

INNOVATIVE SOLUTIONS & SUPPORT INC  
Form 10-Q  
August 10, 2015  
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**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 June 30, 2015

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 No. 000-31157

**INNOVATIVE SOLUTIONS AND SUPPORT, INC.**

(Exact name of registrant as specified in its charter)

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**PENNSYLVANIA**  
(State or Other Jurisdiction  
of Incorporation or Organization)

**23-2507402**  
(I.R.S. Employer  
Identification No.)

**720 Pennsylvania Drive, Exton, Pennsylvania**  
(Address of Principal Executive Offices)

**19341**  
(Zip Code)

**(610) 646-9800**

(Registrant's Telephone Number, Including Area Code)

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 Website, 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 (Do not check if a smaller reporting company)

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 July 31, 2015, there were 16,889,638 shares of the Registrant's Common Stock, with par value of \$.001 per share, outstanding.

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	June 30, 2015 (unaudited)	September 30, 2014
<b><u>ASSETS</u></b>		
Current assets		
Cash and cash equivalents	\$ 15,759,516	\$ 15,214,584
Accounts receivable	3,903,094	4,419,863
Unbilled receivables, net	4,865,158	7,425,728
Inventories	4,138,705	5,470,786
Deferred income taxes	711,833	3,245,223
Prepaid expenses and other current assets	827,426	750,108
Total current assets	30,205,732	36,526,292
Property and equipment, net	7,225,633	7,467,663
Non-current deferred income taxes		57,707
Other assets	168,949	110,848
Total assets	\$ 37,600,314	\$ 44,162,510
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities		
Accounts payable	\$ 359,498	\$ 2,402,652
Accrued expenses	2,298,990	4,077,290
Deferred revenue	739,538	526,320
Total current liabilities	3,398,026	7,006,262
Non-current deferred income taxes	379,790	132,999
Other liabilities	11,991	11,725
Total liabilities	3,789,807	7,150,986
Commitments and contingencies (See Note 6)		
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, 2015 and		

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September 30, 2014

Common stock, \$.001 par value: 75,000,000 shares authorized, 18,736,089 and 18,714,449 issued at June 30, 2015 and September 30, 2014, respectively	18,736	18,715
Additional paid-in capital	51,052,953	50,697,497
Retained earnings	3,382,580	6,684,902
Treasury stock, at cost, 1,846,451 shares at June 30, 2015 and 1,756,807 at September 30, 2014	(20,643,762)	(20,389,590)
Total shareholders' equity	33,810,507	37,011,524
Total liabilities and shareholders' equity	\$ 37,600,314	\$ 44,162,510

The accompanying notes are an integral part of these statements.

Table of Contents**INNOVATIVE SOLUTIONS AND SUPPORT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net sales:</b>				
Product	\$ 4,114,837	\$ 7,589,212	\$ 12,152,290	\$ 23,388,043
Engineering development contracts	804,852	2,986,764	4,777,705	10,788,759
Total net sales	4,919,689	10,575,976	16,929,995	34,176,802
<b>Cost of sales:</b>				
Product	2,300,470	3,924,222	6,918,457	11,603,748
Engineering development contracts	687,574	3,489,627	3,734,692	11,845,367
Total cost of sales	2,988,044	7,413,849	10,653,149	23,449,115
Gross profit	1,931,645	3,162,127	6,276,846	10,727,687
<b>Operating expenses:</b>				
Research and development	799,340	647,894	2,101,812	1,935,692
Selling, general and administrative	1,397,165	1,854,332	4,911,546	5,633,832
Total operating expenses	2,196,505	2,502,226	7,013,358	7,569,524
Operating income (loss)	(264,860)	659,901	(736,512)	3,158,163
Interest income	6,372	5,280	18,269	16,246
Other income	11,173	7,939	31,405	27,307
Income (loss) before income taxes	(247,315)	673,120	(686,838)	3,201,716
Income tax expense	3,284,658	176,090	2,615,484	911,874
Net income (loss)	\$ (3,531,973)	\$ 497,030	\$ (3,302,322)	\$ 2,289,842
<b>Net income (loss) per common share:</b>				
Basic	\$ (0.21)	\$ 0.03	\$ (0.20)	\$ 0.14
Diluted	\$ (0.21)	\$ 0.03	\$ (0.20)	\$ 0.13
<b>Weighted average shares outstanding:</b>				
Basic	16,910,475	16,951,360	16,930,522	16,918,423
Diluted	16,910,475	17,177,572	16,930,522	17,141,532

The accompanying notes are an integral part of these statements.

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## INNOVATIVE SOLUTIONS AND SUPPORT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Nine Months Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (3,302,322)	\$ 2,289,842
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	430,525	413,613
Share-based compensation expense:		
Stock options	259,582	510,493
Stock awards	149,952	150,055
Tax adjustment from share-based compensation	(54,055)	(160,192)
Recovery of loss on unbilled receivables	(62,159)	
(Gain) loss on disposal of property and equipment	(56,824)	78
Excess and obsolete inventory cost	246,663	41,218
Deferred income taxes	2,837,888	612,907
(Increase) decrease in:		
Accounts receivable	516,769	(64,744)
Unbilled receivables, net	2,622,729	(4,801,141)
Inventories	1,085,418	(1,536,592)
Prepaid expenses and other current assets	97,287	(76,820)
Other non-current assets	(75,300)	105,886
Increase (decrease) in:		
Accounts payable	(2,043,154)	917,832
Accrued expenses	(1,593,150)	(62,530)
Income taxes payable/receivable	(359,491)	(190,971)
Deferred revenue	213,218	231,187
Net cash provided by (used in) operating activities	913,576	(1,619,879)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment		