

INNOVATIVE SOLUTIONS & SUPPORT INC
Form DEF 14A
January 28, 2010

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Innovative Solutions and Support, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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INNOVATIVE SOLUTIONS AND SUPPORT, INC.

720 Pennsylvania Drive
Exton, Pennsylvania 19341
610-646-9800

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

You are invited to attend the Annual Meeting of Shareholders of Innovative Solutions and Support, Inc.

Date: Wednesday, April 21, 2010

Time: 10:00 a.m., Eastern Standard Time

Place: 720 Pennsylvania Drive, Exton, Pennsylvania 19341

Purposes of the Meeting:

To elect one Class I director to our Board of Directors for a term of three (3) years and until his successor is duly elected and qualified;

To ratify the appointment of Deloitte & Touche, LLP as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2010; and

To transact any other business that may properly come before the meeting.

Record Date:

January 22, 2010 is the record date for the meeting. This means that holders of our common stock at the close of business on that date are entitled to:

receive notice of the meeting; and

vote at the meeting and any adjournment or postponement of the meeting.

In the event that the meeting is adjourned for one or more periods totaling at least 15 days due to the fact that there is not a proper quorum, the shareholders entitled to vote who attend the adjourned meeting, even if there is not a proper quorum, shall constitute a quorum for the purpose of acting upon any of the named matters above.

We consider your vote important and encourage you to vote as soon as possible.

Geoffrey S.M. Hedrick
*Chairman of the Board and Chief
Executive Officer*

January 28, 2010

INNOVATIVE SOLUTIONS AND SUPPORT, INC.
720 Pennsylvania Drive
Exton, Pennsylvania 19341
610-646-9800

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INNOVATIVE SOLUTIONS AND SUPPORT, INC.

**720 Pennsylvania Drive
Exton, Pennsylvania 19341
610-646-9800**

PROXY STATEMENT for Annual Meeting of Shareholders April 21, 2010

Our Board of Directors is soliciting your proxy to vote your shares at our 2010 annual meeting of shareholders. The annual meeting will be held on April 21, 2010 at 10:00 a.m., local time, at our corporate offices at 720 Pennsylvania Drive, Exton, Pennsylvania. We intend to mail a Notice of Internet Availability of Proxy Materials (sometimes referred to as the "Notice"), and to make this Proxy Statement available to our shareholders of record entitled to vote at the Annual Meeting, on or about January 28, 2010.

ABOUT THE MEETING

Your vote is important.

In accordance with the rules and regulations adopted by the Securities and Exchange Commission ("SEC"), instead of mailing a printed copy of our proxy materials to each shareholder of record, we may now furnish proxy materials including this Proxy Statement, the proxy card, and the Company's Annual Report on Form 10-K for the year ended September 30, 2009 ("Annual Report") to our shareholders by providing access to such documents on the Internet. Shareholders will not receive printed copies of the proxy materials unless requested. Instead, the Notice will instruct shareholders as to how they may access and review all of the proxy materials. The Notice also instructs shareholders how to submit a proxy through the Internet. If you would like to receive a paper copy or e-mail copy of your proxy materials, you should follow the instructions for requesting such materials included in the Notice. We will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for any Internet access charges you may incur.

You may revoke this proxy at any time before it is voted by written notice to the Chief Financial Officer of the Company, by submission of a proxy bearing a later date or by casting a ballot at the Annual Meeting. Properly executed and delivered proxies that are received before the Annual Meeting's adjournment will be voted in accordance with the directions provided or, if no directions are provided, your shares will be voted by one of the individuals named on your proxy card as recommended by the Board of Directors. If you wish to give a proxy to someone other than those named on the proxy card, you should cross out those names and insert the name(s) of the person(s), not more than three, to whom you wish to give your proxy.

If you want to vote in person at the Annual Meeting and you hold shares of Company common stock in street name, you must obtain a proxy card from your broker and bring that proxy card to the Annual Meeting, together with a copy of a brokerage statement reflecting your stock ownership as of the record date.

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Who can vote?

You can vote if, as of the close of business on January 22, 2010, you were a shareholder of record of our common stock. On that date, 16,755,669 shares of our common stock were outstanding and entitled to vote. We do not have any other classes of voting stock outstanding other than our common stock. Each share of common stock is entitled to one vote, and there are no cumulative voting rights when voting for directors. A list of shareholders eligible to vote will be available at the offices of Innovative Solutions and Support, Inc., 720 Pennsylvania Drive, Exton, Pennsylvania 19341 beginning January 28, 2010. Shareholders may examine this list during normal business hours for any purpose relating to the Annual Meeting.

If you and other residents at your mailing address own shares of common stock in "street name," your broker or bank may have notified you that your household will receive only one annual report and proxy statement, or one notice of internet availability of proxy materials, as applicable, for each company in which you hold stock through that broker or bank.

This practice is known as "house-holding." Unless you responded that you did not want to participate in "house-holding," you were deemed to have consented to the process. Each shareholder will continue to receive a separate proxy card or voting instruction card.

If you did not receive an individual copy of this year's proxy statement or our annual report, we will send a copy to you if you address a written request to our Chief Financial Officer, John C. Long, 720 Pennsylvania Drive, Exton, Pennsylvania 19341, telephone (610) 646-9800.

If you would like to receive your own set of the Company's future annual report and proxy statement, or if you share an address with another Company shareholder and together both of you would like to receive only a single set of the Company's annual disclosure documents, you should contact your broker or bank or you may contact the Company at the above address and phone number.

What constitutes a quorum?

The presence at the annual meeting, in person or by proxy, of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purpose of consideration and action on the matter. Abstentions from voting and broker "non-votes" will be counted toward a quorum. A broker "non-vote" occurs when the nominee holding a shareholder's shares does not vote on a particular proposal because the nominee does not have discretionary voting power on that item and has not received instructions from the shareholder.

What vote is required and what is the method of calculation?

The nominees for director who receive a plurality of the shares of common stock present or represented by proxy at the annual meeting will be elected. Approval of each other matter to be voted on at the annual meeting requires the affirmative vote of a majority of the votes properly cast at the meeting with respect to such matter. Abstentions or broker "non-votes" will not be counted for or against matters to be acted on at the annual meeting.

What matters will be voted on?

Our Board does not intend to bring any other matters before the annual meeting except the matters listed in the notice, and the Board is not aware of anyone else who will submit any other matters to be voted on. However, if any other matters properly come before the annual meeting, the people named on the proxy card, or their substitutes, will be authorized to vote on those matters in their own judgment.

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How do I vote by proxy?

Most shareholders have three ways to vote by proxy: by telephone, via the Internet or by returning the proxy card. To vote by telephone or via the Internet, follow the instructions set forth on the Notice you receive. To vote by mail, sign and date each proxy card you receive, mark the boxes indicating how you wish to vote and return the proxy card. Do not return the proxy card if you vote via the Internet or by telephone.

Can I change my vote after I return my proxy card?

Yes. You can change or revoke your proxy at any time before the annual meeting either by notifying our Secretary and Chief Financial Officer in writing or by sending another executed proxy dated later than the first proxy card. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares held beneficially by you, you may accomplish this by submitting new voting instructions to your broker or nominee.

Can I vote in person at the annual meeting instead of voting by proxy?

Yes. However, we encourage you to vote by proxy to ensure that your shares are represented and voted. If you attend the annual meeting in person, you may then vote in person even though you returned your proxy card.

Who pays for this proxy solicitation?

We do. We will pay all costs in connection with the meeting, including the cost of preparing, assembling and mailing the notice of the Annual Meeting, proxy statement and proxy card, as well as handling and tabulating the proxies returned. In addition to the use of mail, proxies may be solicited by directors, officers and regular employees of the Company, without additional compensation, in person or by telephone or other electronic means. The Company will reimburse brokerage houses and other nominees for their expenses in forwarding proxy material to beneficial owners of the Company's common stock.

Who can help answer your questions?

If you have questions about the annual meeting or would like additional copies of this proxy statement, you should contact our Chief Financial Officer, John C. Long, 720 Pennsylvania Drive, Exton, Pennsylvania 19341, telephone (610) 646-9800.

Annual Report

On written request, we will provide, without charge, a copy of our annual report on Form 10-K for the year ended September 30, 2009, as amended (including a list briefly describing the exhibits thereto), filed with the Securities and Exchange Commission (the SEC), to any record holder or beneficial owner of our common stock on January 22, 2010, the record date, or to any person who subsequently becomes such a record holder or beneficial owner. Requests should be directed to the attention of our Chief Financial Officer at the address set forth above.

Security Ownership of Principal Shareholders

The following table sets forth certain information with respect to the beneficial ownership, as of January 22, 2010, of each person who we knew to be the beneficial owner of more than 5% of our common stock. To the knowledge of the Company, each of the shareholders named below has sole voting and investment power with respect to such shares, unless otherwise indicated. The information

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provided in the table is based on our records, information filed with the Securities and Exchange Commission and information provided to the Company.

Name of Beneficial Owner	Common Stock	
	Number of Shares	Percent of Class(1)
Geoffrey S. M. Hedrick(2)	3,650,875	21.8%
Federated Investors, Inc.(3)	2,238,901	13.4%
Putnam, LLC d/b/a Putnam Investments(4)	1,032,125	6.2%
Ingalls & Snyder, LLC(5)	1,345,832	8.0%

- (1) As used in this table, beneficial ownership means the sole or shared power to vote or direct the voting of a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose, or direct the disposition, of a security). A person is deemed as of any date to have beneficial ownership of any security that such person has the right to acquire within 60 days after such date. Percentage ownership is based upon 16,755,669 shares of common stock outstanding as of January 22, 2010.
- (2) Mr. Hedrick's address is c/o Innovative Solutions and Support, Inc., 720 Pennsylvania Drive, Exton, PA 19341. Includes 408 shares owned by Mr. Hedrick's spouse.
- (3) Based solely on Schedule 13G filed February 17, 2009. Federated Investors, Inc.'s address is Federated Investors Tower, Pittsburgh PA 15222.
- (4) Based solely on Schedule 13G filed on February 13, 2009. Putnam Investments' address is One Post Office Square, Boston, MA 02109.
- (5) Based solely on Schedule 13G filed on January 7, 2010. Ingalls & Snyder, LCC's address is 61 Broadway, New York, NY 10006.

Security Ownership of Management

The following table sets forth certain information with respect to the beneficial ownership as of January 22, 2010, of (i) each director, (ii) our chief executive officer and each other executive officer, and (iv) all the directors and executive officers as a group. Each of the shareholders named below has sole voting and investment power with respect to such shares, unless otherwise indicated. The information provided in the table is based on our records, information filed with the Securities and Exchange Commission and information provided to the Company.

Name of Beneficial Owner	Number of Shares	Percent of Class(1)
Geoffrey S. M. Hedrick	3,650,875	21.8%
Roman G. Ptakowski (2)	180,000	1.1%
Robert E. Mittelstaedt, Jr.	137,220	*%
Winston J. Churchill	73,716	*%
John C. Long (3)	90,000	*%
Robert H. Rau	60,685	*%
Ivan M. Marks (4)	31,831	*%
Glen R. Bressner	31,415	*%
All executive officers and directors as a group (10 persons)	4,255,742(4)	25.4%

*

Less than 1%.

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- (1) As used in this table, beneficial ownership means the sole or shared power to vote or direct the voting of a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose, or direct the disposition, of a security). A person is deemed as of any date to have beneficial ownership of any security that such person has the right to acquire within 60 days after such date. Percentage ownership is based upon 16,755,669 shares of common stock outstanding as of January 22, 2010.
- (2) Represents the total number of outstanding options to purchase shares, which were exercisable as of January 22, 2010, or within 60 days from such date.
- (3) Includes options to purchase 40,000 shares, which were exercisable as of January 22, 2010 or within 60 days from such date.
- (4) Mr. Marks is not standing for reelection at the 2010 Annual Meeting of Shareholders.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans and arrangements as of September 30, 2009, including the 1998 Stock Option Plan, the 2003 Restricted Stock Plan and the 2009 Stock-Based Incentive Compensation Plan.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column)
Equity compensation plans approved by security holders	615,599	9.39	1,570,982
Equity compensation plans not approved by security holders			
Total	615,599	9.39	1,570,982

- (1) As of January 22, 2010, there were 655,349 outstanding options issued under all of the Company's equity compensation plans. These grants have a weighted average exercise price of \$9.05 per share and a weighted average life of 5.1 years. As of January 22, 2010, there were 30,860 shares of restricted stock that have been awarded under the Company's equity compensation plans and remain subject to forfeiture conditions. Under the 2009 Stock-Based Incentive Compensation Plan, the Company has 1,138,800 shares available for grant to employees and non-employees. As of January 22, 2010, no shares remain available for grants of restricted stock to non-employee directors under the Company's 2003 Restricted Stock Plan.

The 2003 Restricted Stock Plan for non-employee directors was approved by shareholders at the Company's February 26, 2004 Annual Meeting of Shareholders. The Plan called for an annual award of restricted stock having a fair market value of \$25,000 as of the close of business on October 1 of the current fiscal year for all eligible non-employee directors. The stock is awarded in four installments quarterly during the fiscal year provided the director is still serving on the board on the quarterly issue date. In fiscal year 2005 the annual award was increased to \$40,000 effective the fourth quarter of the fiscal year.

In the fiscal years ended September 30, 2009, 2008, and 2007, awards issued to our non-employee directors under the Plan were 29,815, 11,355, and 15,056 shares respectively.

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2009 Stock-Based Incentive Compensation Plan

The Company's 2009 Stock-Based Incentive Compensation Plan (the "2009 Plan") was approved by the Company's shareholders at the Company's Annual Meeting of Shareholders held on March 12, 2009. The 2009 Plan authorizes the grant of Stock Appreciation Rights, Restricted Stock, Options and other equity-based awards under the 2009 Plan. Options granted under the 2009 Plan may be either incentive stock or nonqualified stock options, as determined by the Compensation Committee of the Company's Board of Directors.

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 2009 Plan are 1,200,000, all of which may be issued pursuant to awards of incentive stock options. In addition, the 2009 Plan provides that no more than 300,000 shares may be awarded in any calendar year to any employee as a performance-based award under Section 162(m) of the Internal Revenue Code.

The 2009 Plan will terminate on March 12, 2019, unless earlier terminated by the Board. Termination will not affect awards outstanding at the time of termination. The Board may amend, alter, suspend, discontinue or terminate the 2009 Plan without shareholder approval, provided that shareholder approval is required for any amendment which (i) would increase the number of shares subject to the 2009 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.

1998 Stock Option Plan

The Company's 1998 Stock Option Plan was adopted in order to recognize the contributions made by the Company's employees, directors, consultants and advisors, to provide such persons with additional incentives to devote their efforts to the Company's future success and to improve the Company's ability to attract, retain and motivate individuals through the receipt of Company stock options. The maximum number of shares of the Company's stock available under the 1998 Stock Option Plan was 3,389,025 (after giving effect to stock splits). The 1998 Stock Option Plan authorizes the grant of "incentive stock options" (within the meaning of Section 422 of the Code) and non-qualified stock options, such options to vest and become exercisable as specified in separate written agreements between the Company and the option recipient. Unless otherwise specified in such agreement, all outstanding options become fully vested and exercisable upon a change in control. The 1998 Stock Option Plan expired on November 13, 2008, therefore no further options can be awarded under the plan.

2003 Restricted Stock Plan

The Company's 2003 Restricted Stock Plan was adopted in order to provide non-employee directors with restricted stock grants that would encourage them to contribute to the growth of the Company and benefit the Company's shareholders. The maximum number of shares of the Company's stock available under the 2003 Restricted Stock Plan was 1,500,000 (after giving effect to stock splits). Each non-employee director is eligible to receive an award of restricted stock on an annual basis, with such award vesting over the course of the fiscal year in equal installments. Pursuant to the terms of the 2003 Restricted Stock Plan, upon a change in control all restrictions applicable to restricted stock awards that are then outstanding lapse in full. In fiscal years ended September 30, 2009, 2008, and 2007 awards granted to our non-employee directors under the 2003 Restricted stock Plan were 36,230, 10,525 and 15,246 shares respectively. As of January 22, 2010, no shares remain available for grants of restricted stock under the Company's 2003 Restricted Stock Plan; however the Company intends to continue with such annual grants to non-employee directors under the 2009 Stock-Based Incentive Compensation Plan.

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Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers (as defined under Section 16(a) of the Securities Exchange Act), directors and persons who own greater than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely on a review of the forms we have received and on written representations from certain reporting persons that no such forms were required for them, we believe that, during fiscal year 2009, all of the Section 16(a) filing requirements applicable to our officers, directors and 10% beneficial owners were complied with by such persons.

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ELECTION OF DIRECTORS
(Item 1 on Proxy Card)

At the annual meeting, the shareholders will elect one Class I director to hold office until the annual meeting of shareholders in 2013 and until his successor has been duly elected and qualified. The Board is divided into three classes serving staggered three-year terms, the term of one class of directors to expire each year. The term of the Class I directors expires at the 2010 annual meeting of shareholders. Upon the recommendation of the Nominating/Corporate Governance Committee, the Board has nominated Mr. Robert H. Rau to serve as a director. Mr. Rau is currently serving as a Class I director and has indicated a willingness to continue serving as a director. Unless contrary instructions are given, the shares represented by a properly executed proxy will be voted "FOR" the election of Mr. Rau. The nominee receiving a plurality of the votes cast for director will be elected. Should any nominee become unavailable to accept election as a director, the persons named in the enclosed proxy will vote the shares that they represent for the election of such other person as the Board may recommend. **The Board of Directors recommends voting "FOR" the nominee for Class I director.**

Directors and Nominees

The members of the Board of Directors as of the date of the Annual Meeting of Shareholders, including the nominee for Class I director, together with certain information about them, are set forth below:

Name	Age	Director Since	Term Expires	Positions with the Company
<i>Class I Directors</i>				
Robert H. Rau	73	2001	2010	Director
<i>Class II Directors</i>				
Glen R. Bressner	49	1999	2011	Director
Robert E. Mittelstaedt, Jr.	66	1989	2011	Director
<i>Class III Directors</i>				
Geoffrey S. M. Hedrick	67	1988	2012	Director, Chairman of the Board, Chief Executive Officer
Winston J. Churchill	69	1990	2012	Director

Robert H. Rau. Mr. Rau retired December 31, 1998 as President of the Aerostructures Group of The Goodrich Company. Prior to its merger with Goodrich, Mr. Rau was President and Chief Executive Officer of Rohr, Inc. from 1993 to 1997. Before joining Rohr, he was an Executive Vice President of Parker Hannifin Corporation and President of its Aerospace Sector. In addition, Mr. Rau is a past member of the Board of Governors of the Aerospace Industries Association, a past Chairman of the General Aviation Manufacturers Association, and Chairman of the International Advisory Panel of Singapore Aerospace. Mr. Rau received a Bachelor of Arts degree in Business Administration from Whittier College in 1962.

Glen R. Bressner. Mr. Bressner has been Managing partner of Mid-Atlantic Venture Funds and Originate Ventures, venture capital firms, since 1997. Mr. Bressner is also a partner of NEPA Venture Fund, L.P., a venture capital firm, a position he has held since 1985. From 1996 to 1997, Mr. Bressner served as the Chairman of the Board of Directors of the Greater Philadelphia Venture Group. Mr. Bressner holds a Bachelor of Science degree in Business Administration from Boston University and a Masters of Business Administration degree from Babson College.

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Robert E. Mittelstaedt, Jr. Mr. Mittelstaedt served as our Non-Executive Chairman of the Board of Directors from 1989 to 1997. Since July 1, 2004 Mr. Mittelstaedt has been Dean of the W.P. Carey School of Business at Arizona State University. Prior to that, Mr. Mittelstaedt was Vice Dean of The Wharton School of the University of Pennsylvania since 1989. Mr. Mittelstaedt also serves on the Board of Directors of Laboratory Corporation of America Holdings, Inc. and is a member of the Board of Directors of W.P. Carey & Co. LLC. Mr. Mittelstaedt holds a Bachelor of Science degree in Mechanical Engineering from Tulane University and a Masters of Business Administration degree from The Wharton School of the University of Pennsylvania.

Geoffrey S. M. Hedrick. Mr. Hedrick founded the Company in February 1988 and has been our Chairman of the Board since 1997. Mr. Hedrick resigned from his position as Chief Executive Officer of the Company on November 30, 2007 but continued as Chairman of the Board of Directors. He reassumed his former duties as Chief Executive Officer on September 8, 2008. Prior to founding the Company, Mr. Hedrick served as President and Chief Executive Officer of Smiths Industries, North American Aerospace Companies. He also founded Harowe Systems, Inc. in 1971, which was subsequently acquired by Smiths Industries. Mr. Hedrick has over 40 years of experience in the avionics industry, and he holds a number of patents in the electronics, optoelectric, electromagnetic, aerospace and contamination-control fields.

Winston J. Churchill. Mr. Churchill has been managing general partner of SCP Partners since he founded it in 1996, and has over twenty-five years experience in private equity investing. Previously, he had formed Churchill Investment Partners, Inc. in 1989 and CIP Capital, L.P., another venture capital fund, in 1990. Prior to that, he was a managing partner of a private investment firm that specialized in leveraged buyouts on behalf of Bessemer Securities Corporation. From 1967 to 1983, he practiced law at the Philadelphia firm of Saul, Ewing, Remick and Saul and served as Chairman of its Banking and Financial Institutions Department, Chairman of the Finance Committee and a member of its Executive Committee. He is a Director of Amkor Technology, Inc., Rodman & Renshaw Capital Group, Inc. and Griffin Land and Nurseries, Inc., as well as a number of private companies. From 1989 to 1993, he served as Chairman of the Finance Committee of the Pennsylvania Public School Employees' Retirement System. He is currently a trustee of Fordham University, Georgetown University, Immaculata University, American Friends of New College Oxford, England, The Gesu School and Young Scholars Charter School. He was awarded a BS in Physics, summa cum laude, from Fordham University followed by a M.A. in Economics from Oxford University where he studied as a Rhodes Scholar, and a J.D. degree from Yale Law School.

Independence

The Board has determined in its business judgment that four (4) of the Company's five (5) directors after the date of the annual meeting are independent as defined in the applicable NASDAQ listing standards, including that each member is free of any relationships that would interfere with his individual exercise of independent judgment. The following directors were determined to be independent: Glen R. Bressner, Winston J. Churchill, Robert E. Mittelstaedt, Jr. and Robert H. Rau.

Committees of the Board of Directors

The Board maintains four standing committees: Audit, Compensation, Investment, and Nominating/Corporate Governance.

Audit Committee. The Audit Committee makes recommendations to the Board with respect to various auditing and accounting matters, including the selection and compensation of our independent registered public accounting firm, the scope of our annual audits, fees to be paid to the independent registered public accounting firm, the performance and independence of our independent registered public accounting firm and our accounting practices. The Audit Committee approves all services

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provided to the Company by the independent registered public accounting firm. The Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters. In addition, the Audit Committee has responsibility for, among other things, the planning and review of our annual and periodic reports and accounts and the involvement of our independent registered public accounting firm in that process. Messrs. Bressner (Chairman), Rau and Marks are currently members of the Audit Committee. Mr. Marks is not standing for reelection at the Annual Meeting of Shareholders and his replacement will be appointed to the Audit Committee prior to or on the date of the Annual Meeting. The Audit Committee is comprised solely of independent members, as independence for audit committee members is defined in the applicable Nasdaq listing standards. In addition, the Board has determined in its business judgment that each member of the Audit Committee is financially literate and that at least one of the Audit Committee members, Mr. Rau, is an audit committee financial expert, as defined by SEC rules and regulations. The Audit Committee has adopted a formal written Charter that has been approved by the Board. The Charter specifies the scope of the Audit Committee's responsibilities and procedures for carrying out such responsibilities. A copy of the Charter is available on our website, www.innovative-ss.com under the heading Investor Relations. Please note that none of the information on the Company's website is incorporated by reference in this proxy statement.

Compensation Committee. The Compensation Committee of the Board of Directors is composed of two directors, Messrs. Churchill (Chairman), and Mittelstaedt, each of whom, in the judgment of the Board of Directors, was found to be "independent" as defined by the applicable NASDAQ listing standards. The Compensation Committee is responsible for setting and administering the policies that govern annual executive salaries, bonuses and stock ownership programs. The Compensation Committee annually evaluates the performance of the Company's Chief Executive Officer and determines or recommends to the full Board the annual base salary, bonus and equity-based compensation for the Chief Executive Officer. The Compensation Committee relies on the recommendations of the Chief Executive Officer, following the Chief Executive Officer's annual performance reviews of other executive officers, in setting annual salaries, bonuses and equity-based compensation for other executive officers.

The Compensation Committee is responsible for reviewing and overseeing the Company's benefit plans and stock option plans for our employees, consultants, directors and other individuals compensated by us, including our Chief Executive Officer. The Compensation Committee has adopted a formal written Charter that has been approved by the Board. The Charter specifies the scope of the Compensation Committee's responsibilities and procedures for carrying out such responsibilities. A copy of the Charter is available on our website, www.innovative-ss.com under the heading Investor Relations.

The Compensation Committee has not retained an outside consultant to advise it regarding Company compensation practices. Instead, the Compensation Committee independently determines the appropriate levels of compensation for executive officers and directors taking into account, among other factors, the performance of such individuals (as determined in annual reviews conducted by the Compensation Committee or the Chief Executive Officer), the Company's financial performance, cost of living, prior compensation practices and recruitment and retention needs. The Compensation Committee relies on the recommendations of the Company's Chief Executive Officer in determining whether and how much of a discretionary bonus may be paid to the Company's employees (including executive officers) in the event the Company's financial performance exceeds the Board's expectations.

Compensation Committee Interlocks and Insider Participation. No member of the Compensation Committee is a former or current executive officer or employee of the Company. There are no

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compensation committee interlocks between us and any other entity involving us or such entity's executive officers or board members.

Investment Committee. The Investment Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to recommendations pertaining to the investment of excess capital, including with respect to the implementation of our stock repurchase program. Messrs. Churchill (Chairman), Bressner and Rau are currently the members of the Investment Committee.

Nominating/Corporate Governance Committee. We have a Nominating/Corporate Governance Committee, consisting of three non-employee directors. The Committee has adopted a formal written Charter that has been approved by the Board. The Charter specifies the scope of the Committee's responsibilities and procedures for carrying out such responsibilities. A copy of the Charter is available on our website, www.innovative-ss.com under the heading Investor Relations. The Committee members are Messrs. Mittelstaedt (Chairman), Churchill and Bressner, each of whom is independent, as that term is defined in the applicable Nasdaq listing standards.

The Nominating/Corporate Governance Committee functions include establishing the criteria for selecting candidates for nomination to the Board; actively seeking candidates who meet those criteria; and making recommendations to the Board of nominees to fill vacancies on, or as additions to, the Board and to monitor the Company's corporate governance structure.

The Committee seeks director candidates based upon a number of qualifications/criteria, including their independence, knowledge, judgment, character, leadership skills, education, experience, financial literacy, standing in the community and ability to foster a diversity of backgrounds and views and to complement the Board's existing strengths relative to the Company's business. In the case of potential independent director candidates, such eligibility criteria shall be in accordance with SEC and NASDAQ rules.

The Committee conducts an annual assessment of the size and composition of the Board and Committees and reviews with the Board the appropriate skills and characteristics required of Board members. The Committee has not yet relied upon third-party search firms to identify board candidates, but reserves the right to do so as required. To date the Committee has relied upon recommendations from a wide variety of its business contacts, including current executive officers, directors, community leaders, and shareholders as a source for potential board candidates.

Neither the Nominating/Corporate Governance Committee nor the Company has engaged, or paid any fees to a search firm in connection with the nomination of the Class I director for election at the Annual Meeting covered by this Proxy Statement.

The Committee will consider nominees for election to the Board that are timely recommended by shareholders provided that a complete description of the nominees' qualifications, experience and background, together with a statement signed by each nominee in which he or she consents to act as such, accompany the recommendations. Such recommendations should be submitted in writing to the attention of Chairman, Nominating/Corporate Governance Committee, at our address at 720 Pennsylvania Drive, Exton, PA, 19341, and should not include self-nominations. Section 3.10 of the Company's by-laws contains provisions setting forth the requirements applicable to a shareholder nomination for director. These requirements are summarized in this Proxy Statement under the caption "Shareholder Proposals for 2011 Annual Meeting And Other Matters."

Each of the current nominees for director listed under the caption "ELECTION OF DIRECTORS" is an existing director standing for re-election. In connection with the 2010 Annual Meeting, the Nominating/Corporate Governance Committee did not receive any recommendation for a candidate from any shareholder or group of shareholders owning more than 5% of our common stock.

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Our Annual Meeting of Shareholders provides an opportunity each year for shareholders to ask questions of or otherwise communicate directly with members of our Board of Directors on matters relevant to the Company. Each of our directors is requested to attend in person the Annual Meeting. All six of the Company's then-serving directors attended the Company's 2009 Annual Meeting of Shareholders.

In addition, you may communicate with the Board, or if applicable, to a specific individual director, by sending a written communication to the attention of the Board or such individual director at the following address: 720 Pennsylvania Drive, Exton, PA, 19341, (fax (610) 646-0150).

Copies of each written communication received at such address will be provided to the Board or to the specific individual director unless such communication is considered, in the reasonable judgment of the Corporate Secretary or other appropriate company officer, to be improper for submission to the intended recipient. Examples of shareholder communications that would be considered improper for submission include, without limitation, customer complaints, solicitations, communications that do not relate directly or indirectly to the Company or the Company's business or communications that relate to improper or irrelevant topics.

Meetings and Attendance

During the fiscal year ended September 30, 2009, the full Board held five meetings. From time to time during fiscal year 2009 the Board met in executive session without members of management present. The Audit Committee met fourteen times, the Investment Committee met one time, the Compensation Committee met one time and the Nominating/Corporate Governance Committees met one time. All directors attended at least 75% of the meetings of the full Board and the meetings of the committees on which they served.

**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

(Item 2 on Proxy Card)

The Audit Committee has retained Deloitte & Touche, LLP as the independent registered public accounting firm to audit the Company's consolidated financial statements for the fiscal year ending September 30, 2010. Although action by the shareholders on this matter is not required, the Audit Committee and the Board of Directors believe it is appropriate to seek shareholder ratification of this selection in light of the role played by the independent registered public accounting firm in reporting on the Company's consolidated financial statements. Ratification requires the affirmative vote of a majority of eligible shares present at the Annual Meeting, in person or by proxy, and voting thereon. If this appointment is not ratified by the shareholders, the Audit Committee may reconsider its selection.

One or more representatives of Deloitte & Touche, LLP are expected to attend the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Principal Accountant Fees and Services

Services provided by Deloitte & Touche, LLP in prior fiscal years have included an audit of the annual consolidated financial statements of the company, an audit of the effectiveness of internal controls over financial reporting as required by the Sarbanes-Oxley Act of 2002 and other services

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related to filings made with the SEC. The aggregate fees billed by Deloitte & Touche, LLP in connection with services rendered during the fiscal years ended September 30, 2009 and 2008 were:

	FY 2009	FY 2008
Audit Fees	\$ 385,203	\$ 444,453
Audit Related Fees	29,608	0
Tax Fees	0	59,250
 Total	 \$ 414,811	 \$ 503,703

Audit Fees

Audit fees for fiscal years 2009 and 2008 were for professional services rendered for the audit of our annual consolidated financial statements, auditing the effectiveness of our internal controls over financial reporting, review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Deloitte & Touche, LLP in connection with statutory and regulatory filings or engagements.

Audit Related Fees

Audit-related fees for fiscal year 2009 were for \$29,608 and were related to SEC Comment letter matters.

Tax-Related Fees

Tax-related fees for fiscal year 2008 were related to preparation of tax returns.

All Other Fees

No fees were incurred in connection with services provided by Deloitte & Touche during fiscal years 2009 and 2008 other than as described above.

Pre-Approved Policies and Procedures

The Audit Committee's policy is to pre-approve the engagement of accountants to render all audit and tax-related services for the Company, as well as any changes to the terms of the engagement. The Audit Committee will also pre-approve all proposed non-audit related services to be provided by the Company's independent registered public accounting firm. The Audit Committee reviews the terms of the engagement, a description of the engagement, and a budget for the engagement. The request for services must be specific as to the particular services to be provided. Requests are aggregated and submitted to the Audit Committee in one of the following ways: requesting approval of services at a meeting of the Audit Committee, through a written consent or by a designated member of the Audit Committee. The Audit Committee approved all 2009 and 2008 fees paid to the independent registered public accounting firm.

Pursuant to the adoption of the revised Audit Committee Charter, the Board of Directors has adopted a policy which prohibits the Company from entering into non-audit related consulting agreements for financial information systems design and implementation, for certain other services considered to have an impact on independence, and for all other services prohibited by the Sarbanes-Oxley Act of 2002 and new Securities and Exchange Commission regulations. The policy also contains procedures requiring Audit Committee pre-approval of all audit and permitted non-audit services provided by the Company's independent registered public accounting firm.

The Board of Directors recommends a vote FOR ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm.

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REPORT OF THE AUDIT COMMITTEE

The following report of the Audit Committee will not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this information by reference. The following report shall not otherwise be deemed filed under such Acts.

The Audit Committee assists our Board in its oversight of our financial reporting process. The Committee operates pursuant to a charter. As set forth in the charter, management of the Company is responsible for the preparation, presentation and integrity of our financial statements, our accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Company's independent registered public accounting firm is responsible for auditing our financial statements and expressing an opinion as to their conformity with generally accepted accounting principles in the United States of America and for reviewing the Company's unaudited interim financial statements. The Audit Committee reviews and reassesses the adequacy of the charter on an annual basis. It is not the Audit Committee's duty or responsibility to conduct auditing or accounting reviews or procedures. The Committee will however take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The Audit Committee makes recommendations to the Board with respect to the selection and compensation of our independent registered public accounting firm, the scope of our annual audits, and the fees to be paid to the independent registered public accounting firm. In addition, the Committee monitors the performance and independence of our independent registered public accounting firm and approves all services provided to the Company by the independent registered public accounting firm. The Committee consults with and reviews recommendations made by the independent registered public accounting firm with respect to financial statements, financial records and financial controls of the Company. The Audit Committee meets with management periodically to consider the adequacy of the Company's internal controls and discusses with management the Company's disclosure controls and procedures.

The Board, in its business judgment, has determined that each of the three directors on the Audit Committee is independent as required by Rule 5605(c)(2)(A) of the listing standards of the Nasdaq Stock Market, LLC. In addition, the Board has determined that each member of the Audit Committee is financially literate and at least one o