



December 27, 2012

Dear Fellow Shareholder,

I am pleased to enclose this special distribution of \$1.50 per share for common shareholders of record as of December 17, 2012 as approved by the Board of Directors of Innovative Solutions and Support, Inc.

As the Board of Directors considered the future cash requirements of the business and the expected increase in federal rates of taxation on dividends, it concluded that this special distribution would be the best alternative to return value to shareholders. The Company has generated positive cash flow from operations for a number of years; and, after paying this distribution of approximately \$25.2 million in the aggregate, the Company will continue to retain sufficient cash to fund normal variations in cash flow and to maintain a reasonable reserve for contingencies.

The Company expects that approximately 90% (\$1.35 per share) of this distribution will be a dividend and that the remaining 10% of this distribution (\$0.15 per share) will be considered a return of capital under IRS guidelines. As required by IRS tax rules, the Company will provide further estimated tax information on or before January 15, 2013 on its web site, and Forms 1099-DIV will follow on or before January 31, 2013 reflecting the Company's estimates. The final allocation of the distribution between dividend and return of capital will not be determinable until after the Company's fiscal year ended September 30, 2013. Following completion of the Company's fiscal 2013 federal income tax return, the Company will provide a final breakdown of the distribution between dividend and return of capital. You should consult your tax advisor regarding the tax implications of this distribution.

I believe that the future of the Company is bright. I appreciate your confidence and support, and I look forward to our continued relationship.

With best regards,

Geoffrey S. M. Hedrick
Chairman and Chief Executive Officer