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# Innovative Solutions & Support, Inc. Announces Third Quarter Fiscal 2016 Financial Results

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## Terms:

**Dateline City:**
EXTON, Pa.

EXTON, Pa.--(BUSINESS WIRE)--Innovative Solutions & Support, Inc. (“IS&S” or the “Company”) (ISSC) today announced its financial results for the third quarter of fiscal 2016 ended June 30, 2016.

For the third quarter of fiscal 2016, the Company reported total revenues of $6.5 million, compared to third quarter fiscal 2015 total revenues of $4.9 million. Gross profit for the third quarter of 2016 was $3.9 million, or more than double the same period a year ago. Gross margin in the quarter was 60% as production revenues were 50% higher than those of the comparable period a year ago. The Company reported third quarter 2016 net income of $227,000, or $0.01 per share, compared to a net loss of $3.5 million, or $0.21 per share, in the third quarter a year ago, of which $3.3 million was attributable to a non-cash, valuation allowance of the Company’s deferred tax assets.

Geoffrey Hedrick, Chairman and Chief Executive Officer of IS&S, said, “I am pleased to report another profitable quarter, once again largely due to an increasing proportion of higher margin production revenue. Gross margins in the quarter were 60%, which led to a doubling of gross profits in the quarter and helped maintain gross margins at the 60% level through the first nine months of this year. Similar to last quarter, the bottom line reflects a significant increase in year-over-year legal expenses as well as a strong commitment to internally fund research and development, which reached nearly 22% of revenues this quarter. Although new order activity has been uneven this year, orders are up over 50%, revenues are up almost 30% and cash flows from operations have improved by over 80% over the first nine months of this fiscal year as compared to fiscal 2015. Book-and-ship activity has played a meaningful role in quarterly results over the past 18 months, which, we expect to continue. We have never had a broader set of products or richer set of relationships than we do now, all of which we believe reflect our ability to deliver products that meet the industry’s intense price-for-performance demands and will drive top-line growth for the future. Financial results so far this year show that we have succeeded in returning to growth this year and that we will be entering the next fiscal year in an even stronger position.”

At June 30, 2016, the Company had $17.5 million of cash on hand, up approximately $1.2 million from September 30, 2015. Cash provided by operating activities was $0.7 million for the quarter. Cash balances also reflect the use of $170,000 to repurchase shares during the quarter.

New orders in the third quarter of fiscal 2016 were $5.3 million, and backlog was $6.4 million at June 30, 2016. Backlog excludes potential future production orders from products in development under the Company’s engineering development contracts, including the Pilatus PC-24 and the KC-46A, which the Company expects to remain in production for a decade following completion of their respective development phases. The Company expects that these contracts will add to production sales already in backlog.

**Nine Months Results**

Total sales for the nine months ended June 30, 2016 were $21.7 million, an increase of 28%, compared to $16.9 million for the nine months ended June 30, 2015. Gross profit for the first nine months of fiscal 2016 was $13.1 million[(1)], up 109% from the year ago period. Net income for the nine months ended June 30, 2016 was $1.6 million, or $0.09 per share, compared to a loss of $3.3 million, or $0.20 per share, over the first three quarters of fiscal 2015.

Shahram Askarpour, President of IS&S, added, "Over the first three quarters of fiscal 2016 we have made significant progress in our strategy to broaden our product offering with more internally-developed solutions and to further diversify our customer base, both domestically and internationally. We have also effectively transitioned to primarily production revenues, a driver of significantly better gross margins and one of our key strategic imperatives. With an established and growing base of owners and operators who have successfully implemented an IS&S solution, we are seeing an increase in repeat business from these customers as they look to further upgrade their fleets. This is leading to a steady cadence of book-and-ship production order flow. By internally developing a range of new products targeting the NexGen mandate, such as Autothrottle and IGNS, we have a growing portfolio of products that can be adapted to many different aircraft with a minimal investment in additional engineering time or expense, thereby increasing our versatility and expanding our market opportunity. We remain focused on continuous product improvement and innovation, and believe that the progress achieved this year has us on track to continue to build value for our shareholders over the long-term."

[(1)]In January 2016, the company renegotiated an agreement with a customer whereby $1.3 million of an unbilled receivable and our obligations associated with certain product levels were canceled. The bad debt expense related to the impairment of the unbilled receivable was previously recognized in the company's September 30, 2015 audited financial statements. In addition, as a result of the changes to the agreement, we recognized an approximately $1.2 million positive impact to the statement of operations in the second quarter resulting from a reversal of $1.2 million in associated liabilities consisting of deferred revenue and a contract loss accrual.

**Conference Call**

The Company will be hosting a conference call on Thursday, August 11, 2016 at 10:00 a.m. EDT to discuss these results and its business outlook. Please use the following dial in number to register your name and company affiliation for the conference call: 877-883-0383 and enter the PIN Number 1647056. The call will also be carried live on the Investor Relations page of the Company web site at www.innovative-ss.com.

**About Innovative Solutions & Support, Inc.**

Headquartered in Exton, Pa., Innovative Solutions & Support, Inc. (www.innovative-ss.com) is a systems integrator that designs and manufactures flight guidance and cockpit display systems for Original Equipment Manufacturers (OEMs) and retrofit applications. The company supplies integrated Flight Management Systems (FMS) and advanced GPS receivers for precision low carbon footprint navigation.

*Certain matters contained herein that are not descriptions of historical facts are "forward-looking" (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, those discussed in filings made by the Company with the Securities and Exchange Commission. Many of the factors that will determine the Company's future results are beyond the ability of management to control or predict. Readers should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. The Company undertakes no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.*

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**Innovative Solutions and Support, Inc.**

**Consolidated Balance Sheets**

| | June 30, 2016 | September 30, 2015 |
|---|---|---|
| | (unaudited) | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 17,530,210 | $ 16,282,039 |
| Accounts receivable | 5,838,818 | 2,394,695 |
| Unbilled receivables, net | 1,611,357 | 3,920,209 |
| Inventories | 4,008,114 | 4,597,316 |
| Deferred income taxes | 741,109 | 933,499 |
| Prepaid expenses and other current assets | 1,136,268 | 1,221,717 |
| Total current assets | 30,865,876 | 29,349,475 |
| Property and equipment, net | 7,014,638 | 7,095,330 |
| Other assets | 156,948 | 168,948 |
| Total assets | $ 38,037,462 | $ 36,613,753 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 1,849,274 | $ 1,435,981 |
| Accrued expenses | 2,295,897 | 2,568,531 |
| Deferred revenue | 299,052 | 756,745 |
| Total current liabilities | 4,444,223 | 4,761,257 |
| Deferred income taxes | 576,629 | 507,184 |

| | | |
|---|---|---|
| Other liabilities | 2,930 | 2,826 |
| Total liabilities | 5,023,782 | 5,271,267 |
| Commitments and contingencies | - | - |
| Shareholders' equity | | |
| Preferred stock, 10,000,000 shares authorized, $.001 par value, of which 200,000 shares are authorized as Class A Convertible stock. No shares issued and outstanding at June 30, 2016 and September 30, 2015 | - | - |
| Common stock, $.001 par value: 75,000,000 shares authorized, 18,812,465 and 18,756, 089 issued at June 30, 2016 and September 30, 2015, respectively | 18,813 | 18,756 |
| Additional paid-in capital | 51,400,058 | 51,148,722 |
| Retained earnings | 2,408,440 | 818,768 |
| Treasury stock, at cost, 1,903,616 and 1,846,451 shares at June 30, 2016 and September 30, 2015, respectively | (20,813,631) | (20,643,760) |
| Total shareholders' equity | 33,013,680 | 31,342,486 |
| Total liabilities and shareholders' equity | $ 38,037,462 | $ 36,613,753 |

**Innovative Solutions and Support, Inc.**

**Consolidated Statements of Operations**

**(unaudited)**

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | $ 6,504,592 | $ 4,919,689 | 21,749,152 | 16,929,995 |
| Cost of sales | 2,621,016 | 2,988,044 | 8,646,419 | 10,653,149 |
| Gross profit | 3,883,576 | 1,931,645 | 13,102,733 | 6,276,846 |
| Operating expenses: | | | | |
| Research and development | 1,405,158 | 799,340 | 3,674,374 | 2,101,812 |
| Selling, general and administrative | 2,246,074 | 1,397,165 | 7,531,633 | 4,911,546 |
| Total operating expenses | 3,651,232 | 2,196,505 | 11,206,007 | 7,013,358 |
| Operating income (loss) | 232,344 | (264,860) | 1,896,726 | (736,512) |
| Interest income | 9,092 | 6,372 | 24,458 | 18,269 |
| Other income | 12,457 | 11,173 | 71,490 | 31,405 |
| Income (loss) before income taxes | 253,893 | (247,315) | 1,992,674 | (686,838) |

| | | | | |
|---|---|---|---|---|
| Income tax expense | 27,096 | 3,284,658 | 403,002 | 2,615,484 |
| Net income (loss) | $ 226,797 | $ (3,531,973) | $ 1,589,672 | $ (3,302,322) |
| Net income (loss) per common share: | | | | |
| Basic | $ 0.01 | $ (0.21) | $ 0.09 | $ (0.20) |
| Diluted | $ 0.01 | $ (0.21) | $ 0.09 | $ (0.20) |
| Weighted average shares outstanding: | | | | |
| Basic | 16,941,707 | 16,910,475 | 16,925,688 | 16,930,522 |
| Diluted | 17,059,546 | 16,910,475 | 17,027,216 | 16,930,522 |

**Language:**
English

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