

AeroVironment Inc  
Form 10-Q  
March 06, 2013  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

---

**FORM 10-Q**

---

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

For the quarterly period ended January 26, 2013

OR

**o**                    **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)

Edgar Filing: AeroVironment Inc - Form 10-Q

**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-2705790**

(I.R.S. Employer Identification No.)

**181 W. Huntington Drive, Suite 202**

**Monrovia, California**

(Address of principal executive offices)

**91016**

(Zip Code)

**(626) 357-9983**

(Registrant's telephone number, including area code)

**N/A**

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

---

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

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 February 22, 2013, the number of shares outstanding of the registrant's common stock, \$0.0001 par value, was 22,414,227.



Table of Contents

**AeroVironment, Inc.**

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Financial Statements:</u>	
	<u>Consolidated Balance Sheets as of January 26, 2013 (Unaudited) and April 30, 2012</u>	3
	<u>Consolidated Statements of Income for the three and nine months ended January 26, 2013 (Unaudited) and January 28, 2012 (Unaudited)</u>	4
	<u>Consolidated Statements of Comprehensive Income for the three and nine months ended January 26, 2013 (Unaudited) and January 28, 2012 (Unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the nine months ended January 26, 2013 (Unaudited) and January 28, 2012 (Unaudited)</u>	6
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 4.</u>	<u>Controls and Procedures</u>	19

**PART II. OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>	20
<u>Item 1A.</u>	<u>Risk Factors</u>	20
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	20
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	20
<u>Item 5.</u>	<u>Other Information</u>	20
<u>Item 6.</u>	<u>Exhibits</u>	20
<u>Signatures</u>		21
<u>Exhibit Index</u>		

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AeroVironment, Inc.****Consolidated Balance Sheets****(In thousands except share and per share data)**

	<b>January 26, 2013 (Unaudited)</b>	<b>April 30, 2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 63,975	\$ 64,220
Short-term investments	69,811	77,152
Accounts receivable, net of allowance for doubtful accounts of \$815 at January 26, 2013 and \$921 at April 30, 2012	31,600	56,417
Unbilled receivables and retentions	15,409	27,034
Inventories, net	63,597	43,539
Income tax receivable	8,349	
Deferred income taxes	9,785	9,377
Prepaid expenses and other current assets	4,283	4,030
Total current assets	266,809	281,769
Long-term investments	60,928	58,457
Property and equipment, net	21,714	23,515
Deferred income taxes	5,180	5,209
Other assets	4,159	201
Total assets	\$ 358,790	\$ 369,151
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 15,777	\$ 20,213
Wages and related accruals	9,652	19,076
Income taxes payable		8,788
Customer advances	5,915	5,124
Other current liabilities	6,877	9,898
Liability for uncertain tax positions	606	606
Total current liabilities	38,827	63,705
Wages and other accruals		1,203
Deferred rent	842	1,019
Liability for uncertain tax positions	4,026	4,026
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.0001 par value:		
Authorized shares	10,000,000; none issued or outstanding	
Common stock, \$0.0001 par value:		
Authorized shares	100,000,000	

## Edgar Filing: AeroVironment Inc - Form 10-Q

Issued and outstanding shares	22,417,427 at January 26, 2013 and 22,243,903 at April 30, 2012	2	2
Additional paid-in capital		129,588	124,954
Accumulated other comprehensive loss		(652)	(694)
Retained earnings		186,157	174,936
<b>Total stockholders' equity</b>		<b>315,095</b>	<b>299,198</b>
Total liabilities and stockholders' equity	\$	358,790	\$ 369,151

See accompanying notes to consolidated financial statements (unaudited).

Table of Contents**AeroVironment, Inc.****Consolidated Statements of Income (Unaudited)****(In thousands except share and per share data)**

	Three Months Ended		Nine Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Revenue:</b>				
Product sales	\$ 23,496	\$ 36,645	\$ 104,601	\$ 113,802
Contract services	23,591	35,319	81,441	100,531
	47,087	71,964	186,042	214,333
<b>Cost of sales:</b>				
Product sales	14,281	23,587	63,055	69,958
Contract services	13,133	20,944	48,173	64,597
	27,414	44,531	111,228	134,555
Gross margin	19,673	27,433	74,814	79,778
Selling, general and administrative	10,433	12,866	37,230	38,806
Research and development	10,306	7,238	27,828	23,640
(Loss) income from operations	(1,066)	7,329	9,756	17,332
<b>Other income:</b>				
Interest income	164	129	498	313
Other income	49		49	
(Loss) income before income taxes	(853)	7,458	10,303	17,645
(Benefit) provision for income taxes	(4,722)	1,714	(918)	4,988
Net income	\$ 3,869	\$ 5,744	\$ 11,221	\$ 12,657
<b>Earnings per share data:</b>				
Basic	\$ 0.17	\$ 0.26	\$ 0.51	\$ 0.58
Diluted	\$ 0.17	\$ 0.26	\$ 0.50	\$ 0.57
<b>Weighted average shares outstanding:</b>				
Basic	22,142,917	21,797,802	22,035,007	21,761,927
Diluted	22,408,377	22,317,015	22,375,126	22,269,675

See accompanying notes to consolidated financial statements (unaudited).

Table of Contents

**AeroVironment, Inc.**

**Consolidated Statements of Comprehensive Income (Unaudited)**

**(In thousands)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 26, 2013</b>	<b>January 28, 2012</b>	<b>January 26, 2013</b>	<b>January 28, 2012</b>
Net income	\$ 3,869	\$ 5,744	\$ 11,221	\$ 12,657
Other comprehensive income:				
Unrealized gain on investments, net of tax	15	44	42	87
Total comprehensive income	\$ 3,884	\$ 5,788	\$ 11,263	\$ 12,744

See accompanying notes to consolidated financial statements (unaudited).



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

	Nine Months Ended	
	January 26, 2013	January 28, 2012
<b>Operating activities</b>		
Net income	\$ 11,221	\$ 12,657
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	8,340	6,418
Provision for doubtful accounts	338	354
Deferred income taxes	(407)	(510)
Unrealized foreign currency gain	(53)	
Stock-based compensation	2,629	2,319
Tax benefit from exercise of stock options	1,536	664
Excess tax benefit from stock-based compensation		(115)
Gain on sale of property and equipment		(13)
Changes in operating assets and liabilities:		
Accounts receivable	24,479	19,809
Unbilled receivables and retentions	11,625	(2,541)
Inventories	(20,058)	(10,310)
Income tax receivable	(8,349)	
Other assets	(282)	(441)
Accounts payable	(4,436)	(17,759)
Other liabilities	(21,518)	(5,678)
Net cash provided by operating activities	5,065	4,854
<b>Investing activities</b>		
Acquisitions of property and equipment	(6,528)	(9,856)
Proceeds from the sale of property and equipment		13
Acquisition of intangible assets	(850)	
Investment in CybAero AB convertible notes	(3,037)	
Net redemptions of held-to-maturity investments	4,690	7,965
Net sales of available-for-sale investments	250	225
Net cash used in investing activities	(5,475)	(1,653)
<b>Financing activities</b>		
Excess tax benefit from stock-based compensation		115
Exercise of stock options	165	508
Net cash provided by financing activities	165	623
Net (decrease) increase in cash and cash equivalents	(245)	3,824
Cash and cash equivalents at beginning of period	64,220	62,041
Cash and cash equivalents at end of period	\$ 63,975	\$ 65,865
<b>Supplemental disclosure:</b>		
Unrealized gains on long-term investments recorded in other comprehensive income, net of deferred taxes of \$28 and \$59, respectively	\$ 42	\$ 87
Reclassification from share-based liability compensation to equity	\$ 401	\$

See accompanying notes to consolidated financial statements (unaudited).



Table of Contents

**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, support and operation of unmanned aircraft systems and efficient energy systems for various industries and governmental agencies.

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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 nine months ended January 26, 2013 are not necessarily indicative of the results for the full year ending April 30, 2013. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2012, included in the Company's Annual Report on Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

*Segments*

The Company's products are sold and divided among two reportable segments to reflect the Company's strategic goals. Operating segments are defined as components of an enterprise from which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive

## Edgar Filing: AeroVironment Inc - Form 10-Q

Officer, who reviews the revenue and gross margin results for each of these segments in order to make resource allocation decisions, including the focus of research and development ( R&D ) activities and assessing performance. The Company's reportable segments are business units that offer different products and services and are managed separately.

### *Investments*

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

### *Fair Values of Financial Instruments*

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

### *Government Contracts*

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

Table of Contents**AeroVironment, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

For example, during the course of its audits, the DCAA may question the Company's incurred project 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. 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.

***Earnings Per Share***

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

The reconciliation of basic to diluted shares is as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 26, 2013</b>	<b>January 28, 2012</b>	<b>January 26, 2013</b>	<b>January 28, 2012</b>
Denominator for basic earnings per share:				
Weighted average common shares outstanding, excluding unvested restricted stock	22,142,917	21,797,802	22,035,007	21,761,927
Dilutive effect of employee stock options, unvested restricted stock and restricted stock units	265,460	519,213	340,119	507,748
Denominator for diluted earnings per share	22,408,377	22,317,015	22,375,126	22,269,675

During the three and nine months ended January 26, 2013 and January 28, 2012, certain shares reserved for issuance upon exercise of stock options, shares of unvested restricted stock and restricted stock units were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive. The number of shares reserved for issuance upon exercise of stock options, shares of unvested restricted stock and restricted stock units that met this anti-dilutive criterion for the three months ended January 26, 2013 and January 28, 2012 was approximately 6,000 and 22,000, respectively. The number of shares reserved for issuance upon exercise of stock options, shares of unvested restricted stock and restricted stock units that met this anti-dilutive criterion for the nine months ended January 26, 2013 and January 28, 2012 was approximately 4,000 and 29,000, respectively.

***Recently Issued Accounting Standards***

## Edgar Filing: AeroVironment Inc - Form 10-Q

On May 1, 2012, the Company adopted changes in accordance with guidance issued by the Financial Accounting Standards Board ( FASB ), which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. The Company elected to adopt the two-statement option. The new guidance eliminated the option to present the components of other comprehensive income as part of the statement of equity. Other than the change in presentation, the adoption of these changes had no material impact on the Company's consolidated financial statements. The new guidance also required entities to present reclassification adjustments from accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented, which was indefinitely deferred in December of 2011. In February of 2013, the FASB issued guidance related to the reclassification adjustments and related adoption date, the Company will adopt the guidance regarding reclassification adjustments on May 1, 2013. Other than the change in presentation, the adoption of these changes will have no material impact on the Company's consolidated financial statements.

On May 1, 2012, the Company adopted changes in accordance with guidance issued by the FASB to provide a consistent definition of fair value and to ensure that the fair value measurement and disclosure requirements are similar between U.S. generally accepted accounting principles and International Financial Reporting Standards. The new guidance changed certain fair value measurement principles and enhanced the disclosure requirements, particularly for Level 3 fair value measurements. The adoption of these changes did not have a material impact on the Company's consolidated financial statements.

Table of Contents**AeroVironment, Inc.****Notes to Consolidated Financial Statements (Unaudited)****2. Investments**

Investments consist of the following (in thousands):

	January 26, 2013	April 30, 2012
Short-term investments:		
Held-to-maturity securities:		
Municipal securities	\$ 69,811	\$ 49,263
U.S. government securities		27,889
Total short-term investments	\$ 69,811	\$ 77,152
Long-term investments:		
Held-to-maturity securities:		
Municipal securities	\$ 54,912	\$ 52,261
Available-for-sale securities:		
Auction rate securities	6,016	6,196
Total long-term investments	\$ 60,928	\$ 58,457

**Held-To-Maturity Securities**

At January 26, 2013 and April 30, 2012, the balance of held-to-maturity securities consisted of state and local government municipal securities and U.S. Treasury bills and notes. Interest earned from these investments is recorded in interest income.

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the held-to-maturity investments as of January 26, 2013, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 124,723	\$ 66	\$ (14)	\$ 124,775
Total held-to-maturity investments	\$ 124,723	\$ 66	\$ (14)	\$ 124,775

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the held-to-maturity investments as of April 30, 2012, were as follows (in thousands):

Edgar Filing: AeroVironment Inc - Form 10-Q

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 101,524	\$ 48	\$ (24)	\$ 101,548
U.S. government securities	27,889		(1)	27,888
Total held-to-maturity investments	\$ 129,413	\$ 48	\$ (25)	\$ 129,436

The amortized cost and fair value of the Company's held-to-maturity securities by contractual maturity at January 26, 2013, were as follows (in thousands):

	Cost	Fair Value
Due within one year	\$ 69,811	\$ 69,842
Due after one year through three years	54,912	54,933
Total	\$ 124,723	\$ 124,775

**Available-For-Sale Securities**

As of January 26, 2013, the entire balance of available-for-sale securities consisted of four investment grade auction rate municipal bonds with maturities ranging from 7 to 22 years. These investments have characteristics similar to short-term investments, because at pre-determined intervals, generally ranging from 30 to 35 days, there is a new auction process at which the interest rates for these securities are reset to current interest rates. At the end of such period, the Company chooses to roll-over its holdings or redeem the investments for cash. A market maker facilitates the redemption of the securities and the underlying issuers are not required to redeem the investment within 365 days. Interest earned from these investments is recorded in interest income.



Table of Contents

**AeroVironment, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

During the fourth quarter of the fiscal year ended April 30, 2008, the Company began experiencing failed auctions on some of its auction rate securities. A failed auction occurs when a buyer for the securities cannot be obtained and the market maker does not buy the security for its own account. The Company continues to earn interest on the investments that failed to settle at auction, at the maximum contractual rate until the next auction occurs. In the event the Company needs to access funds invested in these auction rate securities, the Company may not be able to liquidate these securities at the fair value recorded on January 26, 2013 until a future auction of these securities is successful or a buyer is found outside of the auction process.

As a result of the failed auctions, the fair values of these securities are estimated utilizing a discounted cash flow analysis as of January 26, 2013. The analysis considers, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the estimated date upon which the security is expected to have a successful auction.

Based on the Company's ability to access its cash and cash equivalents, expected operating cash flows, and other sources of cash, the Company does not anticipate the current lack of liquidity of these investments will affect its ability to operate the business in the ordinary course. The Company believes the current lack of liquidity of these investments is temporary and expects that the securities will be redeemed or refinanced at some point in the future. The Company will continue to monitor the value of its auction rate securities at each reporting period for a possible impairment if a further decline in fair value occurs. The auction rate securities have been in an unrealized loss position for more than 12 months. The Company has the ability and the intent to hold these investments until a recovery of fair value, which may be at maturity and as of January 26, 2013, the Company did not consider these investments to be other-than-temporarily impaired.

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the available-for-sale investments as of January 26, 2013, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Auction rate securities	\$ 7,100	\$	\$ (1,084)	\$ 6,016
Total available-for-sale investments	\$ 7,100	\$	\$ (1,084)	\$ 6,016

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the available-for-sale investments as of April 30, 2012, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Auction rate securities	\$ 7,350	\$	\$ (1,154)	\$ 6,196
Total available-for-sale investments	\$ 7,350	\$	\$ (1,154)	\$ 6,196

## Edgar Filing: AeroVironment Inc - Form 10-Q

The amortized cost and fair value of the Company's auction rate securities by contractual maturity at January 26, 2013, were as follows (in thousands):

	Cost	Fair Value
Due after five through 10 years	\$ 1,700	\$ 1,579
Due after 10 years	5,400	4,437
<b>Total</b>	<b>\$ 7,100</b>	<b>\$ 6,016</b>

### 3. Inventories, net

Inventories consist of the following (in thousands):

	January 26, 2013	April 30, 2012
Raw materials	\$ 16,448	\$ 13,969
Work in process	18,405	7,390
Finished goods	32,308	24,934
Inventories, gross	67,161	46,293
Reserve for inventory obsolescence	(3,564)	(2,754)
<b>Inventories, net</b>	<b>\$ 63,597</b>	<b>\$ 43,539</b>

Table of Contents

**AeroVironment, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**4. Investment in CybAero AB Convertible Notes**

During the three months ended January 26, 2013, the Company entered into a subscription agreement to invest in two convertible notes to be issued by CybAero AB ( CybAero ), a publicly traded company in Sweden that develops and manufactures unmanned aerial vehicles. Each note is in the amount of 10 million Swedish Kronor ( SEK ) and is convertible into 10 million CybAero shares at the conversion price of 1 SEK per share. The maturity date of the notes is November 30, 2017 and each note bears an annual interest rate of 5%.

As of January 26, 2013, the notes had yet to be registered with the Swedish Companies Registration Office ( SCRO ) and therefore no registered securities had been issued to the Company. The Company is not entitled to the rights associated with the two convertible notes, including conversion into CybAero shares, until registration occurs with the SCRO. Upon registration of the notes with the SCRO, the Company can exercise its conversion right at any time through October 31, 2017. CybAero can prepay the notes with a three month notice to the Company and the Company may exercise its conversion rights during the three month notice. If certain conditions are satisfied after November 30, 2015, CybAero can require the Company to convert the two notes in their entirety into CybAero shares.

Due to the lack of registration and associated rights with registration, the initial investment amount of approximately \$3 million for the two convertible notes is recorded in long-term other assets on the balance sheet as of January 26, 2013. Subsequent to the balance sheet date of January 26, 2013, the two convertible notes were registered with the SCRO on February 8, 2013.

**5. 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.

## Edgar Filing: AeroVironment Inc - Form 10-Q

- 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 January 26, 2013, were as follows (in thousands):

Description	Fair Value Measurement Using Significant			Total
	Quoted prices in active markets for identical assets (Level 1)	other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Auction rate securities	\$	\$	\$ 6,016	\$ 6,016
<b>Total</b>	\$	\$	\$ 6,016	\$ 6,016

Due to the auction failures of the Company's auction rate securities that began in the fourth quarter of fiscal 2008, there are still no quoted prices in active markets for identical assets as of January 26, 2013. Therefore, the Company has classified its auction rate securities as Level 3 financial assets. The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in thousands):

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Auction Rate Securities	
Balance at April 30, 2012	\$	6,196
Transfers to Level 3		
Total gains (realized or unrealized)		
Included in earnings		
Included in other comprehensive income		70
Purchases, issuances and settlements, net		(250)
Balance at January 26, 2013	\$	6,016
The amount of total gains or (losses) for the period included in earnings (or change in net assets) attributable to the change in unrealized gains or losses relating to assets still held at January 26, 2013	\$	

Table of Contents**AeroVironment, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The auction rate securities are valued using a discounted cash flow model. The analysis considers, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the estimated date upon which the security is expected to have a successful auction. As of January 26, 2013, the inputs used in the Company's discounted cash flow analysis included current coupon rates ranging from 0.1% to 0.4%, estimated redemption periods of 7 to 22 years and discount rates of 7.4% to 18.8%. The discount rates were based on market rates for municipal bond securities, as adjusted for a risk premium to reflect the lack of liquidity of these investments. Assuming a higher discount rate, a longer estimated redemption period and lower coupon rates would result in a lower fair market value. Conversely, assuming a lower discount rate, a shorter estimated redemption period and higher coupon rates would result in a higher fair market value.

Based on the Company's ability to access its cash and cash equivalents, expected operating cash flows, and other sources of cash, the Company does not anticipate the current lack of liquidity on these investments will affect its ability to operate the business in the ordinary course. The Company believes the current lack of liquidity of these investments is temporary and expects that the securities will be redeemed or refinanced at some point in the future, allowing the Company to recover the cost of \$7.1 million. The Company will continue to monitor the value of its auction rate securities at each reporting period for a possible other-than-temporary impairment.

**6. 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 nine months ended January 26, 2013 and January 28, 2012 (in thousands):

	Three Months Ended		Nine Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Beginning balance	\$ 1,259	\$ 1,344	\$ 2,872	\$ 1,127
Warranty expense	500	785	1,708	2,037
Warranty claims settled	(390)	(482)	(3,211)	(1,517)
Ending balance	\$ 1,369	\$ 1,647	\$ 1,369	\$ 1,647

**7. 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 when the corresponding revenue is recognized, which is generally as the R&D services are performed. Revenue from customer-funded R&D was approximately \$11.1 million and \$28.1 million for the three and nine months ended January 26, 2013, respectively. Revenue from customer-funded R&D was approximately \$5.9 million and \$15.1 million for the three and nine months ended January 28, 2012, respectively.

## 8. Income Taxes

For the three and nine months ended January 26, 2013, the Company recorded a benefit for income taxes of \$4.7 million and \$0.9 million, respectively, yielding an effective benefit tax rate of 553.6% and 8.9%, respectively. For the three and nine months ended January 28, 2012, the Company recorded a provision for income taxes of \$1.7 million and \$5.0 million, respectively, yielding an effective tax rate of 23.0% and 28.3%, respectively. The variance from statutory tax rates for the three and nine months ended January 26, 2013 was primarily due to federal research and development tax credits. The variance from statutory rates for the three and nine months ended January 28, 2012 was primarily due to federal research and development tax credits.

## 9. Changes in Accounting Estimates

At the balance sheet date of January 26, 2013, the Company revised its estimate of its annual incentive bonus plan accrual and as a result reversed expense recorded previously in the current year. The change in estimate was a result of the Company projecting that thresholds in the annual incentive bonus plan will not be met. The change in estimate resulted in a cumulative catch-up adjustment to increase income from continuing operations and net income in the amount of \$4.3 million. The impact on basic earnings per share for the three and nine months ended January 26, 2013 was an increase of \$0.19 and \$0.20 per share, respectively. The impact on diluted earnings per share for the three and nine months ended January 26, 2013 was \$0.19 per share.

Table of Contents**AeroVironment, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

Also at the balance sheet date of January 26, 2013, the Company revised its estimate of its annual effective income tax rate and as a result reversed income tax expense recorded previously in the current year. The change in estimate was a result of the Company projecting lower than anticipated financial performance for the full fiscal year ending April 30, 2013. The change in estimate did not have an impact on income from continuing operations. The change in estimate resulted in a cumulative catch-up adjustment to increase net income in the amount of \$2.9 million. The impact on basic and diluted earnings per share for the three and nine months ended January 26, 2013 was an increase of \$0.13 per share.

**10. Segment Data**

The Company's product segments are as follows:

- **Unmanned Aircraft Systems ( UAS )** The UAS segment focuses primarily on the design, development, production, support and operation of innovative UAS that provide situational awareness and other mission effects to increase the security and operational effectiveness of the Company's customers.
- **Efficient Energy Systems ( EES )** The EES segment focuses primarily on the design, development, production, support and operation of innovative efficient electric energy systems that address the growing demand for electric transportation solutions.

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

The segment results are as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 26, 2013</b>	<b>January 28, 2012</b>	<b>January 26, 2013</b>	<b>January 28, 2012</b>
<b>Revenue:</b>				
UAS	\$ 37,665	\$ 57,247	\$ 151,904	\$ 176,383

Edgar Filing: AeroVironment Inc - Form 10-Q

EES	9,422	14,717	34,138	37,950
Total	47,087	71,964	186,042	214,333
Cost of sales:				
UAS	20,585	34,096	88,620	105,803
EES	6,829	10,435	22,608	28,752
Total	27,414	44,531	111,228	134,555
Gross margin:				
UAS	17,080	23,151	63,284	70,580
EES	2,593	4,282	11,530	9,198
Total	19,673	27,433	74,814	79,778
Selling, general and administrative	10,433	12,866	37,230	38,806
Research and development	10,306	7,238	27,828	23,640
(Loss) income from operations	(1,066)	7,329	9,756	17,332
Interest income	164	129	498	313
Other income	49		49	
(Loss) income before income taxes	\$ (853)	\$ 7,458	\$ 10,303	\$ 17,645



Table of Contents

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

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, 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 II, Item 1A, Risk Factors.

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**

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

There have been no material changes made to the critical accounting estimates during the periods presented in the consolidated financial statements from those disclosed in the Form 10-K for the fiscal year ended April 30, 2012.

**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 2013 fiscal year ends on April 30, 2013 and our fiscal quarters end on July 28, 2012, October 27, 2012 and January 26, 2013.

Table of Contents**Results of Operations**

Our operating segments are Unmanned Aircraft Systems, or UAS, and Efficient Energy Systems, or EES. The accounting policies for each of these segments are the same. In addition, a significant portion of our research and development, or R&D, selling, general and administrative, or SG&A, and general overhead resources are shared across our segments.

The following table sets forth our revenue and gross margin generated by each operating segment for the periods indicated (in thousands):

**Three Months Ended January 26, 2013 Compared to Three Months Ended January 28, 2012**

	Three Months Ended	
	January 26, 2013	January 28, 2012
<b>Revenue:</b>		
UAS	\$ 37,665	\$ 57,247
EES	9,422	14,717
Total	47,087	71,964
<b>Cost of sales:</b>		
UAS	20,585	34,096
EES	6,829	10,435
Total	27,414	44,531
<b>Gross margin:</b>		
UAS	17,080	23,151
EES	2,593	4,282
Total	19,673	27,433
Selling, general and administrative	10,433	12,866
Research and development	10,306	7,238
(Loss) income from operations	(1,066)	7,329
Interest income	164	129
Other income	49	
(Loss) income before income taxes	\$ (853)	\$ 7,458

**Revenue.** Revenue for the three months ended January 26, 2013 was \$47.1 million, as compared to \$72.0 million for the three months ended January 28, 2012, representing a decrease of \$24.9 million, or 35%. UAS revenue decreased by \$19.6 million, or 34%, to \$37.7 million for the three months ended January 26, 2013, primarily due to lower UAS product deliveries of \$10.2 million and lower service revenue of \$15.2 million, offset by higher customer-funded R&D revenue of \$5.8 million. The decrease in UAS product deliveries and service revenue was primarily due to decreased deliveries of small unmanned aircraft systems and related support services. The increase in customer-funded R&D revenue was primarily due to reimbursement of costs on the Global Observer Joint Capability Technology Demonstration contract. EES revenue decreased by \$5.3 million, or 36%, to \$9.4 million for the three months ended January 26, 2013. The decrease in EES revenue was primarily due to decreased deliveries of passenger electric vehicle charging systems, electrical vehicle test systems and industrial fast charge systems.

**Cost of Sales.** Cost of sales for the three months ended January 26, 2013 was \$27.4 million, as compared to \$44.5 million for the three months ended January 28, 2012, representing a decrease of \$17.1 million, or 38%. As a percentage of revenue, cost of sales decreased from 62% to 58%.

## Edgar Filing: AeroVironment Inc - Form 10-Q

UAS cost of sales decreased \$13.5 million, or 40%, to \$20.6 million for the three months ended January 26, 2013, primarily due to lower sales volume. As a percentage of revenue, cost of sales for UAS decreased from 60% to 55% due to lower manufacturing and engineering overhead support costs. EES cost of sales decreased \$3.6 million, or 35%, to \$6.8 million for the three months ended January 26, 2013. As a percentage of revenue, cost of sales for EES increased from 71% to 72%, primarily due to lower sales volume.

**Gross Margin.** Gross margin for the three months ended January 26, 2013 was \$19.7 million, as compared to \$27.4 million for the three months ended January 28, 2012, representing a decrease of \$7.8 million, or 28%. UAS gross margin decreased \$6.1 million, or 26%, to \$17.1 million for the three months ended January 26, 2013 primarily due to lower sales volume. As a percentage of revenue, gross margin for UAS increased from 40% to 45% due to lower manufacturing and engineering overhead support costs. EES gross margin decreased \$1.7 million, or 39%, to \$2.6 million for the three months ended January 26, 2013 primarily due to lower sales volume. As a percentage of revenue, EES gross margin decreased from 29% to 28%.

## Edgar Filing: AeroVironment Inc - Form 10-Q

### Table of Contents

**Selling, General and Administrative.** SG&A expense for the three months ended January 26, 2013 was \$10.4 million, or 22% of revenue, compared to SG&A expense of \$12.9 million, or 18% of revenue, for the three months ended January 28, 2012. SG&A expense decreased by \$2.4 million primarily due to lower accrued incentive compensation as a result of not achieving anticipated financial performance.

**Research and Development.** R&D expense for the three months ended January 26, 2013 was \$10.3 million, or 22% of revenue, compared to R&D expense of \$7.2 million, or 10% of revenue, for the three months ended January 28, 2012. The increase was primarily due to the procurement of government property associated with Global Observer.

**Interest Income.** Interest income for the three months ended January 26, 2013 was \$0.2 million, as compared to \$0.1 million for the three months ended January 28, 2012.

**Income Tax Benefit.** Our effective income tax benefit rate was 553.6% for the three months ended January 26, 2013, as compared to an income tax expense rate of 23.0% for the three months ended January 28, 2012. The decrease is primarily due to higher federal R&D tax credits and lower taxable income.

### *Nine Months Ended January 26, 2013 Compared to Nine Months Ended January 28, 2012*

	Nine Months Ended	
	January 26, 2013	January 28, 2012
Revenue:		
UAS	\$ 151,904	\$ 176,383
EES	34,138	37,950
Total	186,042	214,333
Cost of sales:		
UAS	88,620	105,803
EES	22,608	28,752
Total	111,228	134,555
Gross margin:		
UAS	63,284	70,580
EES	11,530	9,198
Total	74,814	79,778
Selling, general and administrative	37,230	38,806
Research and development	27,828	23,640
Income from operations	9,756	17,332
Interest income	498	313
Other income	49	
Income before income taxes	\$ 10,303	\$ 17,645

**Revenue.** Revenue for the nine months ended January 26, 2013 was \$186.0 million, as compared to \$214.3 million for the nine months ended January 28, 2012, representing a decrease of \$28.3 million, or 13%. UAS revenue decreased \$24.5 million, or 14%, to \$151.9 million for the nine months ended January 26, 2013, primarily due to decreased UAS service revenue of \$31.3 million and lower product deliveries of \$8.2

## Edgar Filing: AeroVironment Inc - Form 10-Q

million, offset by higher customer-funded R&D work of \$15.0 million. The decrease in UAS product deliveries and service revenue was primarily due to decreased deliveries of small unmanned aircraft systems and related support services, including Digital Data Link retrofits. The increase in UAS customer-funded R&D revenue was primarily due to increased activity related to Switchblade . EES revenue decreased by \$3.8 million, or 10%, to \$34.1 million for the nine months ended January 26, 2013. The decrease in EES revenue was primarily due to decreased deliveries of electric vehicle test systems and passenger electric vehicle charging systems, offset by increased deliveries of industrial electric vehicle charging systems.

**Cost of Sales.** Cost of sales for the nine months ended January 26, 2013 was \$111.2 million, as compared to \$134.6 million for the nine months ended January 28, 2012, representing a decrease of \$23.3 million, or 17%. As a percentage of revenue, cost of sales decreased from 63% to 60%. UAS cost of sales decreased \$17.2 million, or 16%, to \$88.6 million for the nine months ended January 26, 2013, primarily due to lower sales volume. As a percentage of revenue, cost of sales for UAS decreased from 60% to 58%. EES cost of sales decreased \$6.1 million, or 21%, to \$22.6 million for the nine months ended January 26, 2013, primarily due to decreased sales volume. As a percentage of revenue, cost of sales for EES decreased from 76% to 66%, primarily due to a favorable product mix and lower manufacturing and engineering overhead support costs.

Table of Contents

**Gross Margin.** Gross margin for the nine months ended January 26, 2013 was \$74.8 million, as compared to \$79.8 million for the nine months ended January 28, 2012, representing a decrease of \$5.0 million, or 6%. UAS gross margin decreased \$7.3 million, or 10%, to \$63.3 million for the nine months ended January 26, 2013 due to lower sales volume. As a percentage of revenue, gross margin for UAS increased from 40% to 42%. EES gross margin increased \$2.3 million, or 25%, to \$11.5 million for the nine months ended January 26, 2013, primarily due to a lower sales mix of lower margin products and lower manufacturing and engineering support overhead costs. As a percentage of revenue, EES gross margin increased from 24% to 34%, primarily due to a favorable product mix and lower manufacturing and engineering overhead support costs.

**Selling, General and Administrative.** SG&A expense for the nine months ended January 26, 2013 was \$37.2 million, or 20% of revenue, compared to SG&A expense of \$38.8 million, or 18% of revenue, for the nine months ended January 28, 2012. SG&A expense decreased by \$1.6 million primarily due to lower accrued incentive compensation as a result of not achieving anticipated financial performance.

**Research and Development.** R&D expense for the nine months ended January 26, 2013 was \$27.8 million, or 15% of revenue, compared to R&D expense of \$23.6 million, or 11% of revenue, for the nine months ended January 28, 2012. The increase was primarily due to the procurement of government property associated with Global Observer.

**Interest Income.** Interest income for the nine months ended January 26, 2013 was \$0.5 million, compared to interest income of \$0.3 million for the nine months ended January 28, 2012.

**Income Tax Benefit.** Our effective income tax benefit rate was 8.9% for the nine months ended January 26, 2013, as compared to an effective income tax expense rate of 28.3% for the nine months ended January 28, 2012. The decrease was primarily due to higher federal R&D tax credits.

**Backlog.** We define funded backlog as unfilled firm orders for products and services for which funding currently is appropriated to us under the contract by the customer. As of January 26, 2013 and April 30, 2012, our funded backlog was approximately \$70.5 million and \$93.2 million, respectively.

In addition to our funded backlog, we also had unfunded backlog of \$76.6 million and \$96.1 million as of January 26, 2013 and April 30, 2012, respectively. We define unfunded backlog as the total remaining potential order amounts under cost reimbursable and fixed price contracts with multiple one-year options, and indefinite delivery indefinite quantity, or IDIQ, contracts. Unfunded backlog does not obligate the U.S. government to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, if at all. Management believes that unfunded backlog does not provide a reliable measure of future estimated revenue under our contracts.

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 funded, may be terminated at the convenience of the U.S. government.

## Liquidity and Capital Resources

We currently have no material cash commitments, except for normal recurring trade payables, accrued expenses and ongoing research and development costs, all of which we anticipate funding through our existing working capital and funds provided by operating activities. The majority of our purchase obligations are pursuant to funded contractual arrangements with our customers. In addition, we do not currently anticipate significant investment in property, plant and equipment, and we believe that our existing cash, cash equivalents, cash provided by operating activities and other financing sources will be sufficient to meet our anticipated working capital, capital expenditure and debt service requirements, if any, during the next twelve months. There can be no assurance, however, that our business will continue to generate cash flow at current levels. If we are unable to generate sufficient cash flow from operations, then we may be required to sell assets, reduce capital expenditures or obtain additional financing. The global credit situation has imposed high levels of volatility and disruption in the capital markets, severely diminished liquidity and credit availability, and increased counterparty risk. Nevertheless, we anticipate that existing sources of liquidity and cash flows from operations will be sufficient to satisfy our cash needs for the foreseeable future.

Our primary liquidity needs are for financing working capital, investing in capital expenditures, supporting product development efforts, introducing new products and enhancing existing products and services, and promoting market acceptance and adoption of our products and services. Our future capital requirements, to a certain extent, are also subject to general conditions in or affecting the defense and electric vehicle industries and are subject to general economic, political, financial, competitive, legislative and regulatory factors that are beyond our control. Moreover, to the extent that existing cash, cash equivalents, cash from operations, and cash from short-term borrowing are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. To the extent we require additional funding, we cannot be certain that such funding will be available to us on acceptable terms, or at all. Although we are currently not a party to any material agreement or letter of intent with respect to potential investment in, or acquisitions of, businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing.

Table of Contents

Recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to access the capital markets to meet liquidity needs. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. Given the current instability of financial institutions, we cannot be assured that we will not experience losses on these deposits.

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

**Cash Flows**

The following table provides our cash flow data for the nine months ended January 26, 2013 and January 28, 2012 (in thousands):

	Nine Months Ended	
	January 26, 2013	January 28, 2012
	(Unaudited)	
Net cash provided by operating activities	\$ 5,065	\$ 4,854
Net cash used in investing activities	\$ (5,475)	\$ (1,653)
Net cash provided by financing activities	\$ 165	\$ 623

**Cash Provided by Operating Activities.** Net cash provided by operating activities for the nine months ended January 26, 2013 increased by \$0.2 million to \$5.1 million, compared to net cash provided by operating activities of \$4.9 million for the nine months ended January 28, 2012. This increase in net cash provided by operating activities was primarily due to higher depreciation and amortization of \$1.9 million, a higher tax benefit from stock-based compensation of \$1.0 million and higher stock-based compensation of \$0.3 million, partially offset by higher working capital of \$1.6 million and lower net income of \$1.4 million.

**Cash Used in Investing Activities.** Net cash used in investing activities increased by \$3.8 million to \$5.5 million for the nine months ended January 26, 2013, compared to net cash used in investing activities of \$1.7 million for the nine months ended January 28, 2012. The increase in net cash used in investing activities was primarily due to higher net purchases of investments of \$6.3 million, including the \$3.0 million investment in CybAero AB convertible notes and the acquisition of intangible assets for \$0.9 million, partially offset by lower acquisitions of property and equipment of \$3.3 million.



## Edgar Filing: AeroVironment Inc - Form 10-Q

**Cash Provided by Financing Activities.** Net cash provided by financing activities decreased by \$0.4 million to \$0.2 million for the nine months ended January 26, 2013, compared to \$0.6 million for the nine months ended January 28, 2012. During the nine months ended January 26, 2013, we received net proceeds from stock option exercises of \$0.2 million.

### **Off-Balance Sheet Arrangements**

During the third quarter, there were no material changes in our off-balance sheet arrangements or contractual obligations and commercial commitments from those disclosed in the Form 10-K for the fiscal year ended April 30, 2012.

### **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.

Table of Contents

**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 for a discussion of new accounting pronouncements.

**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. We do not currently have any significant interest rate exposure.

***Foreign Currency Exchange Rate Risk***

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

**ITEM 4. CONTROLS AND PROCEDURES**

***Controls and Procedures***

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

## Edgar Filing: AeroVironment Inc - Form 10-Q

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.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

### *Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended January 26, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any material legal proceedings. We are, however, subject to lawsuits from time to time in the ordinary course of business.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed under Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended April 30, 2012. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
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.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Label Linkbase Document.
101.PRE*	XBRL Taxonomy Presentation Linkbase Document.

---

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

Table of Contents

**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: March 5, 2013

AEROVIRONMENT, INC.

By: /s/ Timothy E. Conver  
Timothy E. Conver  
Chairman, Chief Executive Officer and President  
(Principal Executive Officer)

/s/ Jikun Kim  
Jikun Kim  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)