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# Innovative Solutions & Support, Inc. Announces Fourth Quarter Fiscal 2013 Financial Results

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## *Fifth Consecutive Profitable Year on 28% Growth in Revenues*

## *Begins Fiscal 2014 with Over $90 million in Backlog*

EXTON, Pa.--(BUSINESS WIRE)--Innovative Solutions & Support, Inc. (“IS&S”) (NASDAQ: ISSC) today announced its financial results for the fourth quarter and fiscal year ended September 30, 2013.

**Three Months Results**

For the fourth quarter, the Company reported revenue of $8.0 million, a 16 percent increase compared to fourth quarter 2012 revenues of $6.9 million. The Company reported fourth quarter 2013 net income of $155,000, or $0.01 per diluted share, compared to net income of $2.8 million, or $0.17 per diluted share, in the same quarter a year ago. Net income and earnings per share in the fourth quarter of 2012 included a non-recurring $2.4 million, or $0.15 per diluted share benefit from the reversal of an income tax valuation allowance.

Geoffrey Hedrick, Chairman and Chief Executive Officer of IS&S, said, “We have been profitable every quarter this year and profitable for the fifth consecutive year. Our investment in Engineering Development Contracts (EDCs) and R&D in the quarter was $3.2 million, 34% higher than the same quarter last year. For the fiscal year, we invested $10.9 million in EDCs and R&D, up 48% from 2012, with our customers supporting a substantial portion of our new product development. The proportion of EDC revenue in the fourth quarter was higher than in any other quarter this year as progress continued on several large programs. At the same time, we have maintained an agile organizational structure and cost discipline."

Shahram Askarpour, President of IS&S, added, “The fourth quarter was another quarter of which included new production orders for existing products and continued progress on our various EDC’s. Importantly, several of these EDCs are nearing completion. Once we receive certifications, these products will enter into production, where we expect to generate higher margins. Consequently, we are focused on assuring that we have the appropriate resources to maintain a high level of productivity and efficiency to expedite completion. In the fourth quarter, the demands for hardware to support our EDC programs strained our production resources with a consequent slippage in product deliveries. We are striving to balance our current substantial investment in EDC programs with existing production to maintain current profitability and to support our goal of meaningful revenue growth going forward."

At September 30, 2013, the Company had $16.4 million of cash on hand, similar to cash on hand of $16.6 million at June 30, 2013, although down from a year ago as a result of a special cash dividend of $25 million paid to shareholders in December 2012. Cash used in operating activities was $567,000 in the quarter. The Company remains free of debt.

Orders were $8.2 million in the fourth quarter of fiscal 2013 and backlog was $91.1 million at September 30, 2013, compared to a backlog of $90.9 million at June 30, 2013. A substantial portion of the backlog relates to a contract with Delta Airlines on which production deliveries are expected to begin mid 2014. Importantly, backlog excludes potential future sole-source production orders from products currently in development under the Company’s EDC programs, including the Eclipse 550, the Pilatus PC-24, and the KC-46A, all of which we expect to enter into extended production phases upon completion of development.

**Full Year Results**

Revenues were $31.6 million for fiscal 2013, up 28 percent from $24.6 million for fiscal 2012. For the year ended September 30, 2013, net income was $1.9 million or $0.11 per diluted share, compared to net income of $3.0 million or $0.18 per diluted share, for the year ended September 30, 2012. A non recurring legal charge reduced fiscal 2013 earnings by $657,000 (pre-tax), or $0.03 per diluted share, whereas a non-recurring $2.4 million tax benefit, or $0.15 per diluted share, from the reversal of an income tax valuation allowance, increased net income. Cash used in operating activities was $2.2 million for fiscal 2013 compared to cash flow from operating activities of $1.4 million for fiscal 2012. In fiscal 2013, cash was used primarily to fund the Company’s EDC programs.

Mr. Hedrick stated, “Revenues were up 28 percent for the year from growth in both our production and EDCs. Earnings before taxes also grew compared to a year ago, excluding the effect on fiscal 2012 earnings of the non-recurring tax benefit of $2.4 million.”

**Business Outlook**

For the fiscal year ending September 30, 2014, IS&S expects to increase sales, operating income and net income from fiscal 2013. The Company expects fiscal 2014 to be its sixth consecutive profitable year, characterized by growing production volume resulting from its engineering investments. IS&S's continued high investment in lower margin EDC programs and IR&D will continue to be reflected in operating margins, even as profits increase. The Company will provide additional commentary during its earnings conference call.

Mr. Hedrick continued, "In fiscal 2013, we were successful in growing revenues on current products and investing in new products which will fuel future revenue growth. During fiscal 2014, we anticipate that several of the EDC programs will mature and enter into their more profitable production phases. As programs enter into production, we expect to attract additional orders from new customers as we receive certifications for these new products. To sustain our momentum over the longer term, engineering spending will remain high as we continue to invest in our future. In all, we are optimistic entering the new fiscal year as we have a strong backlog with delivery schedules that should reasonably assure another year of increased revenues and profit."

**Conference Call**

The Company will be hosting a conference call December 5, 2013 at 10:00 AM EST 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 2374158. 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 (OEM's) 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 reflects 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**

**(unaudited)**

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 16,386,207 | $42,977,501 |
| Accounts receivable, net | 4,489,434 | 3,978,512 |
| Unbilled receivables | 6,539,442 | 1,595,436 |
| Inventories | 4,377,513 | 3,801,547 |
| Deferred income taxes | 2,002,679 | 1,588,162 |
| Prepaid expenses and other current assets | 642,210 | 436,208 |
| Total current assets | 34,437,485 | 54,377,366 |
| Property and equipment, net | 7,320,495 | 7,214,378 |
| Non-current deferred income taxes | 650,998 | 846,887 |
| Other assets | 221,533 | 158,600 |
| Total Assets | $ 42,630,511 | $62,597,231 |

| | | |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | $ 2,372,137 | $ 1,139,464 |
| Accrued expenses | 3,672,909 | 2,723,812 |
| Deferred revenue | 447,525 | 1,426,552 |
| Total current liabilities | 6,492,571 | 5,289,828 |
| Non-current deferred income taxes | 132,202 | 128,998 |
| Other liabilities | 11,491 | 98,002 |
| Total Liabilities | 6,636,264 | 5,516,828 |
| 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 September 30, 2013 and 2012 | - | - |
| Common stock, $.001 par value: 75,000,000 shares authorized, 18,632,328 and 18,329,314 issued at September 30, 2013 and 2012, respectively | 18,632 | 18,329 |
| Additional paid-in capital | 49,880,571 | 47,845,732 |
| Retained earnings | 6,484,634 | 29,605,236 |
| Treasury stock, at cost, 1,756,807 and 1,756,632 shares at September 30, 2013 and 2012, respectively | (20,389,590) | (20,388,894) |
| Total Shareholders' Equity | 35,994,247 | 57,080,403 |
| Total Liabilities and Shareholders' Equity | $ 42,630,511 | $62,597,231 |

**Innovative Solutions and Support, Inc.**

**Consolidated Statement of Operations**

**(unaudited)**

| | Three months ended September 30, | | Twelve months ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Sales | $ 8,037,345 | $ 6,928,026 | $31,567,307 | $24,578,198 |
| Cost of Sales | 5,849,877 | 4,259,701 | 18,942,737 | 14,067,933 |
| Gross Profit | 2,187,468 | 2,668,325 | 12,624,570 | 10,510,265 |

| | | | | |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Research and development | 362,758 | 560,741 | 2,578,034 | 2,693,554 |
| Selling, general and administrative | 1,778,173 | 1,734,578 | 8,119,071 | 7,400,199 |
| Total operating expenses | 2,140,931 | 2,295,318 | 10,697,105 | 10,093,753 |
| Operating income | 46,537 | 373,007 | 1,927,465 | 416,512 |
| Interest income | 8,892 | 38,521 | 41,174 | 101,012 |
| Interest expense | - | (61) | - | (598) |
| Other income | 8,389 | 6,489 | 38,120 | 65,005 |
| Income before income taxes | 63,818 | 417,955 | 2,006,759 | 581,931 |
| Income tax (benefit) expense | (90,909) | (2,355,174) | 119,842 | (2,397,063) |
| Net income | $ 154,727 | $ 2,773,129 | $ 1,886,917 | $ 2,978,994 |
| Net income per Common Share | | | | |
| Basic | $ 0.01 | $ 0.17 | $ 0.11 | $ 0.18 |
| Diluted | $ 0.01 | $ 0.17 | $ 0.11 | $ 0.18 |
| Cash dividend per share | $ - | $ - | $ 1.50 | $ - |
| Weighted Average Shares Outstanding | | | | |
| Basic | 16,836,359 | 16,581,819 | 16,753,068 | 16,641,895 |
| Diluted | 17,051,863 | 16,581,819 | 16,855,854 | 16,641,900 |

**Language:**
English

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