021.

The Credit Agreement contains certain customary representations and warranties and affirmative and negative covenants. Based upon our revised projections, there is a substantial risk that we may be required to make a prepayment to reduce the outstanding balance of our Term Loan Facility or to obtain an amendment to the Credit Agreement to remain in compliance with all of the financial covenants in the Credit Agreement during the fiscal quarter ending January 29, 2022. We currently estimate the range of the potentially required prepayment to be $50 million to $60 million. We are in discussions with the lenders regarding obtaining an amendment to the Credit Agreement to allow us to remain in compliance with the financial covenants; however, if we are not able to obtain such an amendment to the Credit Agreement, we have both the ability and intent to make any required prepayment. We expect to be in compliance with all financial covenants under the terms of our Credit Agreement, including any amendment to such agreement, during the quarter ending April 30, 2022 regardless of whether a required prepayment is made or loan amendment is obtained.

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

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

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

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

In December 2021, we agreed in principle subject to formal written documentation with Webasto to settle all existing claims related to the sale of our former EES business for $20 million and allowing Webasto to keep the holdback amount. Under the terms of the expected settlement agreement, payment of the settlement amount will occur over a 24 month period after the execution of the settlement agreement.

Although not material in value alone or in aggregate, we made certain commitments outside of the ordinary course of business. We made commitments for capital contributions to a limited partnership fund. Under the terms of the limited partnership agreement, we have committed to make capital contributions totaling $10.0 million to the fund of which $0.6 million was remaining at October 30, 2021. We also made commitments to lend HAPSMobile funds to continue the development of Solar HAPS. The Company committed to and lent 500 million yen ($4.6 million) as of October 30, 2021. As of October 30, 2021, there are no further lending commitments to HAPSMobile. Under the terms of the agreement the loans are guaranteed and will be repaid when financing is obtained, or by Softbank. We currently anticipate repayment of all amounts loaned to HAPS within the fiscal year ended April 30, 2022.

Cash Flows

The following table provides our cash flow data for the six months ended October 30, 2021 and October 31, 2020 (in thousands):

	Six Months Ended	
	October 30, 2021	October 31, 2020
	(Unaudited)	
Net cash (used in) provided by operating activities	$ (3,344)	$ 58,593
Net cash used in investing activities	$ (34,787)	$ (31,944)
Net cash used in financing activities	$ (12,064)	$ (1,692)

Cash (Used in) Provided by Operating Activities. Net cash used in operating activities for the six months ended October 30, 2021 increased by $61.9 million to $3.3 million, as compared to net cash provided by operating activities of $58.6 million for the six months ended October 31, 2020. The increase in net cash used in operating activities was primarily due to a decrease in net income of $23.5 million and a decrease in cash as a result of changes in operating assets and liabilities of $55.2 million, largely related to accounts receivable and unbilled retentions and receivables due to year over year timing differences and income taxes receivable, partially offset by an increase in depreciation and amortization of $24.3 million.

Cash Used in Investing Activities. Net cash used in investing activities increased by $2.8 million to $34.8 million for the six months ended October 30, 2021, as compared to net cash used by investing activities of $31.9 million for the six months ended October 31, 2020. The increase in net cash used in investing activities was primarily due an increase in cash used for the acquisition of Telerob of $46.2 million and a decrease in redemptions of available-for-sale investments of $61.7 million, partially offset by a decrease in purchases of available-for-sale investments of $116.9 million.

Cash Used in Financing Activities. Net cash used in financing activities increased by $10.4 million to $12.1 million for the six months ended October 30, 2021, as compared to net cash used by financing activities of $1.7 million for the six months ended October 31, 2020. The increase in net cash used by financing activities was primarily due to an increase in holdback and retention payments related to a prior business acquisition of $6.0 million and an increase in payments of loan principal of $5.0 million.

Contractual Obligations

During the three and six months ended October 30, 2021, there were no material changes in our contractual obligations and commercial commitments from those disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021.

Off-Balance Sheet Arrangements

As of October 30, 2021, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of 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.

New Accounting Standards

Please refer to Note 1—Organization and Significant Accounting Policies to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of new accounting pronouncements and accounting pronouncements adopted during the six months ended October 30, 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

It is our policy not to enter into interest rate derivative financial instruments. On February 19, 2021 in connection with the consummation of the Arcturus Acquisition, we entered into the Credit Facilities. The current outstanding balance of the Credit Facilities is $195.0 million and bears a variable interest rate. If market interest rates increase significantly, interest due on the Credit Facilities would increase.

Foreign Currency Exchange Rate Risk

Since a significant part of our sales and expenses are denominated in U.S. dollars, we have not experienced significant foreign exchange gains or losses to date. We occasionally engage in forward contracts in foreign currencies to limit our exposure on non-U.S. dollar transactions. With the acquisition of Telerob, a portion of our cash balance is denominated in Euros which is Telerob’s functional currency.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

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

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

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of October 30, 2021, the end of the period covered by this Quarterly Report on Form 10-Q.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of October 30, 2021, the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

On February 19, 2021 and May 3, 2021, we acquired Arcturus and Telerob, respectively, and, as a result, we have begun integrating certain processes, systems and controls relating to Arcturus and Telerob into our existing system of internal control over financial reporting in accordance with our integration plans. We do not believe these represent a material change. There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended October 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 22, 2019, Webasto filed a lawsuit, which was subsequently amended on April 5, 2019, against us in Delaware Superior Court, arising from the sale of the EES Business to Webasto in June 2018. Webasto again amended the complaint in May 2021 to include additional claims. The lawsuit generally alleges several claims against us for breach of contract, indemnity, declaratory judgment, and fraud and misrepresentation, including allegations regarding inaccuracy of certain diligence disclosures, financial disclosures, failure to provide certain consents to contract assignments and related to the previously announced recall. Webasto seeks to recover the costs of the recall and other damages totaling over $100 million in addition to attorneys' fees, costs, and punitive damages. Additionally, Webasto is seeking a declaratory judgment that we did not meet the requirements to receive the additional $6.5 million of the purchase price which was held back at the closing of the transaction (the "Holdback Amount"). On August 16, 2019, we filed our answer to Webasto's amended complaint filed in April 2019 and a counterclaim against Webasto seeking payment of the Holdback Amount and declaratory relief regarding Webasto's cancellation of an assigned contract. On June 2, 2021, we filed an answer to Webasto's second amended complaint filed in May 2021.

In order to avoid the future cost, expense, and distraction of continued litigation, we engaged in settlement negotiations with Webasto and on December 2, 2021 reached an agreement in principle subject to formal documentation with Webasto to settle all claims in the lawsuit for $20 million and allowing Webasto to keep the holdback amount. We are currently negotiating a mutually agreeable written settlement agreement, under which we will not admit to any fault or wrongdoing, to settle all claims officially. We hope to execute the settlement agreement during our third quarter of fiscal year 2022. Should we not be able to negotiate and sign a mutually acceptable settlement agreement with Webasto, we will continue with discovery in the case and defend ourselves vigorously.

As of the date of this filing, trial is set for July 11, 2022. We expect nationwide court closures and restrictions resulting from the global COVID-19 pandemic to continue easing, but we expect the possibility of another trial continuance to account for pandemic-related delays (especially related to Europe where many relevant witnesses reside) and therefore trial could be pushed into 2023 should the parties not be successful in negotiating a mutually agreement written settlement agreement.

On August 9, 2021, a former employee filed a class action complaint against AeroVironment in California Superior Court in Los Angeles, California alleging various claims pursuant to the California Labor Code related to wages, meal breaks, overtime and other recordkeeping matters. The complaint seeks a jury trial and payment of various alleged unpaid wages, penalties, interest and attorneys' fees in unspecified amounts. We must file our answer to the complaint the litigation on or before December 16, 2021.

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

ITEM 1A. RISK FACTORS

Except as set for below, there have been no material changes to the risk factors disclosed under Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended April 30, 2021. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

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

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

In addition, certain raw materials and components used in the manufacture of our products and in our development programs are periodically subject to supply shortages, and our business is subject to the risk of price increases and periodic delays in delivery. Particularly, the market for electronic components is experiencing increased demand and a global shortage of semiconductors, creating substantial uncertainty regarding our suppliers' ongoing timely delivery of these components to us. In the quarter ended October 30, 2021, we experienced delays in receiving of certain electronic components for our product lines resulting from the global shortage and began experiencing delays in receiving other components for our products, which caused delays in production and development programs and negatively affected our revenue and results for the period and could negatively impact our revenue and results in future periods. We expect shortages in certain critical components to continue through at least the remainder of our fiscal year 2022. Should such shortages of components continue or additional shortages occur and we are unable to obtain components from third party suppliers in the quantities and of the quality that we require, on a timely basis and at acceptable prices, then we may be impaired in our ability to execute development programs on schedule or deliver products on a timely or cost-effective basis to our customers. Shortages in components for our products and delays in obtaining components for our products could cause customers to terminate their contracts with us, delay orders from us or cause us to delay accepting orders, negatively impact our ability to win new programs and/or contracts, negatively impact and disrupt our development programs, increase our costs and seriously harm our business, results of operations and financial condition. Moreover, if any of our suppliers become financially unstable, or otherwise unable or unwilling to provide us with raw materials or components, then we may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to redesign our products to accommodate components from different suppliers. Even if we identify alternate suppliers, we may experience significant delays in manufacturing and shipping our products to customers and incur additional development, manufacturing and other costs to establish such alternative sources, are required to redesign our products and to complete additional quality control procedures. We have experienced increased costs for components, as well as increased shipping, warehousing and inventory costs. We cannot predict the extent to which these costs will continue and/or continue to increase or if we will be able to obtain replacement components within the time frames that we require at an affordable cost, if at all.

In particular, governmental measures responsive to the global COVID-19 pandemic have disrupted manufacturing and some supply chains, including our supply chain, which has had, and is expected to continue to have, a significant impact, both direct and indirect, on businesses and commerce worldwide, including our business and operations. We have experienced delays in obtaining certain key components and while we have sought to keep stock of all our raw materials and other product components with long lead times to assist in the event that our supply chain is disrupted, the prolonged outbreak of COVID-19 and the related global supply chain shortages have depleted our on-hand stock of certain components and continues to deplete our reserves of other components, which if the COVID-19 outbreak continues and results in an additional commercial and/or governmental restrictions, may continue to impact our ability to obtain certain raw materials and certain components used in the manufacture of our products and in our development programs.

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

Because we generate a significant portion of our total sales, including our small and medium UAS and TMS sales, from the U.S. government and its agencies, our results of operations could be adversely affected by government spending caps or changes in government budgetary priorities, as well as by delays in the government budget process, program starts, or the award of contracts or orders under existing contracts. As a result, our business may be impacted due to shifts in the political environment and changes in the government and agency leadership positions under the new U.S. administration. We cannot assure you that current levels of congressional funding for our products and services will continue and that our business will not decline. If annual budget appropriations or continuing resolutions are not enacted timely, we could face U.S. government shutdowns, which could adversely impact our programs and contracts with the U.S. government, our ability to receive timely payment from U.S. government entities and our ability to timely obtain export licenses for our products to fulfill contracts with our international customers.

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

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

With the inception of the global war on terror, operational activity in the US-CENTCOM combatant command area of operations led to broad deployment and increased demand for UAS and TMS products, training and spares. Over the course of the prior six years, the tempo of Department of Defense counterinsurgency operations receded, reducing demand for certain of our small UAS and TMS products, training and spares 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 and competition for our UAS and TMS products and our ISR services, in terms of existing, additional or replacement programs. If defense transformation or overseas operations slow down further or cease in key operational areas, then our business, financial condition and results of operations could be impacted negatively.

In the past 18 months, the operations tempo in the U.S. Department of Defense both of training and deployments, both domestically and overseas, has reduced as a result of the COVID-19 pandemic. This has negatively affected demand for spares, repairs, and replacement product ordinarily required for the operation and maintenance of our UAS products. We cannot predict whether this reduction in demand will continue and to the extent it may cause an adverse impact on our results of operations.

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

In December 2019, a novel strain of a virus named SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2), or coronavirus, which causes coronavirus disease, or COVID-19, was reported to have surfaced in Wuhan, China, and has reached multiple other regions and countries, including the United States and, more specifically, Southern California, where our primary operations are located. The coronavirus pandemic is evolving, and to date has led to the implementation of various responses and evolving public health safety measures. Although our operations have mostly continued uninterrupted during the COVID-19 outbreak, adoption of work from home protocols, social distancing measures in the workplace, international travel restrictions, vaccine mandates and other responsive actions have required certain changes to our operations. In particular, additional surges in infection rates and resulting travel disruptions, quarantine requirements or other similar logistics restrictions, may further reduce our and our customers' capabilities to travel, domestically and internationally, which may impact our ability to perform certain contracts, develop and renew contracts, or market our products, or could otherwise disrupt portions of our business and have a material adverse effect on our results of operations. Further, the applicability of a vaccine requirement to our workforce has been met with varying levels of support and resistance, creating tensions in an already competitive labor market.

Global health concerns, such as the coronavirus pandemic, could result in social, economic and labor instability in the countries in which we or the third parties with whom we engage operate. It is not currently possible to ascertain the overall impact of the COVID-19 outbreak, if any, on our business. The extent to which COVID-19 impacts on our business, financial condition and results of operations and those of our third party partners will depend on future developments as to the geographic presence of COVID-19, new and potentially more contagious variants of the SARS-CoV-2 virus, rates of vaccination, government and healthcare responses to such spread including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others, which remain highly uncertain.

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

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

Based on current projections, there is a substantial risk that we may be in violation of the financial covenants under our credit agreement which could have a material adverse effect on our business and results of operations.

Based upon our current projections, there is a substantial risk that we may be in violation of the financial covenants of our credit agreement during the fiscal quarter ending January 29, 2022 if we do not make a prepayment to reduce the outstanding balance of our outstanding loan or obtain an amendment to the credit agreement to remain in compliance with the covenants. While we are in discussions with the lender regarding obtaining an amendment, there can be no assurance that we will be successful in negotiating a mutually acceptable amendment to the credit agreement. If we are required to make a prepayment in order to stay in compliance with the credit agreement, our business and operations could be negatively affected. If we are unable to make a prepayment or enter into an amendment to the credit agreement to remain in compliance with the covenants, an event of default may occur under the credit agreement, upon the occurrence of which, the lenders may cease making future loans under the agreement and may declare all amounts owing under the credit agreement to be immediately due and payable which would adversely affect our business and results of operations.

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. We have experienced shortages of skilled employees that has negatively affected our progress on development programs and our results of operations. We cannot predict the extent to which these shortages will continue or the extent to which they could negatively impact our development programs and results of operations in future periods.

A recent executive order issued by President Biden generally requires that employees of U.S. government contractors receive COVID-19 vaccinations, unless an employee requests and receives a medical or religious accommodation. While the loss of certain employees due to this vaccine mandate has not had a significant impact on our operations to date, our ability to recruit skilled employees in the future may be negatively impacted by the vaccine mandate.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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 $25.0 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 Share Repurchase 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. No shares were repurchased in the six months ended October 30, 2021. As of October 30, 2021, approximately $21.2 million remained authorized for future repurchases under the Share Repurchase Program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of AeroVironment, Inc.
3.2(2)	Third Amended and Restated Bylaws of AeroVironment, Inc.
10.1*(3)	AeroVironment, Inc. 2021 Equity Incentive Plan
10.2*(3)	Form of Stock Option Grant Notice and Stock Option Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan
10.3*(3)	Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan (Severance Plan Participants)
10.4*(3)	Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan (Non-Severance Plan Participants)
10.5*(3)	Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan (Non-Employee Directors)
10.6*(3)	Form of Performance Restricted Stock Award Grant Notice and Performance Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan
10.1*(3)	AeroVironment, Inc. 2021 Equity Incentive Plan
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32#	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document – The instance document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File formatted as Inline XBRL and contained in Exhibit 101

(1) Incorporated by reference herein to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed March 9, 2007 (File No. 001-33261).

(2) Incorporated by reference herein to Exhibit 3.3 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-8 (File No. 333-260227)

* Indicates management contract or compensatory plan.

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

SIGNATURES

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

Date: December 7, 2021

AEROVIRONMENT, INC.

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

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

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

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

I, Wahid Nawabi, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: December 7, 2021

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

Exhibit 31.2

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

I, Kevin P. McDonnell, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: December 7, 2021

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

Exhibit 32

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

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

The Quarterly Report on Form 10-Q for the quarter ended October 30, 2021 (the “Periodic Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

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

Dated: December 7, 2021

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.