

INNOVATIVE SOLUTIONS & SUPPORT INC
Form 10-K/A
December 19, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended September 30, 2008

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. 0-31157

INNOVATIVE SOLUTIONS AND SUPPORT, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation)

23-2507402
(IRS 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)

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

Title of each class:

Common Stock par value \$.001 per share

Name of each exchange on which registered

The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes o No ý

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Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or section 15(d) of the Exchange Act from their obligations under those sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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," "non-accelerated filer," and "smaller reporting company," in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated
filer

Accelerated
filer

Non-accelerated
filer

Smaller reporting
company

(Do not check if a
smaller reporting
company)

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

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant as of March 31, 2008 (the last business day of the registrant's most recently completed second quarter) was approximately \$136.0 million. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of our outstanding common stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of December 5, 2008, there were 16,734,149 outstanding shares of the Registrant's Common Stock

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed prior to January 28, 2009 are incorporated by reference into Part III of this Report. Such Proxy Statement, except for the parts therein which have been specifically incorporated by reference, shall not be deemed "filed" for the purposes of this Report on Form 10-K.

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EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of Innovative Solutions and Support, Inc. and subsidiaries for the fiscal year ended September 30, 2008 (the "Form 10-K") is being filed for the purpose of correcting a typographical error in the "Net Loss" line item in the Consolidated Statement of Cash Flows for the fiscal year ended September 30, 2008.

This resulted in the need to also correct the related subtotals in the line items: "Net cash provided by (used in) operating activities," "Net decrease in cash and cash equivalents" and "Cash and cash equivalents, end of year" included in the Consolidated Statement of Cash Flows for the fiscal year ended September 30, 2008 in Item 8 of the Form 10-K, as originally filed on December 11, 2008. There are no changes to the original Form 10-K other than those described above.

This Amendment No. 1 speaks as of the original filing date of the Form 10-K and does not reflect events occurring after the filing date of the Form 10-K, or modify or update the disclosures therein in any way other than as required to reflect the amendment described above.

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Item 8. Financial statements and supplementary data.

The financial statements of Innovative Solutions and Support, Inc. listed in the index appearing under Item 8 herein are filed as part of this Report.

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Innovative Solutions and Support, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Innovative Solutions and Support, Inc.
Exton, Pennsylvania

We have audited the accompanying consolidated balance sheets of Innovative Solutions and Support, Inc. and subsidiaries (the "Company") as of September 30, 2008 and 2007, and the related consolidated statements of operations, cash flows, and shareholders' equity for each of the three years in the period ended September 30, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective October 1, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 9, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
December 9, 2008

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INNOVATIVE SOLUTIONS AND SUPPORT, INC.

CONSOLIDATED BALANCE SHEETS

	As of September 30, 2008	As of September 30, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 35,031,932	\$ 49,151,078
Accounts receivable, net	4,218,443	6,248,606
Inventories	9,361,257	9,363,795
Deferred income taxes	414,636	899,895
Prepaid expenses and other current assets	1,406,260	6,208,804
 Total current assets	 50,432,528	 71,872,178
Property and Equipment:		
Computers and test equipment	5,879,362	5,444,737
Corporate airplane	3,076,400	3,058,627
Furniture and office equipment	1,074,029	1,016,954
Manufacturing facility	5,576,536	5,557,048
Land	1,021,245	1,021,245
	16,627,572	16,098,611
Less Accumulated depreciation and amortization	(7,669,226)	(6,721,274)
 Net property and equipment	 8,958,346	 9,377,337
 Deferred income taxes		328,060
Other assets	505,840	3,008,210
 Total assets	 \$ 59,896,714	 \$ 84,585,785
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current portion of capitalized lease obligations	\$ 9,908	\$ 9,908
Accounts payable	2,349,981	4,077,789
Accrued expenses	5,130,463	4,670,832
Deferred revenue	450,923	660,415
 Total current liabilities	 7,941,275	 9,418,944
 Note payable	 4,335,000	 4,335,000
Long-term portion of capitalized lease obligations	37,633	47,542
Deferred revenue	114,075	50,520
Deferred income taxes	414,636	

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Other liabilities 249,969

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, 2008 and 2007		
Common stock, \$.001 par value: 75,000,000 shares authorized, 18,177,024 and 18,161,172 shares issued at September 30, 2008 and 2007	18,177	18,161
Additional paid-in capital	45,767,960	44,607,993
Retained earnings	20,152,615	44,194,053
Treasury stock, at cost, 1,445,510 and 1,272,510, shares at September 30, 2008 and 2007	(19,134,626)	(18,086,428)
Total shareholders' equity	46,804,126	70,733,779
Total liabilities and shareholders' equity	\$ 59,896,714	\$ 84,585,785

The accompanying notes are an integral part of these statements.

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	For the Fiscal Year Ended September 30,		
	2008	2007	2006
Net sales:			
Product	\$ 25,946,917	\$ 15,083,465	\$ 15,940,721
Engineering modification and development	4,586,394	3,264,663	781,246
Total net sales	30,533,311	18,348,128	16,721,967
Cost of sales			
Product	17,584,314	8,968,939	8,006,406
Engineering modification and development	2,967,543	5,185,486	625,355
Total cost of sales	20,551,857	14,154,425	8,631,761
Gross profit	9,981,454	4,193,703	8,090,206
Operating expenses:			
Research and development	10,304,279	5,180,360	6,749,426
Selling, general and administrative	22,306,016	15,840,255	9,863,758
Asset impairment	2,475,000		
Total operating expenses	35,085,295	21,020,615	16,613,184
Operating loss	(25,103,841)	(16,826,912)	(8,522,978)
Interest income	1,576,599	3,090,919	3,280,179
Interest expense	(160,867)	(204,317)	(188,193)
Other income	17,300,000		
Loss before income taxes	(6,388,109)	(13,940,310)	(5,430,992)
Income taxes expense (benefit)	1,509,139	(5,095,022)	(2,548,600)
Net loss	\$ (7,897,248)	\$ (8,845,288)	\$ (2,882,392)
Net loss per common share:			
Basic	\$ (0.47)	\$ (0.52)	\$ (0.17)
Diluted	\$ (0.47)	\$ (0.52)	\$ (0.17)
Weighted average shares outstanding:			
Basic	16,887,049	16,865,028	17,388,524
Diluted	16,887,049	16,865,028	17,388,524

The accompanying notes are an integral part of these statements.

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INNOVATIVE SOLUTIONS AND SUPPORT, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, September 30, 2005	\$ 18,047	\$ 41,926,318	\$ 55,921,733	\$	\$ 97,866,098
Exercise of options to purchase common stock	25	408,779			408,804
Share-based compensation		655,351			655,351
Issuance of stock to directors	16	239,904			239,920
Purchase of treasury stock				(18,086,428)	(18,086,428)
Net loss			(2,882,392)		(2,882,392)
Balance, September 30, 2006	18,088	43,230,352	53,039,341	(18,086,428)	78,201,353
Exercise of options to purchase common stock	58	652,060			652,118
Share-based compensation		505,652			505,652
Issuance of stock to directors	15	219,929			219,944
Net loss			(8,845,288)		(8,845,288)
Balance, September 30, 2007	18,161	44,607,993	44,194,053	(18,086,428)	70,733,779
Exercise of options to purchase common stock	5	22,055			22,060
Share-based compensation		938,013			938,013
Issuance of stock to directors	11	199,899			199,910
Purchase of treasury stock					