

INNOVATIVE SOLUTIONS & SUPPORT INC

FORM 10-Q (Quarterly Report)

Filed 05/15/25 for the Period Ending 03/31/25

Address	720 PENNSYLVANIA DRIVE EXTON, PA, 19341
Telephone	610 646 9800
CIK	0000836690
Symbol	ISSC
SIC Code	7371 - Services-Computer Programming Services
Industry	Aerospace & Defense
Sector	Industrials
Fiscal Year	09/30

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2025

OR

☐ **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. 001-41503

**INNOVATIVE SOLUTIONS AND SUPPORT, INC.
(Exact name of registrant as specified in its charter)**

**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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	ISSC	Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 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 or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

- | | |
|---|---|
| <input type="checkbox"/> Large accelerated filer | <input type="checkbox"/> Accelerated filer |
| <input checked="" type="checkbox"/> Non-accelerated filer | <input checked="" type="checkbox"/> Smaller reporting company |
| <input type="checkbox"/> Emerging growth company | |

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 May 1, 2025, there were 17,604,155 shares of the Registrant's Common Stock, with par value of \$0.001 per share, outstanding.

INNOVATIVE SOLUTIONS AND SUPPORT, INC.
FORM 10-Q March 31, 2025

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PART I—FINANCIAL INFORMATION

Item 1- Financial Statements

INNOVATIVE SOLUTIONS AND SUPPORT, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	March 31, 2025	September 30, 2024
<i>ASSETS</i>		
Current assets		
Cash and cash equivalents	\$ 1,225,648	\$ 538,977
Accounts receivable	13,823,088	12,612,482
Contract assets	1,769,373	1,680,060
Inventories	18,853,112	12,732,381
Prepaid inventory	4,430,139	5,960,404
Prepaid expenses and other current assets	1,360,211	1,161,394
Total current assets	41,461,571	34,685,698
Goodwill	6,703,104	5,213,104
Intangible assets, net	24,688,129	27,012,292
Property and equipment, net	14,733,011	13,372,298
Deferred income taxes	2,134,839	1,625,144
Other assets	165,591	473,725
Total assets	<u>\$ 89,886,245</u>	<u>\$ 82,382,261</u>
<i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>		
Current liabilities		
Accounts payable	4,710,564	2,315,479
Accrued expenses	3,072,956	4,609,294
Contract liability	731,793	340,481
Total current liabilities	8,515,313	7,265,254
Long-term debt	27,401,323	28,027,002
Other liabilities	456,717	451,350
Total liabilities	36,373,353	35,743,606
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 March 31, 2025 and September 30, 2024	—	—
Common stock, \$.001 par value; 75,000,000 shares authorized, 19,651,771 and 19,599,052 issued at March 31, 2025 and September 30, 2024, respectively	19,652	19,599
Additional paid-in capital	56,122,150	55,320,500
Retained earnings	18,739,627	12,667,093
Treasury stock, at cost, 2,096,451 shares at March 31, 2025 and at September 30, 2024, respectively	(21,368,537)	(21,368,537)
Total shareholders' equity	53,512,892	46,638,655
Total liabilities and shareholders' equity	<u>\$ 89,886,245</u>	<u>\$ 82,382,261</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

INNOVATIVE SOLUTIONS AND SUPPORT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Net Sales:				
Product	\$ 13,180,032	\$ 4,895,589	\$ 23,164,266	\$ 9,319,697
Services	8,756,182	5,843,927	14,740,677	10,727,882
Total net sales	<u>21,936,214</u>	<u>10,739,516</u>	<u>37,904,943</u>	<u>20,047,579</u>
Cost of sales:				
Product	5,275,918	2,347,695	11,538,608	4,129,040
Services	5,393,073	2,809,459	8,488,655	4,813,015
Total cost of sales	<u>10,668,991</u>	<u>5,157,154</u>	<u>20,027,263</u>	<u>8,942,055</u>
Gross profit	<u>11,267,223</u>	<u>5,582,362</u>	<u>17,877,680</u>	<u>11,105,524</u>
Operating expenses:				
Research and development	867,228	1,031,119	1,974,964	1,932,263
Selling, general and administrative	3,415,675	2,908,193	7,574,578	5,915,012
Total operating expenses	<u>4,282,903</u>	<u>3,939,312</u>	<u>9,549,542</u>	<u>7,847,275</u>
Operating income	6,984,320	1,643,050	8,328,138	3,258,249
Interest expense	(387,318)	(171,470)	(814,467)	(531,483)
Interest income	4,628	36,200	9,878	115,679
Other income	—	26,472	6	44,171
Income before income taxes	<u>6,601,630</u>	<u>1,534,252</u>	<u>7,523,555</u>	<u>2,886,616</u>
Income tax expense	<u>1,265,288</u>	<u>325,936</u>	<u>1,451,021</u>	<u>620,950</u>
Net income	<u>\$ 5,336,342</u>	<u>\$ 1,208,316</u>	<u>\$ 6,072,534</u>	<u>\$ 2,265,666</u>
Net income per common share:				
Basic	<u>\$ 0.30</u>	<u>\$ 0.07</u>	<u>\$ 0.35</u>	<u>\$ 0.13</u>
Diluted	<u>\$ 0.30</u>	<u>\$ 0.07</u>	<u>\$ 0.34</u>	<u>\$ 0.13</u>
Weighted average shares outstanding:				
Basic	<u>17,548,844</u>	<u>17,456,120</u>	<u>17,531,328</u>	<u>17,453,741</u>
Diluted	<u>17,643,994</u>	<u>17,487,527</u>	<u>17,613,686</u>	<u>17,481,217</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

INNOVATIVE SOLUTIONS AND SUPPORT, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total shareholders' equity
Balance, September 30, 2024	<u>\$ 19,599</u>	<u>\$ 55,320,500</u>	<u>\$ 12,667,093</u>	<u>\$ (21,368,537)</u>	<u>\$ 46,638,655</u>
Share-based compensation	36	396,625	—	—	396,661
Net income	—	—	736,192	—	736,192
Balance, December 31, 2024	<u>\$ 19,635</u>	<u>\$ 55,717,125</u>	<u>\$ 13,403,285</u>	<u>\$ (21,368,537)</u>	<u>\$ 47,771,508</u>
Share-based compensation	17	405,025	—	—	405,042
Net income	—	—	5,336,342	—	5,336,342
Balance, March 31, 2025	<u>\$ 19,652</u>	<u>\$ 56,122,150</u>	<u>\$ 18,739,627</u>	<u>\$ (21,368,537)</u>	<u>\$ 53,512,892</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

INNOVATIVE SOLUTIONS AND SUPPORT, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance, September 30, 2023	<u>\$ 19,543</u>	<u>\$ 54,317,265</u>	<u>\$ 5,668,713</u>	<u>\$ (21,368,537)</u>	<u>\$ 38,636,984</u>
Share-based compensation	6	205,710	—	—	205,716
Net income	—	—	1,057,350	—	1,057,350
Balance, December 31, 2023	<u>\$ 19,549</u>	<u>\$ 54,522,975</u>	<u>\$ 6,726,063</u>	<u>\$ (21,368,537)</u>	<u>\$ 39,900,050</u>
Share-based compensation	7	269,332	—	—	269,339
Net income	—	—	1,208,316	—	1,208,316
Balance, March 31, 2024	<u>\$ 19,556</u>	<u>\$ 54,792,307</u>	<u>\$ 7,934,379</u>	<u>\$ (21,368,537)</u>	<u>\$ 41,377,705</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

INNOVATIVE SOLUTIONS AND SUPPORT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended March 31,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,072,534	\$ 2,265,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,004,641	826,077
Share-based compensation expense		
Stock options	71,614	230,535
Restricted stock awards, MSOs and MSUs	730,089	244,520
(Gain) / Loss on disposal of property and equipment	—	(160,577)
Deferred income taxes	(504,329)	(691,803)
(Increase) decrease in:		
Accounts receivable	(1,210,605)	3,682,529
Contract assets	(89,313)	(743,468)
Inventories	(4,590,467)	(2,227,708)
Prepaid expenses and other current assets	(594,459)	393,246
Other non-current assets	(12,500)	(134,544)
Increase (decrease) in:		
Accounts payable	2,395,085	1,309,848
Accrued expenses	(568,588)	(382,070)
Income taxes payable	(965,650)	(148,703)
Contract liabilities	391,312	(46,709)
Net cash provided by operating activities	<u>3,129,364</u>	<u>4,416,839</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,817,015)	(308,648)
Proceeds from the sale of property and equipment	—	2,225,810
Net cash (used in) provided by investing activities	<u>(1,817,015)</u>	<u>1,917,162</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of term note	—	(19,500,000)
Proceeds from line of credit note	—	24,491,634
Repayments of line of credit note	(625,678)	(13,848,749)
Net cash used in financing activities	<u>(625,678)</u>	<u>(8,857,115)</u>
Net increase (decrease) in cash and cash equivalents	686,671	(2,523,114)
Cash and cash equivalents, beginning of year	<u>538,977</u>	<u>3,097,193</u>
Cash and cash equivalents, end of year	<u>\$ 1,225,648</u>	<u>\$ 574,079</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 2,921,000	\$ 1,461,456
Cash paid for interest	767,820	493,078
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION		
Transfer from prepaid inventory to inventory	\$ 1,530,265	\$ 753,449
Transfer from prepaid inventory to purchases of property and equipment	\$ —	\$ 4,539,843
Transfer from prepaid expenses and other current assets to PP&E	\$ 119,647	\$ —
Transfer from intangible assets to goodwill	\$ 1,490,000	\$ —
Transfer from prepaid expenses to other assets	\$ 275,995	\$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

INNOVATIVE SOLUTIONS AND SUPPORT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Summary of Significant Accounting Policies

Certain of Innovative Solutions and Support, Inc.'s (the "Company," "IS&S," "we" or "us") significant accounting policies are described below. All of the Company's significant accounting policies are disclosed in the notes to the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024.

Description of the Company

Incorporated in Pennsylvania in 1988, IS&S is a vertically integrated provider of flight solutions and equipment to commercial air transport, general aviation markets, the United States Department of Defense ("DoD") and allied foreign militaries.

We operate in one business segment that designs, develops, manufactures, sells and services avionics products and systems for retrofit applications and Original Equipment Manufacturers ("OEMs").

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are presented pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC") in accordance with the disclosure requirements for the quarterly report on Form 10-Q and, therefore, do not include all of the information and footnotes required by generally accepted accounting principles in the United States ("GAAP") for complete annual financial statements. In the opinion of Company management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary to state fairly the results for the interim periods presented. The condensed consolidated balance sheet as of September 30, 2024 is derived from the audited financial statements of the Company. Operating results for the three- and six- months ended March 31, 2025 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2025 which cannot be determined at this time. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024.

Principles of Consolidation

The Company's condensed consolidated financial statements include the accounts of its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The financial statements of the Company have been prepared in accordance with GAAP, which require management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Estimates are used in accounting for, among other items, valuation of tangible and intangible assets acquired, long term contracts, evaluation of allowances for doubtful accounts, inventory obsolescence, product warranty cost liabilities, income taxes, revenue recognition on Engineering Development Contracts ("EDC") programs, percentage of completion on EDC contracts, the useful lives of long-lived assets for depreciation and amortization, the recoverability of long-lived assets, evaluation of goodwill impairment and contingencies. Estimates and assumptions are reviewed periodically and the effects of changes, if any, are reflected in the condensed consolidated statements of operations in the period they are determined.

Reclassification

Historically, the Company presented Customer service and Engineering and development contracts Net Sales and Cost of sales separately on the Consolidated Statements of Operations. For the three and six months ended March 31, 2025, the Company has aggregated these items into one category, "Services" and reclassified Customer service and Engineering and development contracts revenues as well as Cost of sales to conform the presentation of the Consolidated Statements of Operations for three and six months ended March 31, 2024. For additional information, see Note, 3 *Summary of Significant Accounting Policies*, ("*Reclassifications*") to

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the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024.

Business Combinations

The Company evaluates each of its acquisitions in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, "*Business Combinations*" ("ASC 805"), to determine whether the transaction is a business combination or an asset acquisition. In determining whether an acquisition should be accounted for as a business combination or an asset acquisition, the Company first performs a screen test to determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this is the case, the acquired set is not deemed to be a business and is instead accounted for as an asset acquisition. If this is not the case, the Company then further evaluates whether the acquired set includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. If so, the Company concludes that the acquired set is a business.

The Company accounts for business acquisitions using the acquisition method of accounting. Under this method of accounting, assets acquired and liabilities assumed are recorded at their respective fair values at the date of the acquisition. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill.

During the measurement period, which may be up to one year from the acquisition date, the Company adjusts the provisional amounts of assets acquired and liabilities assumed with the corresponding offset to goodwill to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded within the Company's condensed consolidated statements of operations.

We allocate the purchase price of acquired entities to the underlying tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values, with any excess recorded as goodwill. The valuations of the acquired assets and liabilities will impact the determination of future operating results. Determining the fair value of assets we acquire and liabilities we assume requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. We determine the fair values of intangible assets acquired generally in consultation with third-party valuation advisors. Fair value adjustments to the assets and liabilities are recognized and the results of operations of the acquired business are included in our consolidated financial statements from the effective date of the acquisition.

Asset Acquisitions

Acquisitions that do not meet the definition of a business are accounted for as asset acquisitions. The Company allocates the cost of the acquisition, including direct and incremental transaction costs, to the individual assets acquired and liabilities assumed on a relative fair value basis. Goodwill is not recognized in an asset acquisition.

Intangible Assets

The Company's identifiable intangible assets primarily consist of license agreement and customer relationships. Intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods deemed appropriate for the type of intangible asset acquired and are reported separately from any goodwill recognized.

Intangible assets with a finite life are amortized over their estimated useful life and are reported net of accumulated amortization. They are assessed for impairment in accordance with the Company's policy on assessing long-lived assets for impairment described in the notes of the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024.

Indefinite-lived intangible assets are not amortized, but are subject to an annual impairment test, or when events or circumstances dictate, more frequently. The impairment review for indefinite-lived intangible assets can be performed using a qualitative or quantitative impairment assessment. The quantitative assessment consists of a comparison of the fair value of the indefinite-lived

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intangible asset with its carrying amount. If the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. If the fair value exceeds its carrying amount, the indefinite-lived intangible asset is not considered impaired.

Goodwill

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The recorded amounts of goodwill from business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is assigned to the reporting units that are expected to benefit from the synergies of the business combination that generated the goodwill. The Company's goodwill impairment test is performed at the reporting unit level. Reporting units are determined based on an evaluation of the Company's operating segments and the components making up those operating segments.

Goodwill is tested for impairment at fiscal year-end on September 30 or in an interim period if certain changes in circumstances indicate a possibility that an impairment may exist. Factors to consider that may indicate an impairment may exist are:

- macroeconomic conditions;
- industry and market considerations, such as a significant adverse change in the business climate;
- cost factors;
- overall financial performance, such as current-period operating results or cash flow declines combined with a history of operating results or cash flow declines;
- a projection or forecast that demonstrates continuing declines in the cash flow or the inability to improve the operations to forecasted levels; and
- any entity-specific events.

If the Company determines that it is more likely than not that the fair value of the reporting unit is below the carrying amount as part of its qualitative assessment, a quantitative assessment of goodwill is required. In the quantitative evaluation, the fair value of the reporting unit is determined and compared to the carrying value. If the fair value is greater than the carrying value, then the goodwill is deemed not to be impaired and no further action is required. If the fair value is less than the carrying value, goodwill is considered impaired and a charge is reported as impairment of goodwill in the condensed consolidated statements of operations.

Fair Value of Financial Instruments

The net carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value because of the short-term nature of these instruments. The carrying value of our debt approximates fair value as the interest rate is variable and approximates current market levels. For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value as follows:

Level 1 — Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

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Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management’s estimates of market participant assumptions.

The following table sets forth by level within the fair value hierarchy the Company’s financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2025 and September 30, 2024, according to the valuation techniques the Company used to determine their fair values.

Fair Value Measurement on March 31, 2025				
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash and cash equivalents:				
Money market funds	\$ 504,927	\$ —	\$ —	
Fair Value Measurement on September 30, 2024				
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash and cash equivalents:				
Money market funds	\$ 504,104	\$ —	\$ —	

The March 31, 2025 and September 30, 2024 money market funds balance differs from the cash and cash equivalents balance on the condensed consolidated balance sheet due to the timing of sweep transactions within the PNC cash investment accounts.

Revenue from Contracts with Customers

The Company enters into sales arrangements with customers that, in general, provide for the Company to design, develop, manufacture and deliver large flat-panel display systems, flight information computers, autothrottles and advanced monitoring systems that measure and display critical flight information, including data relative to aircraft separation, airspeed, altitude and engine and fuel data measurements.

The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”). The core principle of ASC 606 is that an entity recognizes revenue when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services.

To achieve this core principle, the Company applies the following five steps:

- 1) Identify the contract with a customer

The Company’s contract with its customers typically is in the form of a purchase order issued to the Company by its customers and, to a lesser degree, in the form of a purchase order issued in connection with a formal contract executed with a customer. In addition, the Company enters fixed-price contracts, in which the Company agrees to perform the specified work for a pre-determined price. The contractual terms of the fixed-price contracts are usually long-term, however they often contain a termination for convenience clause that results in the Company treating these contracts as short-term under ASC 606. To the extent our actual costs vary from the estimates upon which the price was negotiated, the Company will generate more or less profit or could incur a loss. For the purpose of accounting for revenue under ASC 606, a contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party’s rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable based on the customer’s intent and ability to pay the promised consideration. Payment terms are defined by when payment is typically due. The Company applies judgment in

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determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. Most of our revenue is derived from purchases under which we provide a specific product or service and, as a result, there is only one performance obligation. In the event that a contract includes multiple promised goods or services, such as an EDC contract, which includes both engineering services and a resulting product shipment, the Company must apply judgment to determine whether promised goods or services are capable of being distinct in the context of the contract. In these cases, the Company considers whether the customer could, on its own, or together with other resources that are readily available from third parties, produce the physical product using only the output resulting from the Company's completion of engineering services. If the customer cannot produce the physical product, then the promised goods or services are accounted for as a combined performance obligation.

3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur.

4) Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price by taking into account available information such as market conditions as well as the cost of the goods or services and the Company's normal margins for similar performance obligations.

5) Recognize revenue when or as the Company satisfies a performance obligation

The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer. Historically, the Company has also recognized revenue from EDC contracts and is recognized over time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress. Contract costs include material, components and third-party avionics purchased from suppliers, direct labor and overhead costs.

Contract Estimates

Accounting for performance obligations in long-term contracts that are satisfied over time involves the use of various techniques to estimate progress towards satisfaction of the performance obligation. The Company typically measures progress based on costs incurred compared to estimated total contract costs. Contract cost estimates are based on various assumptions to project the outcome of future events that often span more than a single year. These assumptions include the amount of labor and labor costs, the quantity and cost of raw materials used in the completion of the performance obligation and the complexity of the work to be performed.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the quarter in which it is identified.

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The impact of adjustments in contract estimates on our operating earnings is typically reflected in consolidated revenues. There were no material contract estimate adjustments to our condensed consolidated financial statements for the three and six months ended March 31, 2025.

Contract Balances

Contract assets consist of the right to consideration in exchange for product offerings that we have transferred to a customer under the contract. Contract liabilities primarily relate to consideration received in advance of performance under the contract. The following table reflects the Company's contract assets and contract liabilities:

	Contract Assets	Contract Liabilities
September 30, 2024	\$ 1,680,060	\$ 340,481
Amount transferred to receivables from contract assets	(754,432)	—
Contract asset additions	843,745	—
Performance obligations satisfied during the period that were included in the contract liability balance at the beginning of the period	—	(268,502)
Increases due to invoicing prior to satisfaction of performance obligations	—	659,814
March 31, 2025	<u>\$ 1,769,373</u>	<u>\$ 731,793</u>

Concentrations

Major Customers and Products

In the three months ended March 31, 2025, five customers, Lockheed Martin Corporation ("Lockheed Martin"), Atlas Air Inc. ("Atlas"), The Boeing Company ("Boeing"), Pilatus Aircraft Ltd ("Pilatus") and Kalitta Air Inc. ("Kalitta"), accounted for 48%, 9%, 5%, 5% and 5% of net sales, respectively. In the six months ended March 31, 2025, five customers, Lockheed Martin, Boeing, Pilatus, Atlas, and Kalitta, accounted for 44%, 7%, 6%, 5%, and 4% of net sales, respectively.

In the three-months ended March 31, 2024, two customers, Pilatus and Textron Aviation, Inc. ("Textron"), accounted for 28% and 17% of net sales, respectively. In the six-months ended March 31, 2024, one customer, Pilatus accounted for 29% of net sales.

Major Suppliers

The Company buys several of its components from sole source suppliers. Although there are a limited number of suppliers of particular components, management believes other suppliers could provide similar components on comparable terms.

For the three and six months ended March 31, 2025, the Company had one supplier that was individually responsible for greater than 10% of the Company's total inventory related purchases.

For the three and six months ended March 31, 2024, the Company had one and two suppliers, respectively, that were individually responsible for greater than 10% of the Company's total inventory related purchases.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash balances and accounts receivable. The Company invests its excess cash where preservation of principal is the major consideration. Cash balances are maintained with two major banks. Balances on deposit with certain money market accounts and operating accounts may exceed the Federal Deposit Insurance Corporation limits. The Company's customer base consists principally of companies within the aviation industry. The Company requests advance payments and/or letters of credit from customers that it considers to be credit risks.

New Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's Consolidated Financial Statements.

In November 2024, the FASB issued ASU No. 2024-03 ("ASU 2024-03"), Disaggregation of Income Statement Expenses. The guidance primarily will require enhanced disclosures about certain types of expenses. The amendments in ASU 2024-03 are effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027 and may be applied either on a prospective or retrospective basis. We are evaluating the impact of the standard on our disclosures.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires companies to enhance the disclosures about segment expenses. The new standard requires the disclosure of the Company's Chief Operating Decision Maker (CODM), expanded incremental line-item disclosures of significant segment expenses used by the CODM for decision-making, and the inclusion of previous annual only segment disclosure requirements on a quarterly basis. This ASU should be applied retrospectively for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. We are evaluating the impact of the standard on our disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Taxes Disclosures, which requires greater disaggregation of income tax disclosures. The new standard requires additional information to be disclosed with respect to the income tax rate reconciliation and income taxes paid disaggregated by jurisdiction. This ASU should be applied prospectively for fiscal years beginning after December 15, 2024, with retrospective application permitted. We are evaluating the impact of the standard on our disclosures.

Recently Adopted Accounting Pronouncements

None.

2. Supplemental Balance Sheet Disclosures

September 2024 Honeywell Agreement

On September 27, 2024, the Company entered into a second Asset Purchase and License Agreement (the "September 2024 Honeywell Agreement") with Honeywell, International Inc. ("Honeywell"), pursuant to which Honeywell sold, assigned or licensed certain assets related to its various generations of military display generators and flight control computers, including a sale of certain inventory, equipment and customer-related documents; an assignment of certain contracts; and a grant of exclusive and non-exclusive licenses to use certain Honeywell intellectual property related to its various generations of military display generators and flight control computers to repair, overhaul, manufacture sell, import, export and distribute certain products to the Company for consideration of \$14.2 million in cash.

The allocation of the purchase price is based upon certain preliminary valuations and other analyses. The allocation of the purchase price has not been finalized as of the date of this filing due to the timing of the transaction and due to the fact that, while legal control has been transferred, the Company has not received physical possession of certain of the acquired assets and thus these assets will be subject to settlement adjustments upon transfer as outlined in the September 2024 Honeywell Agreement. As a result, the purchase

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price amount for the transaction and the allocation of the preliminary purchase consideration are preliminary estimates, and may be subject to change within the measurement period.

The following purchase price allocation table presents the Company's estimates of the fair value of assets acquired and liabilities assumed as of the acquisition date, and subsequent measurement period adjustments recorded during the three and six months ended March 31, 2025:

	Amounts Recognized as of Acquisition Date (as previously reported)	Measurement Period Adjustments	Purchase Price Allocation
Total consideration	\$ 14,060,000	\$ —	\$ 14,060,000
Prepaid inventory ^(a)	\$ 3,191,000	\$ —	\$ 3,191,000
Prepaid equipment and other current assets	160,000	—	160,000
Intangible assets ^{(b), (d)}	9,570,000	(1,490,000)	8,080,000
Goodwill ^{(c), (d)}	1,139,000	1,490,000	2,629,000
Net assets acquired	\$ 14,060,000	\$ —	\$ 14,060,000

- (a) Prepaid inventory consists primarily of raw materials acquired by the Company but not in the Company's physical possession as of the acquisition date. The fair value of raw materials was estimated to equal the replacement cost.
- (b) Intangible assets consists of backlog, customer relationships, and license agreements related to the license rights to use certain Honeywell intellectual property and are recorded at estimated fair values. The estimated fair value of these license agreements are based on a variation of the income valuation approach and are determined using the relief from royalty method. The estimated fair value of the backlog and customer relationships are based on a variation of the income valuation approach known as the multi-period excess earnings method. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024, Note 5, "Intangible assets" for further details.
- (c) Goodwill represents the excess of the purchase consideration over the preliminary fair value of the net assets acquired. The goodwill recognized is primarily attributable to the expected synergies from the September 2024 Honeywell Agreement. Goodwill resulting from the September 2024 Honeywell Agreement has been assigned to the Company's one reporting unit.
- (d) For the three months ended March 31, 2025, the fair market value of Intangible Assets, mostly related to Acquired Backlog was revised down to reflect lower forecasted margin.

Transition services agreement

Concurrent with the September 2024 Honeywell Agreement, the Company entered into a transition services agreement (the "2024 TSA") with Honeywell, at no additional cost, to receive certain transitional services and technical support during the transition service period. The Company accounted for the 2024 TSA separate from business combination and has recognized \$140,000 in prepaid expenses and other current assets within the consolidated balance sheets for the services to be received in the future from Honeywell. The prepaid expense related to the 2024 TSA was determined using the with and without method. For the three and six months ended

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March 31, 2025, the Company recognized no additional adjustments to prepaid expenses and other current assets within the consolidated balance sheets for services received from Honeywell.

Acquisition and related costs

For the fiscal year ended September 30, 2024, the Company incurred \$589,000 of acquisition costs included in SG&A expenses in connection with the June 2023 Honeywell Agreement. The debt issuance costs related to the Term Loan were not material.

Unaudited actual and pro forma information

The following unaudited pro forma summary presents consolidated information of the Company, including the product lines, as if the transaction had occurred on October 1, 2023:

	Three Months Ended March 31,	Six Months Ended March 31,
	2024	
Net sales	\$ 13,763,673	\$ 25,785,544
Net income	\$ 1,206,228	\$ 1,607,357

These pro forma results are for illustrative purposes and are not indicative of the actual results of operations that would have been achieved, nor are they indicative of future results of operations. The unaudited pro forma information for all periods presented was adjusted to give effect to pro forma events that are directly attributable to the transaction and are factually supportable. The adjustments are based on information available to the Company at this time. Accordingly, the adjustments are subject to change, and the impact of such changes may be material. The unaudited pro forma results do not include any incremental cost savings that may result from the integration.

June 2023 Honeywell Agreement

On June 30, 2023, the Company entered into an Asset Purchase and License Agreement with Honeywell whereby Honeywell sold certain assets and granted perpetual license rights to manufacture and sell licensed products related to its inertial, communication and navigation product lines to the Company. The transaction involves a sale of certain inventory, equipment and customer-related documents; an assignment of certain customer contracts; and a grant of exclusive and non-exclusive licenses to use certain Honeywell intellectual property related to its inertial, communication and navigation product lines to repair, overhaul, manufacture sell, import, export and distribute certain products to the Company. The Company determined that the transaction met the definition of a business under ASC 805; therefore, the Company accounted for the transaction as a business combination and applied the acquisition method of accounting.

In connection with the transaction, the Company entered into a term loan with PNC Bank, National Association for \$20.0 million to fund a portion of the transaction (the "Term Loan") – Refer to the Company's Annual Report on Form 10-K for the fiscal year ended

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September 30, 2024, Note 8, “*Loan Agreement*” for further details. The purchase consideration transferred at the acquisition date was \$35.9 million, which was entirely cash.

In the third quarter of 2024 and within one year from the acquisition date, the Company finalized its accounting of the transaction. The following purchase price allocation table presents the Company's estimates of the fair value of assets acquired and liabilities assumed as of the acquisition date, and subsequent measurement period adjustments recorded during the one-year period ended June 30, 2024:

	Amounts Recognized as of Acquisition Date (as previously reported)	Measurement Period Adjustments	Purchase Price Allocation
Cash consideration	\$ 35,860,000	\$ —	\$ 35,860,000
Total consideration	\$ 35,860,000	\$ —	\$ 35,860,000
			—
Prepaid inventory ^(a)	\$ 10,036,160	\$ (3,012,626) ^(d)	\$ 7,023,534
Equipment	2,609,000	3,675,000 ^(d)	6,284,000
Construction in progress	1,238,000	—	1,238,000
Intangible assets ^(b)	20,900,000	(3,660,000) ^(d)	17,240,000
Goodwill ^(c)	4,608,041	(533,575) ^{(d)(e)}	4,074,466
Assets acquired	39,391,201	(3,531,201)	35,860,000
Accrued expenses	(3,531,201)	3,531,201 ^(e)	—
Liabilities assumed	(3,531,201)	3,531,201	—
Net assets acquired	\$ 35,860,000	\$ —	\$ 35,860,000

- (a) Prepaid inventory consists of raw materials and finished goods acquired by the Company but not in the Company's physical possession as of the acquisition date. The fair value of raw materials was estimated to equal the replacement cost. The fair value of finished goods was determined based on the estimated selling price, net of selling costs and a margin on the selling activities, which resulted in a change in the value of the finished goods.
- (b) Intangible assets consist of license agreement related to the license rights to use certain Honeywell intellectual property and customer relationships and are recorded at estimated fair values. The estimated fair value of the license agreement is based on a variation of the income valuation approach and is determined using the relief from royalty method. The estimated fair value of the customer relationships is based on a variation of the income valuation approach known as the multi-period excess earnings method. Refer to Intangible assets within Note 2, “*Supplemental Balance Sheet Disclosures*” for further details.
- (c) Goodwill represents the excess of the purchase consideration over the estimated fair value of the assets acquired and liabilities assumed. The goodwill recognized is primarily attributable to the expected synergies from the transaction. Goodwill resulting from the transaction has been assigned to the Company's one operating segment and one reporting unit.
- (d) In the third quarter of 2024 and within one year from the acquisition date, the Company identified measurement period adjustments related to fair value estimates. The measurement period adjustments were due to the refinement of inputs used to calculate the fair value of the prepaid inventory, equipment, license agreement and customer relationships based on facts and circumstances that existed as of the acquisition date. One of the refinements of inputs used was a change in classification of prepaid inventory to equipment of \$3.7 million. The adjustments resulted in an overall increase to goodwill of \$3.0 million. As a result of the measurement period adjustments to the estimated fair values of equipment and customer relationships, during the third quarter of 2024, the Company recognized \$218,623 in additional depreciation expense in cost of sales and \$67,500 in additional amortization expense in selling, general and administrative respectively, related to the effects that would have been recognized in previous quarters if the measurement period adjustments were recognized as of the acquisition date. For the remaining measurement period adjustments, the change to the preliminary fair value estimates did not have a material impact to the condensed consolidated statement of operations.
- (e) During the fourth quarter of 2023, the Company identified measurement period adjustments related to the fair value estimates for accrued expenses. While the Asset Purchase and License Agreement indicated an amount of liabilities related to open supplier purchase orders to be assumed by the Company as of the acquisition date, it was determined that there were no actual liabilities outstanding related to these open supplier purchase orders as of the acquisition date; therefore, the \$3.5

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million assumed liabilities preliminarily recorded were reversed. The adjustments resulted in an overall decrease to goodwill of \$3.5 million; the adjustments have no impact to the condensed consolidated statement of operations.

Transition services agreement

Concurrent with the June 2023 Honeywell Agreement, the Company entered into a transition services agreement (the “2023 TSA”) with Honeywell, at no additional cost, to receive certain transitional services and technical support during the transition service period. The Company accounted for the 2023 TSA separate from the business combination and has recognized \$140,000 in prepaid expenses and other current assets within the consolidated balance sheet as of the acquisition date for the services to be received in the future from Honeywell. The prepaid expense related to the 2023 TSA was determined using the with and without method. As of the three months ended March 31, 2025, the 2023 TSA has been fully amortized.

Other

On July 22, 2024, the Company completed the July 2024 Honeywell Asset Acquisition of certain additional assets related to its communication and navigation product lines, including a sale of certain inventory and customer-related documents; an assignment of certain contracts; and a grant of exclusive and non-exclusive licenses to use certain Honeywell intellectual property related to its communication and navigation product lines to manufacture, upgrade and repair certain additional products for consideration of \$4.2 million in cash. The Company accounted for the transaction as an asset acquisition and allocated the cost of the acquisition, including direct and incremental transaction costs, to the tangible and intangible assets based on their relative fair value as detailed under ASC 805. Definite lived assets were recorded to the relative fair value of \$2,601,000 to property and equipment and \$430,000 to customer relationships and backlog. Since license agreements are indefinite lived assets, they were recorded at fair value in the amount of \$1,240,000 in accordance with ASC 805.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value, net of write-downs for excess and obsolete inventory and consist of the following:

	March 31, 2025	September 30, 2024
Raw materials	\$ 15,496,589	\$ 9,862,591
Work-in-process	1,999,270	1,357,504
Finished goods	1,357,253	1,512,286
	<u>\$ 18,853,112</u>	<u>\$ 12,732,381</u>

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	March 31, 2025	September 30, 2024
Prepaid insurance	\$ 387,401	\$ 54,197
Honeywell TSA Agreement	—	140,000
Other	972,810	967,197
	<u>\$ 1,360,211</u>	<u>\$ 1,161,394</u>

Intangible assets

The Company's intangible assets other than goodwill are as follows:

	As of March 31, 2025			
	Gross Carrying Value	Accumulated Impairment	Accumulated Amortization	Net Carrying Value
License agreement ^(a)	\$ 9,790,000	\$ —	\$ —	\$ 9,790,000
Customer relationships ^(a)	12,604,327	—	(2,085,019)	10,519,308
Backlog ^(b)	4,850,000	—	(485,000)	4,365,000
Licensing and certification rights ^(c)	696,506	(44,400)	(638,285)	13,821
Total	<u>\$ 27,940,833</u>	<u>\$ (44,400)</u>	<u>\$ (3,208,304)</u>	<u>\$ 24,688,129</u>

	As of September 30, 2024			
	Gross Carrying Value	Accumulated Impairment	Accumulated Amortization	Net Carrying Value
License agreement ^(a)	\$ 9,140,000	\$ —	\$ —	\$ 9,140,000
Customer relationships ^(a)	13,008,332	—	(1,459,861)	11,548,471
Backlog ^(b)	6,310,000	—	—	6,310,000
Licensing and certification rights ^(c)	696,506	(44,400)	(638,285)	13,821
Total	<u>\$ 29,154,838</u>	<u>\$ (44,400)</u>	<u>\$ (2,098,146)</u>	<u>\$ 27,012,292</u>

(a) As part of the September 2024 Honeywell Agreement, the July 2024 Honeywell Asset Acquisition, and the June 2023 Honeywell Agreement transactions, the Company acquired intangible assets related to the license agreements for the license rights to use certain Honeywell intellectual property, backlog and customer relationships. The license agreements have an indefinite life and are not subject to amortization; the customer relationships have an estimated weighted average life of ten years.

(b) As part of the September 2024 Honeywell Agreement, the Company acquired intangible assets related to backlog with a useful life of four years.

(c) The licensing, and certification rights are amortized over a defined number of units.

The timing of future amortization expense is not determinable for the licensing and certification rights because they are amortized over a defined number of units. The expected future amortization expense related to the customer relationships and backlog as of March 31, 2025 is as follows:

	Amortization Expense
2025 (six months remaining)	\$ 1,105,514
2026	2,211,027
2027	2,211,027
2028	2,211,027
2029	2,211,027
Thereafter	4,934,686
Total	<u>\$ 14,884,308</u>

Property and equipment

Property and equipment, net consists of the following:

	March 31, 2025	September 30, 2024
Computer equipment	\$ 3,035,687	\$ 2,416,795
Furniture and office equipment	984,205	984,205
Buildings and improvements	7,569,240	6,198,690
Equipment other	15,426,979	15,161,225
Land	1,021,245	1,021,245
	28,037,356	25,782,160
Less accumulated depreciation and amortization	(13,304,345)	(12,409,862)
	<u>\$ 14,733,011</u>	<u>\$ 13,372,298</u>

Depreciation and amortization related to property and equipment was \$272,390 and \$146,156 for the three months ended March 31, 2025 and 2024, respectively.

Depreciation and amortization related to property and equipment was \$894,483 and \$271,684 for the six months ended March 31, 2025 and 2024, respectively.

In connection with June 2023 Honeywell Agreement, during the 18- month period following closing, which ended December 31, 2024, the Company received various inventory and PP&E, which was accounted for as of the acquisition date as prepaid inventory. Rotables comprised a significant portion of the PP&E received during that 18-month period. Rotables are parts that are not designed to be discarded after a certain period of use but rather are intended to be restored to a serviceable condition and reused. The Company had historically depreciated rotatables inventory on a straightline basis, over 5 years. During the second quarter of 2025, the Company updated its analysis of the economic lives of various owned rotatable assets. As a result of this update, to better reflect the revised estimate of physical lives of rotatable assets, the Company changed its useful lives estimate of rotatable assets from 5 years to 10 years, effective as of January 1, 2025.

ASC Topic 250, “Accounting Changes and Error Corrections” (“ASC 250”), specifically ASC 250-10-45-17 states that, “*changes in accounting estimates should not be accounted for by restating or retrospectively adjusting the amounts reported in prior period financial statements or by reporting pro forma amounts. Instead, a change in accounting estimate should be accounted for in the period of change and prospective periods.*”

Adhering to the guidance found in ASC 250, the Company recognized the change in depreciation expense of Rotable assets prospectively as of January 1, 2025. The change in accounting estimate decreased depreciation expense \$0.4 million, or \$ 0.02 per diluted share, for the three months ended March 31, 2025.

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Other assets

Other assets consist of the following:

	March 31, 2025	September 30, 2024
Operating lease right-of-use assets	\$ —	\$ 2,100
Other non-current assets	165,591	471,625
	<u>\$ 165,591</u>	<u>\$ 473,725</u>

Other non-current assets as of March 31, 2025 and September 30, 2024 consists primarily of deposits for medical claims required under the Company's medical plan.

Accrued expenses

Accrued expenses consist of the following:

	March 31, 2025	September 30, 2024
Warranty	\$ 565,033	\$ 596,538
Salary, benefits and payroll taxes	832,858	1,685,372
Professional fees	—	262,320
Operating lease	—	2,100
Income tax payable	228,535	1,194,185
Other	1,446,530	868,779
	<u>\$ 3,072,956</u>	<u>\$ 4,609,294</u>

Warranty cost and accrual information for the three and six months ended March 31, 2025 is highlighted below:

	Three Months Ending March 31, 2025	Six Months Ending March 31, 2025
Warranty accrual, beginning of period	\$ 522,724	\$ 596,538
Accrued expense (Adjustment)	67,000	47,000
Warranty cost	(24,691)	(78,505)
Warranty accrual, end of period	<u>\$ 565,033</u>	<u>\$ 565,033</u>

3. Income Taxes

The Company will continue to assess all available evidence during future periods to evaluate any changes to the realization of its deferred tax assets. If the Company were to determine that it would be able to realize additional state deferred tax assets in the future, it would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

As a result of the 2017 Tax Cuts and Jobs Act, the Company must amortize amounts paid or incurred for specified research and development expenditures, including software development expenses, ratably over 60 months, beginning at the mid-point of the tax year in which the expenditures are paid or incurred.

The effective tax rate for the three months ended March 31, 2025 was 19.2% and differs from the statutory tax rate primarily due to the effect of state income taxes, tax credits and certain nondeductible expenses.

The effective tax rate for the three months ended March 31, 2024 was 21.2% and differs from the statutory tax rate primarily due to higher state taxes due to a taxable gain from the sale of the Company's King Air aircraft.

The effective tax rate for the six months ended March 31, 2025 was 19.3% and differs from the statutory tax rate primarily due to the effect of state income taxes, tax credits and certain nondeductible expenses.

The effective tax rate for the six-months ended March 31, 2024 was 21.5% and differs from the statutory tax rate primarily due to higher state taxes due to a taxable gain from the sale of the Company's King Air aircraft.

4. Shareholders' Equity and Share-Based Payments

At June 30, 2024, the Company's Amended and Restated Articles of Incorporation provides the Company authority to issue 75,000,000 shares of common stock and 10,000,000 shares of preferred stock.

Share-Based Compensation

The Company accounts for share-based compensation under the provisions of ASC Topic 718, "*Compensation – Stock Compensation*", by using the fair value method for expensing stock options, performance based equity awards and stock awards.

Amended and Restated 2019 Stock-Based Incentive Compensation Plan

The Company's 2019 Stock-Based Incentive Compensation Plan (as amended, the "2019 Plan") was approved by the Company's shareholders at the Company's Annual Meeting of Shareholders held on April 2, 2019. The 2019 Plan authorizes the grant of stock appreciation rights, restricted stock, options, performance based equity awards, and other equity-based awards. Options granted under the 2019 Plan may be either "incentive stock options" as defined in Section 422 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or nonqualified stock options, as determined by the Compensation Committee.

Subject to an adjustment necessary upon a stock dividend, recapitalization, forward split or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or share exchange, extraordinary or unusual cash distribution, or similar corporate transaction or event, the maximum number of shares of common stock available for awards under the 2019 Plan is 750,000, plus 139,691 shares of common stock that were authorized but unissued under the Company's 2009 Stock-Based Incentive Compensation Plan as of April 2, 2019, the effective date of the 2019 Plan, all of which may be issued pursuant to awards of incentive stock options. On April 18, 2024, the Company amended the 2019 Plan to include an additional 1,950,000 authorized shares available for issuance. As of March 31, 2025, there were 1,518,517 shares of common stock available for awards under the 2019 Plan.

If any award is forfeited, terminates or otherwise is settled for any reason without an actual distribution of shares to the participant, the related shares of common stock subject to such award will again be available for future grant. Any shares tendered by a participant in payment of the exercise price of an option or the tax liability with respect to an award (including, in any case, shares withheld from any such award) will not be available for future grant under the 2019 Plan. If there is any change in the Company's corporate capitalization, the Compensation Committee must proportionately and equitably adjust the number and kind of shares of common stock which may be issued in connection with future awards, the number and kind of shares of common stock covered by awards then outstanding under the 2019 Plan, the aggregate number and kind of shares of common stock available under the 2019 Plan, any applicable individual limits on the number of shares of common stock available for awards under the 2019 Plan, the exercise or grant price of any award, or if deemed appropriate, make provision for a cash payment with respect to any outstanding award. In addition, the Compensation Committee may make adjustments in the terms and conditions of any awards, including any performance goals, in recognition of unusual or nonrecurring events affecting the Company or any subsidiary, or in response to changes in applicable laws, regulations, or accounting principles.

The 2019 Plan will terminate on April 2, 2029, unless earlier terminated by the Company's Board of Directors (the "Board"). Termination will not affect awards outstanding at the time of termination. The Board may amend, alter, suspend, discontinue, or terminate the 2019 Plan without shareholder approval, provided that shareholder approval is required for any amendment which (i) would increase the number of shares subject to the 2019 Plan; (ii) would decrease the price at which awards may be granted; or (iii) would require shareholder approval by law, regulation, or the rules of any stock exchange or automated quotation system.

Market-Based Restricted Stock Units

During the three months ended December 31, 2024, to better align executive compensation with the Company's Total Shareholder Return, the Board approved a special one-time grant of 201,000 market-based restricted stock units ("MSUs") to the Company's Chief Executive Officer under the terms and conditions of the 2019 Plan. The MSU is a restricted stock unit containing vesting terms conditional upon the attainment of both 1) continued service to vesting and 2) stock price appreciation targets indexed against the Company's actual stock price performance over a specified measurement period. Under the terms of the 2019 Plan, no MSUs are eligible for vesting prior to the first anniversary of the date of grant of the award, with the exception of accelerated vesting permitted

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under certain conditions subject to the plan provisions. Subject to the terms of the 2019 Plan, under the terms of the grant, the MSU will vest as follows:

- 1) an initial one-third ($1/3^{\text{rd}}$) of the MSUs shall vest on the first trading date after the shares of the Company's common stock have traded at a price equal to or greater than ten dollars (\$10.00) per share for twenty (20) consecutive trading days or as provided in the provisions of the second succeeding paragraph below;
- 2) an additional one-third ($1/3^{\text{rd}}$) of the MSUs shall vest on the first trading date after shares of the Company's common stock have traded at a price equal to or greater than twelve dollars (\$12.00) per share for twenty (20) consecutive trading days; and
- 3) the remaining MSUs shall vest on the first trading date after the shares of the Company's common stock have traded at a price equal to or greater than fourteen dollars (\$14.00) per share for twenty (20) consecutive trading days.

Additionally, if the tranche of MSUs subject to vesting pursuant to (1) above does not vest on or before November 20, 2027, then, with respect to such MSUs, the target trading price for the Company's common stock will be increased to twelve dollars (\$12.00) per share, such that the MSUs subject to (1) above will vest on the first trading date after shares of the Company's common stock have traded at a price equal to or greater than twelve dollars (\$12.00) per share for twenty (20) consecutive trading days.

Any MSUs that have not vested on or before the fourth anniversary of the grant date are immediately forfeited.

With respect to each MSU that becomes vested in accordance with the terms of the award agreement, the Grantee will be entitled to receive one share of common stock upon the settlement of the MSUs.

The Company estimated both the grant-date fair value of the MSUs and the derived vesting periods using a Monte Carlo simulation with the following input assumptions:

Number of MSUs Granted	201,000
Grant Date	November 20, 2024
Grant Date Stock Price	\$ 7.72
Expected Dividend Rate	0%
Expected Volatility	48%
Weighted average risk-free interest rate	4.27%
Contractual Term	4 years

Utilizing Monte Carlo simulation, the MSUs grant date fair value was estimated to be \$1,109,340 with a \$5.52 weighted average grant date fair value per award and the derived vesting periods were estimated to be between 1.2 years and 1.7 years.

For the three and six months ended March 31, 2025, the Company recognized \$112,834 and \$229,942, respectively of compensation expense related to MSU awards.

As of March 31, 2025, unrecognized compensation expense of \$879,398 associated with non-vested MSUs will be recognized in future periods under the 2019 Plan. During the three and six months ended March 31, 2025, no MSUs vested or were forfeited.

On February 13, 2025, the performance condition for 67,000 units of MSUs granted to the Company's Chief Executive Officer was met, these shares will vest according to the Company's Amended and Restated 2019 Stock-Based Incentive Compensation Plan.

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Time Based Stock Options with market based exercisability conditions

During the three months ended March 31, 2025, in a continuing effort to more closely correlate executive compensation with the Company's Total Shareholder Return, the Board approved a grant of 72,062 time vested stock options with a market based exercise price condition ("MSOs") to the Company's Chief Executive Officer and 33,259 MSOs to the Company's Chief Financial Officer under the terms and conditions of the Amended and Restated 2019 Stock-Based Incentive Compensation Plan.

The MSOs are similar to traditional time vested stock options and vest over four years, with 25% vesting on the first anniversary of the grant date (February 19, 2026) and the remaining shares vesting quarterly at 6.25% on the last business day of May, August, November, and February of calendar years two, three and four from date of grant. However, the MSOs only become exercisable if the Company's share price reaches or exceeds the date of grant closing stock price of \$8.59 plus a targeted market threshold of 15% (\$9.88) for 20 consecutive trading days at any time during the four-year vesting period. Once this market threshold is met, the vested shares can be exercised according to the vesting schedule and the terms and conditions set forth in the 2019 Plan.

No MSOs are eligible for vesting or exercise prior to the first anniversary of the date of grant of the award, with the exception of accelerated vesting permitted under certain conditions subject to the plan provisions.

With respect to each MSO that becomes exercised in accordance with the terms of the award agreement, the Grantee will be entitled to receive one share of common stock upon the settlement of the MSOs.

The Company estimated the grant-date fair value of the MSOs awards using a Monte Carlo simulation with the following input assumptions:

Number of MSOs granted	105,321
Grant Date	02/18/25
Grant Date Stock Price	\$ 8.27
Expected Dividend Rate	0%
Expected Volatility	47%
Weighted average risk-free interest rate	4.29%
Exercise price	\$ 8.59
Contractual Term	10 years

Utilizing Monte Carlo simulation, the aggregate MSOs grant date fair value was estimated to be \$474,998 with a \$4.51 weighted average grant date fair value per option and vesting periods were estimated to be between 1 years and 4 years with a 10 year contractual term.

For the three and six months ended March 31, 2025, the Company recognized \$13,646 of compensation expense related to the MSO awards.

As of March 31, 2025, unrecognized compensation expense of \$461,352 associated with non-vested MSOs will be recognized in future periods under the 2019 Plan. During the three and six months ended March 31, 2025, no MSOs vested or were forfeited.

The compensation expense related to stock options, and restricted stock awards issued to employees under the 2019 Plan was \$207,126 and \$219,748 for the three months ended March 31, 2025 and 2024, respectively.

The compensation expense related to stock options, and restricted stock awards issued to employees under the 2019 Plan was \$413,651 and \$375,328 for the six months ended March 31, 2025 and 2024, respectively.

The compensation expense under the 2019 Plan related to restricted stock awards issued to non-employee members of the Board was \$71,438 and \$49,590 for the three months ended March 31, 2025 and 2024, respectively.

The compensation expense under the 2019 Plan related to restricted stock awards issued to non-employee members of the Board was \$144,464 and \$99,726 for the six months ended March 31, 2025 and 2024, respectively.

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Total compensation expense associated with the 2019 Plan was \$405,025 and \$269,338 for the three months ended March 31, 2025 and 2024, respectively.

Total compensation expense associated with the 2019 Plan was \$801,650 and \$475,055 for the six months ended March 31, 2025 and 2024, respectively.

As of March 31, 2025, unrecognized compensation expense of approximately \$1,431,266 net of forfeitures, related to non-vested restricted stock under the 2019 Plan, will be recognized in future periods.

As of March 31, 2025, unrecognized compensation expense of approximately \$348,618, net of forfeitures, related to non-vested stock options under the 2019 Plan, will be recognized in future periods.

5. Earnings Per Share

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Numerator:				
Net income	\$ 5,336,342	\$ 1,208,316	\$ 6,072,534	\$ 2,265,666
Denominator:				
Basic weighted average shares	17,548,844	17,456,120	17,531,328	17,453,741
Dilutive effect of share-based awards	95,150	31,407	82,358	27,476
Diluted weighted average shares	17,643,994	17,487,527	17,613,686	17,481,217
Net income per common share:				
Basic	\$ 0.30	\$ 0.07	\$ 0.35	\$ 0.13
Diluted	\$ 0.30	\$ 0.07	\$ 0.34	\$ 0.13

Net income per share is calculated pursuant to ASC Topic 260, “*Earnings per Share*”. Basic EPS excludes potentially dilutive securities and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed assuming the conversion, or exercise of all dilutive securities such as employee stock options MSUs and RSUs.

The number of incremental shares from the assumed exercise of time vested stock options, MSOs, and RSUs is calculated by using the treasury stock method. The number of incremental shares from assumed vestings of MSUs is calculated using the ‘if-converted method.’ As of March 31, 2025 no outstanding MSUs were included in the three and six months ended March 31, 2025 weighted-average diluted shares calculation using the if converted method. As of March 31, 2025 and 2024, there were 433,655 and 297,014 options to purchase common stock outstanding, respectively, and 201,000 and 0 MSUs subject to vesting outstanding, respectively.

As of March 31, 2025 and 2024, there were 194,914 and 173,555 shares of restricted stock units subject to vesting outstanding, respectively. The weighted average outstanding diluted shares calculation excludes time vested options and MSOs with an exercise price that exceeds the average market price of shares during the period. Additionally, the weighted-average diluted shares calculation excludes RSUs that are deemed anti-dilutive when applying the treasury stock method.

For the three months ended March 31, 2025 and 2024, respectively, 136,613 and 243,749 diluted weighted-average shares outstanding were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

For the six months ended March 31, 2025 and 2024, respectively, 249,113 and 228,579 diluted weighted-average shares outstanding were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

6. Commitments and Contingencies

In the ordinary course of business, the Company is at times subject to various legal proceedings and claims. The Company does not believe any such matters that are currently pending will, individually or in aggregate, have a material effect on the results of operations or financial position.

7. Related Party Transactions

In recent years, the Company has had sales to AML Global Eclipse, LLC (“Eclipse”), whose principal shareholder is also a principal shareholder in the Company. Prior balances are disclosed below for comparability.

Sales to Eclipse amounted to approximately \$14,900 and \$9,000 for the three months ended March 31, 2025 and 2024, respectively. Sales to Eclipse amounted to approximately \$17,600 and \$93,000 for the six months ended March 31, 2025 and 2024, respectively.

A company in which Parizad Olver (Parchi), a former member of the Board, is the managing partner and has an ownership interest, received a consulting fee of \$72,990 in November 2023 for services provided in connection with the sale of the Company’s 2008 Super King Air B200GT SN BY-50.

On October 18, 2024, the Company entered into a consulting agreement with Peduzzi Associated, Ltd. (“PAL”), an entity in which board member Maj. General Dean serves as President. PAL will provide consulting services in support of the Company’s business development growth into the DoD. The term of the agreement is for one year and in consideration for services the Company will pay PAL a retainer of \$9,500 per month. For the three and six months ended March 31, 2025, the Company paid PAL \$28,500 and \$57,000, respectively.

8. Loan Agreement

On June 28, 2023, the Company and one of its subsidiaries entered into an Amendment to Loan Documents (the “Loan Amendment”) with PNC Bank, National Association (the “PNC”), which amends certain terms of that certain Loan Agreement entered into by the parties on May 11, 2023 (the “Loan Agreement” and, as amended, the “Amended Loan Agreement”) and (ii) a corresponding Term Note in favor of PNC (the “Term Note”), which together provide for a senior secured term loan in an aggregate principal amount of \$20.0 million, with a maturity date of June 28, 2028. Availability of funds under the Term Loan was conditioned upon the closing of the transactions contemplated by the Amended Loan Agreement and was used to fund a portion of the 2023 transaction with Honeywell. Under the agreement, the Company has the right to prepay any amounts outstanding at any time and from time to time, whole or in part; subject to payment of any break funding indemnification amounts.

The interest rate applicable to loans outstanding under the Term Loan is a floating interest rate equal to the sum of (A) the Term SOFR Rate (as defined in the Term Note) plus (B) an unadjusted spread of the Applicable SOFR Margin plus (C) a SOFR adjustment of ten basis points. The Applicable SOFR Margin ranges from 1.5% to 2.5% depending on the Company’s funded debt to EBITDA ratio. Commencing on June 30, 2023, the Term Loan consists of sixty equal monthly principal installments, over a period of ten years, with the balance payable on the maturity date of the Term Loan.

In addition to providing for the Term Loan, the Loan Agreement, together with a corresponding Revolving Line of Credit Note in favor of PNC, executed May 11, 2023, provided for a senior secured revolving line of credit in an aggregate principal amount of \$10,000,000, with an expiration date of May 11, 2028 (the “Revolving Line of Credit”).

On December 19, 2023, the Company and PNC entered into an Amendment to the Loan (the “Restated Loan Amendment”) and a corresponding Amended and Restated Revolving Line of Credit Note (“Restated Line of Credit Note”) and Amended and Restated Line of Credit and Investment Sweep Rider (the “Restated Rider”), to increase the aggregate principal amount available under the Company’s senior secured revolving line of credit from \$10,000,000 to \$30,000,000 and extend the maturity date until December 19, 2028.

On September 30, 2024, the Company and one of its subsidiaries, Innovative Solutions and Support, LLC (“ISSL,” entered into an Amendment to Loan Documents (the “Loan 2024 Amendment”) with PNC, which amends certain terms of the Loan Agreement to increase the line of credit with PNC. Concurrently with the Loan 2024 Amendment, the Company entered into (i) an Amended and Restated Revolving Line of Credit in favor of PNC (the “A&R Revolving Line of Credit”), and (ii) an Amended and Restated Line of Credit and Investment Sweep Rider with PNC (the “A&R Rider”).

The A&R Revolving Line of Credit Note provides for a senior secured revolving line of credit in an aggregate principal amount of \$35,000,000, with an expiration date of December 19, 2028. The interest rate applicable to loans outstanding under the A&R Revolving Line of Credit is a rate per annum equal to the sum of (A) Daily SOFR (as defined in the A&R Revolving Line of Credit Note) plus (B) an unadjusted spread of the Applicable SOFR Margin plus (C) a SOFR adjustment of ten basis points. The applicable SOFR Margin ranges from 1.5% to 2.5% depending on the Company's funded debt to EBITDA ratio as defined in the A&R Revolving Line of Credit Note. The A&R Rider provides for how PNC will make advances to the Company under the AR Revolving Line of Credit.

The Company was in compliance with all applicable covenants throughout and at March 31, 2025. As of the three months ended March 31, 2025, the outstanding balance drawn on the A&R Revolving Line of Credit was \$27,401,323 with an effective interest rate of 5.9 percent. As of March 31, 2025, the Company had availability of \$7,598,677 under the A&R Revolving Line of Credit.

9. Subsequent Events

None

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are based largely on current expectations and projections about future events and trends affecting the business, are not guarantees of future performance and involve a number of risks, uncertainties and assumptions that are difficult to predict. In this report, the words "anticipates," "believes," "may," "will," "estimates," "continues," "anticipates," "intends," "forecasts," "expects," "plans," "could," "should," "would," "is likely," "projected," "might," "potential," "preliminary," "provisionally" and similar expressions, as they relate to the business or to its management, are intended to identify forward-looking statements, but they are not exclusive means of identifying them. Unless the context otherwise requires, all references herein to "IS&S," the "Registrant," the "Company," "we," "us" or "our" are to Innovative Solutions and Support, Inc. and its consolidated subsidiaries.

All forward-looking statements are based on management's current expectations and beliefs concerning future developments and their potential effects on the Company. Many of the factors that will determine the Company's future results are beyond the ability of management to control or predict. The forward-looking statements in this report are only predictions and actual events or results may differ materially. In evaluating such statements, a number of risks, uncertainties and other factors could cause actual results, performance, financial condition, cash flows, prospects and opportunities to differ materially from those expressed in, or implied by, the forward-looking statements. These risks, uncertainties and other factors include those set forth in Item 1A (Risk Factors) of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024 and in Item 1A (Risk Factors) to Part II of this Quarterly Report on Form 10-Q, as well as the following factors:

- market acceptance of the Company's ThrustSense® full-regime Autothrottle, Vmc_a Mitigation, FPDS, NextGen Flight Deck and COCKPIT/IP® or other planned products or product enhancements;
- continued market acceptance of the Company's air data systems and products;
- the competitive environment and new product offerings from competitors;
- difficulties in developing, producing or improving the Company's planned products or product enhancements;
- the deferral or termination of programs or contracts for convenience by customers;
- the ability to service the international market;
- the availability of government funding;
- the impact of general economic trends, including tariffs and other trade restrictions on the Company's business;
- disruptions in the Company's supply chain, customer base and workforce;
- the ability to gain, drive and sustain regulatory approval, including domestic and international certifications, of products in a timely manner;
- delays in receiving components from third-party suppliers;

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- the bankruptcy or insolvency of one or more key customers;
- protection of intellectual property rights;
- the ability to respond to technological change;
- failure to retain/recruit key personnel;
- risks related to succession planning;
- a cyber security incident;
- risks related to our self-insurance program;
- ability to successfully manage and integrate key acquisitions, mergers and other transactions, such as the recent asset acquisition of certain Inertial, Communication and Navigation product lines from Honeywell International, Inc., as well as the failure to realize expected synergies and benefits anticipated when we make an acquisition;
- potential future acquisitions or dispositions;
- the costs of compliance with present and future laws and regulations;
- changes in law, including changes to corporate tax laws in the United States and the availability of certain tax credits; and
- other factors disclosed from time to time in the Company's filings with the United States Securities and Exchange Commission (the "SEC").

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, or to reflect the occurrence of unanticipated events. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act of 1933, as amended (the "Securities Act") and 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Investors should also be aware that while the Company, from time to time, communicates with securities analysts, it is against its policy to disclose any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

Objective

The following discussion provides an analysis of the Company's financial condition, cash flows and results of operations from management's perspective and should be read in conjunction with "Selected Consolidated Financial Data" and the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024. Our objective is to also provide discussion of events and uncertainties known to management that are reasonably likely to cause reported financial information not to be indicative of future operating results or of future financial condition and to offer information that provides understanding of our financial condition, cash flows and results of operations.

Company Overview

The Company was incorporated in Pennsylvania on February 12, 1988. The Company operates in one business segment as a systems integrator that designs, develops, manufactures, sells and services, air data equipment, engine display systems, standby equipment, primary flight guidance, autothrottles and cockpit display systems for retrofit applications and OEMs. The Company supplies integrated FMS, FPDS, FPDS with autothrottle, air data equipment, integrated standby units, integrated standby units with autothrottle and advanced GPS receivers that enable reduced carbon footprint navigation, communication and navigation products and inertial reference units.

The Company has continued to position itself as a system integrator, which provides the Company with the capability and potential to generate more substantive orders over a broader product base. This strategy, as both a manufacturer and integrator, is designed to leverage the latest technologies developed for the computer and telecommunications industries into advanced and cost-effective solutions for the general aviation, commercial air transport, the DoD/governmental and foreign military markets. This approach, combined with the Company's industry experience, is designed to enable the Company to develop high-quality products and systems, to reduce product time to market and to achieve cost advantages over products offered by its competitors.

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The Company sells to both the OEM and the retrofit markets. Customers include various OEMs, commercial air transport carriers and corporate/general aviation companies, the DoD and its commercial contractors, aircraft operators, aircraft modification centers, government agencies and foreign militaries. Occasionally, the Company sells its products directly to the DoD; however, the Company sells its products primarily to commercial customers for end use in DoD programs. Sales to defense contractors are generally made on commercial terms, although some of the termination and other provisions of government contracts are applicable to these contracts. The Company's retrofit projects are generally pursuant to either a direct contract with a customer or a subcontract with a general contractor to a customer (including government agencies).

In June 2023, the Company entered into the June 2023 Honeywell Agreement with Honeywell pursuant to which Honeywell sold, assigned or licensed certain assets related to its inertial, communication and navigation product lines, including a sale of certain inventory, equipment and customer-related documents, an assignment of certain contracts and a grant of exclusive and non-exclusive licenses to use certain Honeywell intellectual property related to its inertial, communication and navigation product lines to repair, overhaul, manufacture sell, import, export and distribute certain products to the Company for cash consideration of \$35.9 million.

In July 2024, the Company entered into the July 2024 Honeywell Asset Acquisition, an exclusive license agreement and acquired additional key assets for certain communication and navigation product lines from Honeywell. This transaction complements the previous Honeywell license and asset acquisition completed in June 2023. Total consideration was \$4.2 million in cash.

On September 27, 2024, the Company entered into the September 2024 Honeywell Agreement with Honeywell, pursuant to which Honeywell sold, assigned or licensed certain assets related to its various generations of military display generators and flight control computers, including a sale of certain inventory, equipment and customer-related documents; an assignment of certain contracts; and a grant of exclusive and non-exclusive licenses to use certain Honeywell intellectual property related to its various generations of military display generators and flight control computers to repair, overhaul, manufacture sell, import, export and distribute certain products to the Company for consideration of \$14.2 million in cash.

Following the acquisition of Honeywell's military display generators and flight control computers business, Honeywell has continued to manufacture these products and maintain related inventory at its facilities under the September 2024 Honeywell Agreement. Revenue and costs from this production are attributed to and reported by the Company, but the Company relies on Honeywell for access to the operational and financial data needed to prepare its financial statements. The Company has limited ability to oversee the operations or verify the data received from Honeywell, making it difficult to predict revenues and gross margins. Over the coming months, the production of the military display generators and flight control computers business will cease at Honeywell facilities and transition to the Company's facilities. During this transition process, production will be temporarily halted while the Company ramps up its production and inventory at its facilities. In anticipation of the transition, Honeywell is expected to accelerate its production of these products in the short term. This will likely lead to a spike in revenues in the short term followed by a temporary dip in revenues before revenues are normalized.

As a result, the Company anticipates revenues related to the September 2024 Honeywell Agreement will continue to fluctuate significantly over the next few quarters. The transition from Honeywell to Company facilities will involve certain risks that may impact operational performance and reported results. While the Company cannot assure that the transition will not adversely affect operations and reported results, it is committed to closely monitoring the integration process and providing updates as necessary. The Company remains confident in the long-term benefits of the Honeywell acquisitions.

Cost of sales related to product and service sales comprises materials, components and third-party avionics purchased from suppliers, direct labor and overhead costs. Many of the components are standard, although certain parts are manufactured to meet the Company's specifications. The overhead portion of Cost of sales primarily comprises salaries and benefits, building occupancy costs, supplies and outside service costs related to production, purchasing, material control and quality control. Cost of sales also includes warranty costs.

Cost of sales related to Engineering Development Contracts ("EDC") sales comprises engineering labor, consulting services and other costs associated with specific design and development projects. These costs are incurred pursuant to contractual arrangements and are accounted for typically as contract costs within Cost of sales, with reimbursement accounted for as a sale in accordance with the percentage-of-completion method or completed contract method of accounting. Company funded R&D expenditures relate to internally-funded efforts for the development of new products and the improvement of existing products. These costs are expensed as incurred and reported as R&D expenses. The Company intends to continue investing in the development of new products that complement current product offerings and to expense associated R&D costs as they are incurred.

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Selling, general and administrative (“SG&A”) expenses consist of sales, marketing, business development, professional services, salaries and benefits for executive and administrative personnel, facility costs, recruiting, legal, accounting and other general corporate expenses.

The Company sells its products to agencies of the United States and foreign governments, aircraft operators, aircraft modification centers and OEMs. Customers have been and may continue to be affected by changes in economic conditions both in the United States and abroad. Such changes may cause customers to curtail or delay their spending on both new and existing aircraft. Factors that can impact general economic conditions and the level of spending by customers include, but are not limited to, general levels of consumer spending, increases in fuel and energy costs, conditions in the real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence, inflation, public health crises and pandemics and other macroeconomic factors that affect spending behavior. Furthermore, spending by government agencies may be reduced in the future. If customers curtail or delay their spending or are forced to declare bankruptcy or liquidate their operations because of adverse economic conditions, the Company’s revenues and results of operations would be affected adversely. For example, in the 2020 fiscal year, certain of the Company’s customers temporarily suspended product deliveries as a result of the COVID-19 pandemic, and while these deliveries subsequently resumed, there is a possibility that the COVID-19 or similar pandemics will result in other suspensions, delays or order cancellations by the Company’s customers or suppliers.

Environmental, Social and Governance Considerations

In recent years, environmental, social and governance (“ESG”) issues have become an increasing area of focus for some of our shareholders, customers and suppliers. Management and the Company’s Board are committed to identifying, assessing and understanding the potential impact of ESG issues and related risks on the Company’s business model, as well as potential areas of improvement.

We are committed to recruiting, motivating and developing a diversity of talent. We are an equal opportunity employer and a Vietnam Era Veterans’ Readjustment Assistance Act federal contractor. All qualified applicants receive consideration for employment without regard to race, color, religion, sex, sexual orientation, gender identity, national origin, disability status, protected veteran status, or any other characteristic protected by law.

The nature of our business also supports long-term sustainability. Historically, a majority of the Company’s sales have come from the retrofit market, in which the Company, by making upgrades to improve the functionality and safety of existing machinery, facilitates the re-use and recycling of aircraft and equipment that might otherwise be scrapped as obsolete. The Company’s GPS receivers also facilitate reduced carbon footprint navigation. The Company also plans to enhance its focus on the environmental impact of its operations.

Critical Accounting Policies and Estimates

The discussion and analysis of financial condition and consolidated results of operations are based upon the Company’s condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). The preparation of these condensed consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses and related disclosure of contingent assets and liabilities. Management has determined that the most critical accounting policies and estimates are those related to revenue recognition, inventory valuation and valuation of tangible and intangible assets acquired. On an ongoing basis, the Company’s management evaluates its estimates based upon historical experience and various other assumptions that it believes to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company believes that its critical accounting policies affect its more significant estimates and judgments used in the preparation of its condensed consolidated financial statements. The Annual Report on Form 10-K for the fiscal year ended September 30, 2024 contains a discussion of these critical accounting policies. See also Note 1 to the unaudited condensed consolidated financial statements for the three and six months ended March 31, 2025 as set forth herein.

In connection with June 2023 Honeywell Agreement, during the 18- month period following closing, which ended December 31, 2024, the Company received various components of PP&E. Rotables are parts that are not designed to be discarded after a certain period of use but rather are intended to be restored to a serviceable condition and reused. The Company had historically depreciated rotatable PP&E on a straightline basis, over 5 years. During the second quarter of 2025, the Company updated its analysis of the

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economic lives of various owned rotatable assets. As a result of this update, to better reflect the revised estimate of physical lives of rotatable assets, the Company changed its useful lives estimate of rotatable assets from 5 years to 10 years, effective as of January 1, 2025.

ASC 250, specifically ASC 250-10-45-17 states that, “changes in accounting estimates should not be accounted for by restating or retrospectively adjusting the amounts reported in prior period financial statements or by reporting pro forma amounts. Instead, a change in accounting estimate should be accounted for in the period of change and prospective periods.”

Adhering to the guidance found in ASC 250, the Company recognized the change in depreciation expense of Rotatable assets prospectively as of January 1, 2025. The change in accounting estimate decreased depreciation expense \$0.4 million, or \$ 0.02 per diluted share, for the three months ended March 31, 2025.

**RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED
MARCH 31, 2025 AND 2024**

The following table sets forth the statements of operations data expressed as a percentage of total net sales for the periods indicated (some items may not add due to rounding):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Net sales:				
Product	60.1 %	45.6 %	61.1 %	46.5 %
Services	39.9 %	54.4 %	38.9 %	53.5 %
Total net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales:				
Product	24.1 %	21.9 %	30.4 %	20.6 %
Services	24.6 %	26.1 %	22.4 %	24.0 %
Total cost of sales	48.6 %	48.0 %	52.8 %	44.6 %
Gross profit	51.4 %	52.0 %	47.2 %	55.4 %
Operating expenses:				
Research and development	4.0 %	9.6 %	5.3 %	9.6 %
Selling, general and administrative	15.6 %	27.1 %	20.0 %	29.5 %
Total operating expenses	19.6 %	36.7 %	25.2 %	39.1 %
Operating income	31.8 %	15.3 %	22.0 %	16.3 %
Interest expense	(1.8)%	(1.6)%	(2.1)%	(2.7)%
Interest income	0.0 %	0.3 %	0.0 %	0.6 %
Other income	— %	0.2 %	0.0 %	0.2 %
Income before income taxes	30.0 %	14.3 %	19.8 %	14.4 %
Income tax expense	5.7 %	3.0 %	3.8 %	3.1 %
Net income	24.3 %	11.3 %	16.0 %	11.3 %

Three Months Ended March 31, 2025 Compared to the Three Months Ended March 31, 2024

Historically, the Company presented Net Sales and Cost of Sales related to each of Customer service and Engineering and development contracts separately on the Consolidated Statements of Operations. For the three and six months ended March 31, 2025, the Company has aggregated these items into one category, “Services” and reclassified Customer service and Engineering and development contracts revenues as well as Cost of sales to conform the presentation of the Consolidated Statements of Operations for the three and six months ended March 31, 2024. For additional information, see Note 3, *Summary of Significant Accounting Policies, (“Reclassifications”)* to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2024.

Net sales. Net sales for the three months ended March 31, 2025 increased \$11.2 million, or 104.3%, to \$21.9 million from \$10.7 million for the three months ended March 31, 2024. Net sales of \$21.9 million for the three months ended March 31, 2025 was comprised of \$11.1 million in organic Net sales and \$10.8 million in Net sales related to the September 2024 Honeywell Agreement. The increase in Net sales was driven primarily by a \$8.3 million, or 169.2%, increase in Product sales of which \$7.9 million were derived from Honeywell military products. This quarter’s Net sales benefitted from an acceleration of the production and sales of Honeywell’s military product line in anticipation of Honeywell ceasing production at its own facilities and transitioning that production to the Company’s facilities. Net sales also benefitted from an increase in commercial air transport sales of \$3.7 million partially offset by \$2.7 million of reduced shipsets in business aviation and \$0.7 million of reduced shipsets in military. Service sales for the three months ended March 31, 2025 increased \$2.9 million, or 49.8%, compared to Services sales for the three months ended March 31, 2024. The increase in service sales primarily reflects increases in engineering development services of \$0.4 million and an increase in customer service sales from the product lines acquired from Honeywell of \$3.0 million, partially offset by lower legacy customer service revenue of \$0.5 million.

Cost of sales. Cost of sales was \$10.7 million, or 48.6% of Net sales, for the three months ended March 31, 2025 compared to \$5.2 million, or 48% of Net sales, for the three months ended March 31, 2024. The increase in Cost of sales was primarily the result of an increase in overall sales volume. The Company’s overall gross margin for the three months ended March 31, 2025 was 51.4% compared to 52.0% for the three months ended March 31, 2024. The decrease in overall gross margin percentage for the three months ended March 31, 2025, compared to the three months ended March 31, 2024 is primarily the result of changes in product mix. The factors that have been, and will continue to, affect the Company’s gross margin capture include depreciation resulting from recent product line acquisitions and the increased weight of military sales in the Company’s sales mix.

Research and development. R&D expense decreased \$0.2 million, or 15.9%, to \$0.9 million for the three months ended March 31, 2025 from \$1.0 million for the three months ended March 31, 2024. As a percentage of net sales, R&D expenses decreased to 4.0% of net sales for the three months ended March 31, 2025 from 9.6% of net sales for the three months ended March 31, 2024. The decrease in R&D expenses in the quarter was primarily the result of recharacterizing \$0.2 million of R&D expense as Cost of sales related to the EDC sales.

Selling, general, and administrative. SG&A expenses increased by \$0.5 million or 17.4%, to \$3.4 million from \$2.9 million for the three months ended March 31, 2024. The increase in SG&A expense for the three months ended March 31, 2025 was primarily the result of third party and other fees of \$0.1 million, \$0.1 million related to the customer relationships and backlog intangible assets resulting from the combined acquisitions and \$0.2 million due to employee related expenses and benefits resulting from increased headcount. As a percentage of Net sales, SG&A expenses were 15.6% for the three months ended March 31, 2025 compared to 27.1% for the three months ended March 31, 2024.

Interest income. Interest income was negligible for the three months ended March 31, 2025 and 2024, respectively.

Other income. The Company had no material other income for the three months ended March 31, 2025 and 2024, respectively.

Income taxes. Income tax expense was \$1.3 million for the three months ended March 31, 2025 as compared to income tax expense of \$0.3 million for the three months ended March 31, 2024. The effective tax rate for the three months ended March 31, 2025 was 19.2 % as compared to 21.2% for the three months ended March 31, 2024. The increase in income tax expense was primarily due to higher taxable earnings for the three months ended March 31, 2025, compared to the same period last year.

Net income. As a result of the factors described above, the Company’s net income for the three months ended March 31, 2025 was \$5.3 million compared to net income of \$1.2 million for the three months ended March 31, 2024. On a fully diluted basis, net income

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per share was \$0.30 for the three months ended March 31, 2025, compared to a net income of \$0.07 per share for the three months ended March 31, 2024.

Six Months Ended March 31, 2025 Compared to the Six Months Ended March 31, 2024

Net sales. Net sales for the six months ended March 31, 2025 increased by \$17.9 million, or 89.1%, to \$37.9 million from \$20.0 million for the six months ended March 31, 2024. Net sales of \$37.9 million for the six months ended March 31, 2025 was comprised of \$21.2 million in organic Net sales and \$16.7 million in Net sales related to the September 2024 Honeywell Agreement. The increase in Net sales was driven primarily by a \$13.8 million, or 147.6%, increase in Product sales derived from the September 2024 Honeywell Agreement. and an increase in commercial air transport sales of \$5.0 million, offset by \$3.5 million of reduced shipsets in business aviation and \$1.5 million of reduced shipsets in military. Service sales for the six months ended March 31, 2024 increased \$4.0 million, or 37.4%, compared to Services sales for the six months ended March 31, 2024. The increase in service sales primarily reflects increases in engineering development services of \$1.2 million and an increase in customer service sales from the product lines acquired from Honeywell of \$3.8 million, partially offset by lower legacy customer service revenue of \$1.0 million.

Cost of sales. Cost of sales was \$20.0 million, or 52.8% of Net sales, for the six months ended March 31, 2025 compared to \$8.9 million, or 44.6% of Net sales, for the six months ended March 31, 2024. The increase in Cost of sales was primarily the result of an increase in overall sales volume. The Company's overall gross margin for the six months ended March 31, 2025 was 47.2% compared to 55.4% for the six months ended March 31, 2024. The decrease in overall gross margin percentage for the six months ended March 31, 2025, compared to the six months ended March 31, 2024 is primarily the result of changes in product mix, increased depreciation and cost inefficiencies due to hiring and training of additional personnel and other integration costs associated with the September 2024 Honeywell Agreement. The factors that have been, and will continue to effect the Company's gross margin capture include depreciation resulting from recent product line acquisitions and the increased weight of military sales in the Company's sales mix.

Research and development. R&D expense increased less than \$0.1 million, or 2.2%, to \$2.0 million for the six months ended March 31, 2025 from \$1.9 million for the six months ended March 31, 2024. As a percentage of net sales, R&D expenses decreased to 5.3% of net sales for the six months ended March 31, 2025 from 9.6% of net sales for the six months ended March 31, 2024. The decrease in R&D expense as a percent of sales for the six months ended March 31, 2025 compared to the same period last year was primarily the result of recharacterizing \$0.4 million of R&D expenses as Cost of sales related to the EDC sales.

Selling, general, and administrative. SG&A expenses increased \$1.7 million or 28.0%, to \$7.6 million from \$5.9 million for the six months ended March 31, 2024. The increase in SG&A expense for the six months ended March 31, 2025 was primarily the result of increases in professional services fees and other related fees of \$0.3 million primarily due to acquisition related expenses and corporate initiatives. In addition, the Company incurred increased depreciation and amortization expenses of \$0.6 million related to the customer relationships and backlog intangible assets resulting from the combined acquisitions and \$0.6 million due to employee related expenses and benefits resulting from increased headcount. As a percentage of Net sales, SG&A expenses were 20.0% for the six months ended March 31, 2025 compared to 29.5% for the six months ended March 31, 2024.

Interest income. Interest income was negligible for the six months ended March 31, 2025 and decreased by \$0.1 million as compared to the six months ended March 31, 2024. The decrease in interest income was primarily the result of a general decrease in interest rates as compared to the six months ended March 31, 2024.

Other income. The Company had no material other income for the six months ended March 31, 2025 and 2024, respectively.

Income taxes. Income tax expense was \$1.5 million for the six months ended March 31, 2025 as compared to income tax expense of \$0.6 million for the six months ended March 31, 2024. The effective tax rate for the six months ended March 31, 2025 was 19.3% as compared to 21.5% for the six months ended March 31, 2024. The increase in income tax expense was primarily due to a higher taxable earnings for the six months ended March 31, 2025, compared to the same period last year.

Net income. As a result of the factors described above, the Company's net income for the six months ended March 31, 2025 was \$6.1 million compared to net income of \$2.3 million for the six months ended March 31, 2024. On a fully diluted basis, net income per share was \$0.34 for the six months ended March 31, 2025, compared to a net income of \$0.13 per share for the six months ended March 31, 2024.

Liquidity and Capital Resources

The following table highlights key financial measurements of the Company:

	As of March 31, 2025	As of September 30, 2024
Cash and cash equivalents	\$ 1,225,648	\$ 538,977
Accounts receivable	\$ 13,823,088	\$ 12,612,482
Current assets	\$ 41,461,571	\$ 34,685,698
Current liabilities	\$ 8,515,313	\$ 7,265,254
Contract liability	\$ 731,793	\$ 340,481
Other non-current liabilities	\$ 27,858,040	\$ 28,478,352
Quick ratio ⁽¹⁾	1.77	1.81
Current ratio ⁽²⁾	4.87	4.77

	Six Months Ended March 31,	
	2025	2024
Cash flow activities:		
Net cash provided by operating activities	\$ 3,129,364	\$ 4,416,839
Net cash (used in) provided by investing activities	(1,817,015)	1,917,162
Net cash (used in) provided by financing activities	(625,678)	(8,857,115)

(1) Calculated as: the sum of cash and cash equivalents plus accounts receivable, net, divided by current liabilities.

(2) Calculated as: current assets divided by current liabilities.

The Company's principal source of liquidity has been cash flows from current year operations and cash accumulated from prior years' operations, supplemented with our revolving credit facility. Cash is used principally to finance inventory, accounts receivable, contract assets, payroll, debt service and acquisitions, as well as the Company's known contractual and other commitments. The Company's existing cash balances and anticipated cash flows from operations, together with borrowings under our revolving credit facility, are expected to be adequate to satisfy the Company's liquidity needs for at least the next 12 months. Apart from what has been disclosed in this Management's Discussion and Analysis, management is not aware of any trends, events or uncertainties that have had or are likely to have a material impact on our liquidity, financial condition and capital resources. The declaration and payment of any dividend in the future will be at the discretion of the Company's Board.

Debt Facility

In connection with the June 2023 Honeywell Agreement, the Company entered into a term loan with PNC Bank for \$20.0 million to fund a portion of the June 2023 Honeywell Agreement. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024, Note 20, "Loan Agreement" for further details. In addition to providing for the Term Loan, The Loan Agreement, together with a corresponding Line of Credit Note in favor of PNC, executed on May 11, 2023, provides for the senior secured Revolving Line of Credit in an aggregate principal amount of \$10,000,000, with an expiration date of May 11, 2028.

On December 19, 2023, the Company and PNC entered into the Restated Loan Amendment and the corresponding Restated Line of Credit Note and Restated Rider, to increase the aggregate principal amount available under the Company's senior secured revolving line of credit from \$10,000,000 to \$30,000,000 and extend the maturity date until December 19, 2028. The proceeds of the Restated Line of Credit Note will be used for working capital and other general corporate purposes, for acquisitions as permitted under the Restated Loan Amendments and to pay off and close the loan evidenced by that certain Term Note executed in favor of PNC, dated June 28, 2023, which provided for a senior secured term loan in aggregate principal amount of \$20,000,000, with a maturity date of June 28, 2028.

On September 30, 2024, in connection with the July 2024 Honeywell Asset Acquisition and the September 2024 Honeywell Agreement, the Company entered into the Loan 2024 Amendment with PNC, which amends certain terms of the Loan Agreement to increase the line of credit with PNC. Concurrently with the Loan 2024 Amendment, the Company entered into (i) A&R Revolving Line of Credit Note, and (ii) A&R Rider. The A&R Revolving Line of Credit Note provides for a senior secured revolving line of credit in an aggregate principal amount of \$35,000,000, with an expiration date of December 19, 2028 (the "Revolving Line of

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Credit”). The interest rate applicable to loans outstanding under the Revolving Line of Credit is a rate per annum equal to the sum of (A) Daily SOFR (as defined in the A&R Revolving Line of Credit Note) plus (B) an unadjusted spread of the Applicable SOFR Margin plus (C) a SOFR adjustment of ten basis points. The Applicable SOFR Margin ranges from 1.5% to 2.5% depending on the Company’s funded debt to EBITDA ratio, as defined in the A&R Revolving Line of Credit Note. The A&R Rider provides for how PNC will make advances to the Company under the Revolving Line of Credit.

As of March 31, 2025, the outstanding balance drawn on the A&R Revolving Line of Credit was \$27,401,323 with an effective interest rate of 5.9 percent. As of March 31, 2025, the Company had availability of \$7,598,677 under the A&R Revolving Line of Credit.

Future Funding Requirements

The Company’s existing cash balances, anticipated cash flows from operations and current banking facility are expected to be adequate to satisfy the Company’s liquidity needs for at least the next 12 months, which include funding requirements for working capital, construction in process related to progress payments in support of the Company’s facilities expansion as well as computer software integration associated with the Company’s Netsuite ERP system.

Apart from what has been disclosed above, management is not aware of any trends, events or uncertainties that have had or are likely to have a material impact on our liquidity, financial condition and capital resources.

The Company did not pay cash dividends in fiscal years 2023 or 2024. The Company intends to retain future earnings, if any, to finance the development and growth of its business and does not anticipate paying any cash dividends in the foreseeable future. The declaration and payment of any dividend in the future will be at the discretion of the Board and will depend on then-existing conditions, including our operating results, financial condition, business prospects and other factors the Board may deem relevant.

Operating activities

Net cash provided by operating activities was \$3.1 million for the six months ended March 31, 2025 and consisted primarily of funding from net income of \$6.1 million and changes in working capital.

Investing activities

Net cash used in investing activities was \$1.8 million for the six months ended March 31, 2025 and consisted of expenditures related to additions and improvements in the Company’s facilities and purchases of equipment and computer hardware.

Financing activities

Net cash used in financing activities was \$0.6 million for the six months ended March 31, 2025 and consisted of payments against the Company’s line of credit.

Summary

Future capital requirements depend upon numerous factors, including market acceptance of the Company’s products, the timing and rate of expansion of business, acquisitions, joint ventures and other factors. IS&S has experienced increases in expenditures since its inception and anticipates that expenditures will continue in the foreseeable future. The Company believes that its cash and cash equivalents will provide sufficient capital to fund operations for at least the next twelve months. However, the Company may need to develop and introduce new or enhanced products, respond to competitive pressures, invest in or acquire businesses or technologies, or respond to unanticipated requirements or developments. If insufficient funds are available, the Company may not be able to introduce new products or compete effectively.

Backlog

	Three Months Ended	Six Months Ended
	March 31, 2025	
Backlog, beginning of period	\$ 80,756,933	\$ 89,232,576
Plus: bookings during period, net	20,777,796	28,270,882
Less: sales recognized during period	(21,936,214)	(37,904,943)
Backlog, end of period	\$ 79,598,515	\$ 79,598,515

Backlog represents the value of contracts and purchase orders, less the revenue recognized to date on those contracts and purchase orders. The backlog excludes potential future sole-source production orders from products developed under the Company's engineering development contracts ("EDC") programs, including the Pilatus PC-24, the KC-46A and the Textron King Air 360 and King Air 260 ThrustSense® Autothrottle programs. Although the Company believes that the orders included in backlog are firm, most of the backlog involves orders that can be modified or terminated by the customer.

At March 31, 2025, our backlog was \$79.6 million compared with \$89.2 million at September 30, 2024. Backlog at March 31, 2025 included \$66.0 million of acquired backlog as a result of the September 27, 2024 acquisition. Backlog is converted into sales in future periods as work is performed or deliveries are made. We expect to recognize approximately 59% of our backlog over the next 12 months and approximately 81% over the next 24 months as revenue, with the remainder recognized thereafter.

During fiscal 2024, we made important progress on our commercial growth strategy highlighted by several key awards and contract wins across our commercial, military and business aviation markets. In October 2024, we announced our ThrustSense® Autothrottle system was selected by the US Army to be installed on their C-12 (B200) aircraft equipped with ProLine21 avionics suites®. Deliveries of the IS&S ThrustSense Autothrottle system for this application began in September 2024, with ongoing installations anticipated. In August 2024, we received a multi-million dollar production contract from a major aerospace company to supply our 19" Multifunction Display (MFD) with Integrated Mission Computer. This order marks our latest OEM contract and builds on existing programs with Pilatus for the PC-24, Textron for the King Air 260/360 and Boeing for the KC-46A, KC-767 and the T-7A.

Off-Balance Sheet Arrangements

The Company has no relationships with unconsolidated entities or financial partnerships, such as Special Purpose Entities or Variable Interest Entities, established for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's operations are exposed to market risks primarily as a result of changes in interest rates. The Company does not use derivative financial instruments for speculative or trading purposes. The Company's exposure to market risk for changes in interest rates relates to its cash equivalents. The Company's cash equivalents consist of funds invested in money market accounts, which bear interest at a variable rate. The Company does not participate in interest rate hedging. Cash balances are maintained with two major banks. Balances on deposit with certain money market accounts and operating accounts may exceed the Federal Deposit Insurance Corporation limits. A change in interest rates earned on the cash equivalents would impact interest income and cash flows but would not impact the fair market value of the related underlying instruments. Assuming that the balances during the six months ended March 31, 2025 were to remain constant and the Company did not act to alter the existing interest rate sensitivity, a hypothetical 1% increase in variable interest rates would have affected interest income by approximately \$14,917 with a resulting impact on cash flows of approximately \$14,917 for the six months ended March 31, 2025.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, our Chief Executive Officer and

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Chief Financial Officer concluded that these controls and procedures were effective as of March 31, 2025 to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of such controls that occurred during the fiscal quarter ended March 31, 2025 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company is at times subject to various legal proceedings and claims. There can be no assurance that we will prevail in any such litigation. The Company does not believe any such matters that are currently pending will, individually or in aggregate, have a material effect on the results of operations or financial position.

Item 1A. Risk Factors

For information regarding the Company's risk factors, refer to the "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended September 30, 2024, filed with the SEC on December 30, 2024. Other than as set forth below, there have been no material changes in our risk factors as previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2024 and Part II, Item 1A of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2024.

Tariffs imposed by the United States government could have a material adverse effect on our results of operations.

During Fiscal 2025, the United States government announced tariffs on goods imported into the United States from numerous countries. In response, multiple nations countered with reciprocal tariffs and trade restrictions. In light of these events, there continues to exist significant uncertainty about the future relationship between the U.S. and other countries with respect to such trade policies, treaties and tariffs. The U.S. government has stated that it is willing to negotiate with other countries regarding the tariffs and trade restrictions. If renegotiations of existing tariffs are unsuccessful or additional tariffs or trade restrictions are implemented by the United States or other countries in connection with a global trade war, the resulting escalation of trade tensions could have a material adverse effect on world trade and the global economy. The tariffs implemented by the United States and other countries along with any additional tariffs or trade restrictions implemented by such countries, may negatively impact demand and the Company's supply chain, resulting in an increase in some product costs. Even in the absence of further tariffs or trade restrictions, the related uncertainty and the market's fear of an economic slowdown could lead to a decrease in demand for our products and services, which could have a material adverse impact on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the quarter ended March 31, 2025.

Use of Proceeds

Not applicable.

Purchase of Equity Securities

We did not repurchase shares of our common stock during the quarter ended March 31, 2025.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the quarter ended March 31, 2025, no executive officer or director of the Company adopted or terminated any contract, instruction, or written plan for the purchase or sale of securities of the Company's common stock that was intended to satisfy the affirmative defense conditions of Securities Exchange Act Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" as defined in 17 CFR § 229.408(c).

Item 6. Exhibits

(a) Exhibits

31.1 [Certification of Chief Executive Officer Pursuant to Rule 13a-14\(a\), filed herewith.](#)

31.2 [Certification of Chief Financial Officer Pursuant to Rule 13a-14\(a\), filed herewith.](#)

32.1* [Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.](#)

101.INS Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document.

101.SCH Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents.

104 Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* This certification is not deemed filed with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, irrespective of any general incorporation language contained in such filing.

** Denotes compensatory plan or arrangement.

SIGNATURE

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.

INNOVATIVE SOLUTIONS AND SUPPORT, INC.

Date: May 15, 2025

By: /s/ Jeffrey DiGiovanni

Jeffrey DiGiovanni

Chief Financial Officer

(on behalf of Registrant and as Principal Financial Officer and
Principal Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Shahram Askarpour, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innovative Solutions and Support, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2025

By: /s/ Shahram Askarpour

Shahram Askarpour
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jeffrey DiGiovanni, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innovative Solutions and Support, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2025

By: /s/ Jeffrey DiGiovanni

Jeffrey DiGiovanni

Chief Financial Officer

*(Principal Financial Officer and Principal
Accounting Officer)*

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Innovative Solutions and Support, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2025, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Shahram Askarpour _____

Shahram Askarpour
Chief Executive Officer
(Principal Executive Officer)
May 15, 2025

/s/ Jeffrey DiGiovanni _____

Jeffrey DiGiovanni
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
May 15, 2025
