

Intelligent Systems

LETTER TO SHAREHOLDERS

**NOTICE OF MEETING AND PROXY STATEMENT
FOR THE 2020 ANNUAL MEETING OF SHAREHOLDERS**

2019 ANNUAL REPORT ON FORM 10-K

INTELLIGENT SYSTEMS CORPORATION

To Fellow Shareholders of Intelligent Systems,

As I write this letter (mid-July) that is supposed to be about the year 2019 with the 2020 year already half-way over, it just adds to the surreal feelings we all are experiencing in these unprecedented COVID-19 times. 2019 sure seems like a long time ago.

YOUR company had a good year and I am not going to dwell on the metrics as, by the time you read this, we will probably have already announced our results for the first two quarters of 2020. Most long-term shareholders care more about what your company is doing now and, in the future, than what it did yesterday – as long as ‘yesterday’ was not ‘bad’. Our year was really very good, and we are proud of our accomplishments in 2019 as revenue was \$34.3 million - a 70%+ increase from 2018 revenue. Full year diluted EPS was \$1.22 compared to \$0.70 the previous year.

We continue to bring new and innovative features to our CoreCard issuing customers and support them as they grow their programs. Our flexible organization and software allowed us to maintain resilience during challenges that come with workforces in “lock-down” mode in India and partially elsewhere. I am proud of how our team has embraced this uncertainty and continued to execute and fulfill the needs and requirements of our customers.

With the current environment, we are going to see some drag to our earlier 2020 revenue plan as potential new customers are hesitant to make changes in this time of uncertainty. But we are not, as many others are doing, cutting back on expenses or hiring. We will not stall on moving forward with our strategic plans. As an example, we recently created a team to completely re-write our software in the next few years to make certain we take advantage of the latest and best technologies. We already have best-in-class software that can process 10,000,000+ credit card accounts using commodity servers, cloud, and micro-services giving us great flexibility and agility as we compete for customers against competitors using mainframe legacy systems.

We will continue moving forward defined by our vision, not by a virus. Beyond 2020 the future is very bright as we keep our head down and plow forward.

To our employees, partners, customers, and shareholders – thank you for your continued support and commitment to our success.

Best Regards,


President and Chief Executive Officer

Intelligent Systems

4355 Shackleford Road
Norcross, Georgia 30093

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

YOU ARE INVITED TO attend the Annual Meeting of Shareholders of Intelligent Systems Corporation on Thursday, August 6, 2020 at 4:00 p.m., local time, at our principal executive offices located at 4355 Shackleford Road, Norcross, Georgia 30093. At the Annual Meeting, shareholders will consider and vote on:

1. The election of two directors to the Board of Directors to serve until the 2023 Annual Meeting;
2. A proposal to approve the Intelligent Systems Corporation 2020 Non-Employee Directors' Stock Incentive Plan;
3. Approval, by a non-binding, advisory vote, of the compensation of our named executive officers; and
4. Other matters that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on July 6, 2020 will receive notice of and be entitled to vote at the meeting or any adjournment thereof.

A Proxy Statement and a proxy solicited by the Board of Directors are enclosed with this mailing. **To ensure a quorum for the meeting and that your vote may be recorded, please sign, date and return the proxy promptly in the enclosed business reply envelope. If you attend the meeting, you may revoke your proxy and vote in person.** Our 2019 Annual Report to Shareholders is enclosed in the same document as the Proxy Statement.

By order of the Board of Directors,


MATTHEW A. WHITE
Secretary

July 13, 2020

Please complete and return the enclosed proxy promptly so that your vote may be recorded

**PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD AUGUST 6, 2020**

We are sending this Proxy Statement to the shareholders of Intelligent Systems Corporation (the “company”) in connection with the solicitation of proxies by the Board of Directors to be voted at the 2020 Annual Meeting of Shareholders (the “Annual Meeting”) of Intelligent Systems Corporation and any adjournment thereof. The Annual Meeting will be held on August 6, 2020 at our principal executive offices located at 4355 Shackelford Road, Norcross, Georgia 30093 at 4:00 p.m. local time. We expect to mail this Proxy Statement and the accompanying proxy to shareholders on or about July 13, 2020.

VOTING

General

The securities that can be voted at the Annual Meeting consist of common stock of Intelligent Systems Corporation, \$.01 par value per share. Each share entitles its owner to one vote on each matter submitted to the shareholders. There are no cumulative voting rights. The record of shareholders entitled to vote at the Annual Meeting was taken as of the close of business on July 6, 2020. On that date, we had outstanding and entitled to vote 8,924,988 shares of common stock with each share entitled to one vote.

Quorum

A majority of the outstanding shares of our common stock must be present, in person or by proxy, to constitute a quorum at the Annual Meeting. We will treat shares subject to abstentions or broker non-votes as present at the Annual Meeting for purposes of determining a quorum. Abstentions and broker non-votes occur when a bank, broker, or other nominee of shares held in street name is not permitted to vote without instructions from the shareholder and such instructions have not been given.

Proxies

At the Annual Meeting, the persons named as proxies will vote all properly executed proxy cards delivered in connection with this solicitation and not revoked in accordance with the directions given. Shareholders should specify their choices with regard to each proposal to be voted upon on the accompanying proxy card. **If no specific instructions are given with regard to a proposal to be voted upon, then the shares represented by a signed proxy card will be voted “FOR” such proposal.** If any other matters properly come before the Annual Meeting, the persons named as proxies will vote upon such matters according to their judgment.

Some of our shareholders hold their shares through a broker, bank, custodian or other nominee, rather than directly in their own name. This is commonly referred to as holding shares in “street name.” If you hold shares in street name, these proxy materials are being forwarded to you by your broker, bank, custodian or other nominee, which is considered, with respect to such shares, to be the shareholder of record. As the beneficial owner of shares held in street name, you have the right to direct the nominee how such shares should be voted. You also have the right to attend the Annual Meeting. However, since you are not the shareholder of record, you must first obtain a signed proxy from the shareholder of record giving you the right to vote the shares at the Annual Meeting. Your broker, bank, custodian or other nominee has enclosed or provided you voting instructions for you to use in directing the nominee how to vote your shares or obtain a proxy from the nominee.

You may revoke your proxy in connection with this solicitation at any time prior to voting at the Annual Meeting by:

- giving written notice to the Secretary of the company at 4355 Shackelford Road, Norcross, Georgia 30093, or
- executing and delivering to the Secretary a later dated proxy, or
- voting in person at the Annual Meeting.

You cannot revoke your proxy or voting instructions as to any matter upon which, prior to such revocation, a vote has been cast in accordance with the authority conferred by such proxy or voting instructions.

We will pay all expenses incurred in connection with the solicitation of proxies. Such costs include charges by brokers, fiduciaries and custodians for forwarding proxy materials to beneficial owners of stock held in their names. We may solicit proxies by mail, telephone and personal contact by directors, officers, and employees of the company without additional compensation.

Dissenters' Rights of Appraisal

There are no dissenters' rights of appraisal with respect to the matters being acted upon at the Annual Meeting.

Security Ownership of Certain Beneficial Owners and Management

The following table contains information concerning the persons who are known to us to be beneficial owners of more than 5 percent of our common stock as of July 6, 2020, and the ownership of our common stock as of that date by each director and director nominee, each executive officer named in the Summary Compensation Table and by all directors, director nominees and named executive officers as a group. There are no arrangements known to us which may result in change of control of the company.

Beneficial Owner	Address	Shares Beneficially Owned ^{a, e}	Percent of Class ^a
J. Leland Strange ^b <i>Chairman of the Board, President, CEO</i>	4355 Shackleford Road Norcross, GA 30093	1,550,688	17.2%
Wallace R. Weitz & Company ^c	1125 South 103rd St., Suite 200 Omaha, NE 68124	1,303,840	14.6%
Clifford N. Burnstein ^d	729 7 th Avenue New York, NY 10019	835,445	9.4%
A. Russell Chandler, III, <i>Director</i>		26,000	*
Philip H. Moise, <i>Director</i>		16,000	*
Elizabeth W. Camp ^f , <i>Director Nominee</i>		0	*
Matthew A. White <i>Chief Financial Officer and Corporate Secretary</i>		10,000	*
All Directors and Named Executive Officers as a Group (5 persons)		1,602,688	17.8%

- a. Except as otherwise noted, beneficial ownership is determined on the basis of 8,924,988 shares of common stock issued and outstanding plus securities deemed outstanding pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934, as amended. Pursuant to the rules of the Securities and Exchange Commission (the "SEC"), a person is deemed to beneficially own shares of the company's common stock if that person has or shares "voting power", which includes the power to vote or to direct the voting of a security, or "investment power", which includes the power to dispose of or to direct the disposition of a security. An asterisk indicates beneficial ownership of less than 1 percent. In computing the number of shares of common stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed to be outstanding all shares of common stock subject to options or other convertible securities held by that person or entity that are currently exercisable or that will become exercisable within 60 days of July 6, 2020. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or entity.
- b. Shares are jointly owned by J. Leland Strange and Jane H. Strange, Mr. Strange's wife.
- c. Based on information set forth in a Schedule 13G filed on May 6, 2020, in which Wallace R. Weitz and Company, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, reported beneficial ownership of 1,303,840 shares of common stock, of which Wallace R. Weitz and Company has the sole power to vote and to dispose.
- d. Based on information set forth in a Schedule 13D filed on August 3, 2009, in which Clifford N. Burnstein, an individual, reported beneficial ownership of 835,445 shares of common stock, of which Clifford N. Burnstein has the sole power to vote and to dispose.
- e. Includes 98,500 shares reserved for issuance to officers and directors pursuant to stock options that were exercisable at July 6, 2020 or within sixty days of such date which are deemed beneficially owned by such person pursuant to Rule 13d-3(d)(1) of the Exchange Act. The amounts reported above for Mr. Strange include 67,500 shares, for shares underlying stock options exercisable at July 6, 2020 or within sixty days of such date. The amounts reported above for Mr. White include 10,000 shares for shares underlying stock options exercisable at July 6, 2020 or within sixty days of such date. The amount reported for Mr. Moise includes 12,000 shares for shares underlying stock options exercisable at July 6, 2020, or within sixty days of such date. The amount reported for Mr. Chandler includes 9,000 shares for shares underlying stock options exercisable at July 6, 2020, or within sixty days of such date.
- f. Elizabeth W. Camp was nominated by the Board on July 10, 2020 to serve on the Board until the 2023 Annual Meeting if elected by the shareholders.

PROPOSAL 1 – THE ELECTION OF TWO DIRECTORS

Nominees

At the Annual Meeting of Shareholders, shareholders will elect two directors to the Board to serve a three-year term until the 2023 Annual Meeting of Shareholders. The other directors' terms expire at the Annual Meeting of Shareholders listed in the following table for each category of directors, or upon their earlier death, resignation or removal from office. Directors are elected by a plurality of the shares present and voting at the meeting. A "plurality" means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. Therefore, shares that are withheld or abstain from voting and broker non-votes will have no effect on the outcome of the vote. Unless contrary instructions are given, the persons named as proxies will vote the shares represented by a signed proxy card "FOR" the nominee.

If the nominee withdraws for any reason or is not able to continue to serve as a director, the proxy will be voted for another person designated by the Board as substitute nominee, but in no event will the proxy be voted for more than two nominees. The Board has no reason to believe that the nominees will not serve if elected.

The Board has nominated the persons named in the following table to serve as a director of the company. The nominees and other directors gave us the following information concerning their current age, other directorships, positions with the company, principal employment and shares of our common stock beneficially owned as of July 6, 2020.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" PROPOSAL 1 TO ELECT TWO NOMINEES TO SERVE AS DIRECTORS OF THE COMPANY.

Name	Age	Position / Principal Occupation
<i>Nominees for election to serve until the 2023 Annual Meeting</i>		
Elizabeth W. Camp	68	Director Nominee, President and Chief Executive Officer of DF Management, Inc.
A. Russell Chandler, III ^{1&2}	75	Director, Retired, Chairman of Whitehall Group, Ltd.
<i>Incumbent director elected to serve until the 2021 Annual Meeting</i>		
J. Leland Strange	79	Director, Chairman of the Board, President and Chief Executive Officer
<i>Incumbent director elected to serve until the 2022 Annual Meeting</i>		
Philip H. Moise ^{1&2}	70	Director, Retired Executive Vice President and General Counsel of Immucor, Inc.

1. Audit Committee
2. Compensation Committee

A. Russell Chandler, III, has served as a director since 2017. He is being nominated for re-election to the Board for a three-year term ending in 2023. Mr. Chandler has served as a director of Miller Industries, Inc., a publicly traded manufacturer of towing and recovery equipment, since April 1994. He is founder and Chairman of Whitehall Group Ltd., a private investment firm based in Atlanta, Georgia. Mr. Chandler served as Chairman of Precyse Technologies Inc. in 2010 and as its Chief Executive Officer through May 2013. Mr. Chandler served as Chairman of Datapath, Inc., a company that built mobile communications trailers for military applications, from October 2004 until June 2006 and he served as the Mayor of the Olympic Village for the Atlanta Committee for the Olympic Games from 1990 through August 1996. From 1987 to 1993, he served as Chairman of United Plastic Films, Inc., a manufacturer and distributor of plastic bags. He founded Qualicare, Inc., a hospital management company, in 1972 and served as its President and Chief Executive Officer until its sale in 1983. The Board considered Mr. Chandler's extensive experience as an executive and long term tenure as a member of the board of directors of a publicly traded company, as well as his operational and strategic insight in determining that he should serve as a director of the company. The Board has determined that Mr. Chandler qualifies as an independent director under the applicable rules of NYSE American.

Philip H. Moise has served as a director since 2013. Mr. Moise served as Executive Vice President, General Counsel and Secretary of Immucor, Inc. from 2007 until 2012. Immucor manufactures and sells instruments and reagents used to classify components of human blood prior to blood therapies and transfusions. Previously a publicly-held company, Immucor was acquired and taken private in 2011. Before joining Immucor, Mr. Moise was in the private practice of law for almost 30 years, where he represented public and private companies in the technology and life sciences industries. He represented Intelligent Systems for approximately 25 years before joining Immucor in 2007. The Board considered Mr. Moise's familiarity with the company's business and history; his business experience as an executive with a publicly traded company; his extensive legal background and experience in corporate transactions and corporate governance; and his familiarity with board and regulatory matters impacting publicly traded companies in determining that he should serve as a director of the company. The Board has determined that Mr. Moise qualifies as an independent director under the applicable rules of NYSE American.

Elizabeth W. Camp is being nominated for a three-year term ending in 2023. She is President and Chief Executive Officer of DF Management, Inc., a private investment and commercial real estate management company, a position she has held since 2000. Previously and for 16 years, Ms. Camp served in various capacities, including President and Chief Executive Officer, of Camp Oil Company. Before its sale in 2000, Camp Oil developed and operated convenience stores, truck stops and restaurants in nine states. Ms. Camp holds a bachelor's degree in accounting and a law degree from the University of Georgia, as well as a master's degree in taxation from Georgetown Law Center. Ms. Camp is a current director or trustee on the boards of several non-profit organizations, including the Woodruff Arts Foundation, University of Georgia Foundation, the Atlanta chapter of the NACD, and the Boy Scouts of America, Atlanta Area Council. She has received the designation of Board Leadership Fellow by the NACD and is an independent member of the board of directors of Genuine Parts Company, a public company engaged in the global distribution of automotive and industrial replacement parts, where she serves on its audit committee. Ms. Camp is the Lead Director and Chair of the Corporate Governance and Nominating Committee of Synovus Financial Corp and formerly served as Chair of its Audit and Compensation Committees. The Board considered Ms. Camp's background as an executive officer, her experience on public-company boards of directors, particularly in the banking industry, her experience in management and auditing and her expertise in accounting, tax and legal matters in determining that she should serve as a director of the company. The Board has determined that Ms. Camp qualifies as an independent director under the rules of NYSE American.

J. Leland Strange has served as our President since 1983 and our Chief Executive Officer and Chairman of the Board since 1985. The Board considered Mr. Strange's many years of experience as the company's CEO, his familiarity with the industries and customers which our operating companies serve, and his past experience on several boards of directors and audit and compensation committees of other publicly traded companies in determining that he should serve as a director of the company.

There are no family relationships among any of the company's directors or executive officers.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to an evaluation of the ability and integrity of any director, executive officer or control person of the company during the past ten years. On or about February 14, 2020, two purported shareholders, derivatively and on behalf of the Company, filed substantially similar shareholder derivative actions in the Eastern District of New York against certain current and former directors and officers (the "Individual Defendants"), and the Company as a nominal defendant. The complaints assert claims against Messrs. Strange, Moise, Petit, Fuzzell and Chandler for a violation of Section 14(a) of the Securities Exchange Act by issuing purportedly misleading statements in the Company's 2017 and 2018 Proxies, and against the Individual Defendants for breaches of fiduciary duty, waste of corporate assets, and unjust enrichment arising out of, among other things, purportedly undisclosed related party transactions and other relationships as well as certain allegations against former director Parker H. Petit in connection with his former position with MiMedx, Inc and other companies. The relief sought in the complaints includes changes to the Company's corporate governance procedures, unspecified damages, equitable relief, restitution, and attorney's fees and costs.

Two of the directors and all of the members of the Audit Committee are independent, as such term is defined in the listing standards of the NYSE American and the rules of the SEC. The Audit Committee meets the composition requirements of NYSE American's listing standards for Small Business Issuers (as defined by the rules of NYSE American).

Board Leadership Structure and Role in Risk Oversight

The Chief Executive Officer serves as Chairman of the Board of Directors of the company. Given the small size and limited geographic and industry scope of the company's operations, the company believes that the leadership structure of the Board, consisting of four directors of which three are independent, is appropriate. There is no lead independent director because there has been no need for such a role based on the continuity resulting from the tenure of the directors and the small size of the Board. Given the character, size and limited scope of the company's operations and the stability and long tenure of its workforce and management team, there is limited exposure to external risks other than general business, product and market risks. The company has limited, if any, exposure related to financial instruments, environmental issues, off balance sheet entities and such external risks. The Audit Committee, which consists of the independent directors, provides risk oversight as part of the company's internal controls process and regularly reviews reports from management and external auditors on risk analysis and tests of the design and effectiveness of the company's internal controls. The Board considered and has determined that risks arising from its compensation policies and practices are not reasonably likely to have a material adverse effect on the company. This determination was based on the limited nature of the company's compensation program.

Meetings and Committees of the Board of Directors

The Board met fourteen times during the year ended December 31, 2019. The Board has established an Audit Committee and a Compensation Committee but has no nominating committee. The Audit Committee of the Board met four times in 2019. During 2019, the Audit Committee consisted of Mr. Chandler (chair) and Mr. Moise. In 2019, the Audit Committee appointed the company's independent auditor to review its report on the 2019 audit and the 2019 quarterly reviews, and carried out a number of other responsibilities, as outlined in the Audit Committee Charter.

All members of the Audit Committee currently meet the applicable independence and qualifications standards of the NYSE American. The Board has determined that Mr. Chandler is a financial expert as defined by the rules of the SEC and is financially sophisticated as defined in the listing standards of NYSE American. The Board based this determination, in part, on Mr. Chandler's experience in actively supervising senior financial and accounting personnel and in overseeing the preparation of financial statements as the audit committee chair of publicly-traded companies.

The Board has a Compensation Committee consisting of two independent directors, Messrs. Chandler and Moise (chair). The Compensation Committee met once in 2019. The Compensation Committee reviews, makes recommendations and approves the appropriate compensation level for the officers of the company and any changes in the company's various benefit plans covering executive officers or directors as well as administering the company's option plans. The Compensation Committee does not have a charter. Neither the Compensation Committee nor management has engaged a compensation consultant to provide advice or recommendations on the form or amount of executive or director compensation. From time to time, the Compensation Committee has sought input from publicly available data compiled by executive officers of the company relating to compensation paid to executive officers and directors in similar size, publicly traded companies in the same geographic area as the company is located. The Compensation Committee has also solicited input from the CEO with respect to compensation of non-CEO executive officers.

The Compensation Committee considers compensation data based on a comparator group. Our comparator group is intended to be representative of the market in which we compete most directly for executive talent. The selection of companies comprising our comparator group is based on similarity in revenue size, lines of business, participation in global markets and market capitalization. The peer group is constructed to target Intelligent Systems near the median of the composite ranking of the financial and operating metrics of the companies in the comparator group. The comparator group used in 2018 to set 2019 compensation was:

PaySign	American Software	GreenSky	Usio
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In 2019, each director attended all meetings of the Board and Committee meetings on which he served.

The company does not currently have a standing nominating committee. Please see "Nominations Process" for information regarding the company's policies and procedures for director nominations.

Executive Officers

The following information is provided about our non-director executive officer:

Name	Age	Position / Principal Occupation
Matthew A. White	38	Chief Financial Officer and Secretary

Matthew A. White was elected on January 22, 2019, as Chief Financial Officer and Corporate Secretary. Mr. White was previously serving as VP Finance and CFO of CoreCard Software, the main operating subsidiary of Intelligent Systems and he will continue to serve in that role. Prior to joining CoreCard Software Mr. White held various accounting and financial reporting positions at Humana and, most recently, Equifax. Prior to that he was a Senior Manager in the audit practice at Deloitte and is a licensed CPA.

The Board of Directors elects the executive officers to serve until they are removed, replaced or resign.

Executive Compensation

Summary Compensation Table

Name and Principal Position	Year	Salary \$	Bonus \$	Option Awards \$	Other Annual Compensation \$	Total \$
J. Leland Strange <i>President & Chief Executive Officer</i>	2019	300,000	350,000	--	4,200	654,200
	2018	300,000	245,000	--	4,125	549,125
Matthew A. White ¹ <i>Chief Financial Officer & Secretary</i>	2019	180,000	20,000	380,400	1,955	582,355
Karen J. Reynolds ² <i>Former Chief Financial Officer and Secretary</i>	2018	180,000	--	--	2,181	182,181

1. Mr. White was appointed CFO and Secretary on January 22, 2019.
2. Ms. Reynolds was appointed CFO on June 22, 2016. She resigned on January 22, 2019.

The table above sets forth information regarding compensation awarded to, earned by or paid to the company's CEO and the company's most highly compensated person serving as an executive officer during the fiscal year other than the CEO (the "Named Executive Officers"). The Compensation Committee endeavors to provide compensation arrangements that are reasonable given the company's size, the nature of its business and the executive's duties; align pay with creating shareholder value; minimize risky behavior; and reward the executive for his/her contribution to achieving our business goals. Given the nature of our business, the small number of executives and the significant ownership held by Mr. Strange, the Compensation Committee believes that a straight-forward compensation plan that is economical to administer and that consists of a reasonable base salary and appropriate periodic bonuses is appropriate for the company. None of the Named Executive Officers has an employment agreement with the company and the company does not have any corporate non-equity incentive plans or nonqualified deferred compensation plans. From time to time, officers may be awarded bonuses to recognize achievement of corporate or subsidiary goals or other accomplishments. Mr. Strange was awarded a bonus in 2018 and 2019 in recognition of the growth of the company in 2018 and 2019. No options were re-priced in the two year period ended December 31, 2019. All Other Annual Compensation shown above includes matching contributions by the company to the respective accounts of the executive officers pursuant to the terms of our Tax-Deferred Savings and Protection Plan (the "401(k) Plan"). Such amounts are fully vested. It is our policy to provide executives with the same benefits provided to other employees with respect to medical, dental, life insurance and 401(k) plans.

Outstanding Equity Awards at Fiscal Year End

Option Awards

Name	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price	Option Expiration Date
	Exercisable	Unexercisable		
J. Leland Strange	22,500 ¹	--	\$1.72	02/28/2021
	45,000 ²	--	\$1.52	08/01/2021
Matthew A. White	--	30,000 ³	\$19.99	01/21/2029

1. Stock options were issued on March 1, 2011 and vested in one third increments on the first, second and third anniversaries of the grant date.
2. Stock options were issued on August 2, 2011 and vested in one third increments on the first, second and third anniversaries of the grant date.
3. Stock options were issued on January 22, 2019 and vest in one third increments on the first, second and third anniversaries of the grant date.

The company does not have any Stock Award Plans and does not have any plans for executive officers that provide for the payment of retirement benefits.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information as of December 31, 2019 about the company's common stock that may be issued under the Non-Employee Directors' Stock Option Plan, the 2011 Non-Employee Directors' Stock Option Plan, the 2003 Stock Incentive Plan, as amended in 2011, and the 2015 Stock Incentive Plan. All plans were approved by shareholders except the Non-Employees Directors' Stock Option Plan.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders ¹	126,500	\$ 8.94	763,000
Equity compensation plans not approved by security holders ²	--	--	--
Total	126,500	\$ 8.94	763,000

1. Information pertains to the 2003 Stock Incentive Plan, the 2011 Non-Employee Directors' Stock Option Plan and the 2015 Stock Incentive Plan.
2. Information pertains to the Non-Employee Directors' Stock Option Plan.

Director Compensation

The table below sets forth all compensation earned by non-executive directors in the year ended December 31, 2019. The company currently does not have a stock award plan or non-equity incentive plan for directors. The company has a Non-Employee Directors' Stock Option Plan which expired in 2010. It was replaced by the 2011 Non-Employee Directors' Stock Option Plan, approved by shareholders in 2011.

Name	Fees Earned or Paid in Cash \$	Option Awards ¹ \$	Total \$
A. Russell Chandler, III	16,000	99,240	115,240
Philip H. Moise	16,000	99,240	115,240

1. Messrs. Moise and Chandler were awarded 4,000 stock options at fair market value on the date of grant pursuant to the terms of the 2011 Non-Employee Directors' Stock Option Plan. The amount reported is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. At July 6, 2020, Mr. Chandler had an aggregate of 13,000 stock options outstanding of which 9,000 are fully vested; and Mr. Moise had a total of 16,000 options, 12,000 of which are exercisable.

In 2019 all non-employee directors had the same compensation plan. Non-employee directors earned \$8,000 per year plus a fee of \$2,000 per meeting of the Board of Directors. There was no additional compensation for serving on a committee of the Board of Directors. Total cash compensation for annual board service was capped at \$16,000 annually. Effective August 22, 2000, the company adopted a Non-Employee Directors' Stock Option Plan which provided for an initial grant to each director of 5,000 options to purchase common stock of the company and annual grants of 4,000 options on the date of each subsequent Annual Meeting. Options were granted at fair market value on the date of grant. The Non-Employee Directors' Stock Option Plan has expired and was replaced by the 2011 Non-Employee Directors' Stock Option Plan, the terms of which are identical in all material respects to the expired plan and which was approved by shareholders in 2011. In 2019, two directors received a grant of 4,000 options each on May 23, 2019, the date of the Annual Meeting of Shareholders. In 2020, each non-employee director will receive cash compensation of \$50,000, earned quarterly, and a direct stock grant of \$50,000, to be issued on the annual meeting date based on the closing stock price on that day, pending approval of the 2020 Non-Employee Directors' Stock Incentive Plan included herein as Appendix A.

Audit Committee Report

The Audit Committee Charter, which is reviewed annually, includes organization and membership requirements, a statement of policy and the Committee's authority and responsibilities.

Management is responsible for our company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the company's consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and for issuing a report thereon. As outlined in more detail in the Audit Committee Charter, the Audit Committee's responsibility is generally to approve all services provided by and compensation paid to the independent auditors; review the adequacy of the company's internal and disclosure controls and risk management practices; review and monitor the annual audit of the financial statements including the financial statements produced and notes thereto; review SEC filings containing the company's financial statements; regularly meet with the independent auditors and management in separate sessions; and authorize investigations into any matter within the scope of their responsibilities. During fiscal year 2019 and through March 15, 2020, among its other activities, the Audit Committee:

- engaged the independent auditors and established their compensation;
- reviewed and discussed with management and the independent auditors the audited financial statements of the company as of December 31, 2019 and 2018 and for the years then ended;
- discussed with the independent auditors their reviews of the quarterly unaudited financial statements of the company for fiscal 2019;
- discussed with the independent auditors the matters required to be discussed by the applicable requirements of the PCAOB and the SEC; and

- received from the independent auditors the written disclosures and written affirmation of their independence required by PCAOB Rule 3526 and discussed with the auditors the firm's independence.

Based upon the reviews and discussions summarized above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2019 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

A. Russell Chandler, III (Chair)

Philip H. Moise

Nominations Process

The Board has not appointed a standing nominating committee or adopted a formal nominating committee charter because the Board has determined that due to the size, make-up, independence, long tenure and relatively low turnover of the current Board, there would be limited benefit to the company or its shareholders to do so. Currently, A. Russell Chandler, III and Philip H. Moise, both of whom meet the applicable NYSE American independence requirements, participate in the consideration of director nominees. The same individuals also nominate the officers of the company for election by the Board.

The Board has not previously formed a policy with respect to consideration of candidates nominated by shareholders since there have been no such nominations. However, it is the Board's intent to consider any security holder nominees that may be properly and timely put forth in the future. The Board has not identified any specific, minimum qualifications or skills that it believes must be met by a nominee for director. The company does not have a specific policy with respect to diversity in identifying nominees for director. In considering nominations for the 2020 Annual Meeting, the Board reviewed the appropriate size of the Board and the skills and characteristics of directors in the context of the current make-up, background and experience of the Board and the requirements and needs of the company in the foreseeable future. Security holders wishing to nominate a candidate for consideration at the Annual Meeting of Shareholders in 2021 should submit the nominee's name, affiliation and other pertinent information along with a statement as to why such person should be considered for nomination. Such nominations should be addressed to the Board in care of the Secretary of the company and be received no later than 60 days before the date of the Annual Meeting of Shareholders. The Board will evaluate any such nominees in a manner similar to that for all director nominees.

Communication Between Security Holders and the Board of Directors

Security holders wishing to communicate with members of the Board should send a letter to the Secretary of the company with instructions as to which director(s) is to receive the communication. The Secretary will forward the written communication to each member of the Board identified by the security holder or, if no individual director is identified, to all members of the Board. The company has not in the past required members of the Board to attend each Annual Meeting of Shareholders because the formal meetings have been attended by very few shareholders and have generally been very brief and procedural in nature. The Board will continue to monitor shareholder interest and attendance at future meetings and reevaluate this policy as appropriate.

PROPOSAL 2 – APPROVAL OF THE INTELLIGENT SYSTEMS CORPORATION 2020 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN

The 2020 Non-Employee Directors' Stock Incentive Plan (the "2020 Plan") is attached as Appendix A to this proxy statement. The proposed 2020 Plan is intended to replace the existing 2011 Non-Employee Directors Stock Option Plan (the "2011 Plan") and would permit a variety of equity-based grants to be made as part of the compensation arrangements for the Board. The 2020 Plan will include provisions that permit a variety of compensation arrangements for the Non-Employee Directors but will include an overall limitation on the dollar value of annual compensation that can be provided to the Non-Employee Directors.

Approval of the 2020 Plan requires the affirmative vote of a majority of votes cast. Because a vote to abstain on this proposal would be a vote cast, an abstention would be a vote AGAINST the proposal. However, because a broker non-vote does not result in a vote cast, a broker non-vote will have no effect on the outcome of the vote.

Summary of the Plan

The 2020 Plan will permit the following types of equity-based grants:

- (a) Options to acquire shares of the Company's common stock (par value of \$.01 per share) ("Common Stock"); and
- (b) Grants of Common Stock, that may be subject to vesting conditions (i.e., restricted stock awards), or that may be fully vested at grant.

The 2020 Plan would be administered by the Board, and the Board would establish the types of grants and cash compensation to be provided to the Non-Employee Directors, at its discretion, but subject to the general limitations of the new Plan.

Eligibility

Only Non-Employee Directors will be eligible for grants of equity awards under New Plan. Annually each non-employee director in office immediately following the annual meeting of shareholders will receive a direct stock grant of \$50,000 of common stock, to be issued on the annual meeting date based on the closing stock price on that day, which is not subject to any vesting requirement. If the 2020 Plan was in effect in 2019, each Non-Employee Director would have received 1,278 shares based on the closing stock price of \$39.11 on May 23, 2019, the annual meeting date.

Term of the New Plan

The New Plan will have a term of ten years measured from the date of its approval by the shareholders.

Shares Subject to the New Plan

No more than 200,000 shares of common stock may be issued pursuant to the 2020 Directors' Plan.

Overall Limitations on Compensation of Non-Employee Directors

Under the terms of the New Plan, annual compensation of each Non-Employee Director will be limited, in the aggregate, to cash compensation and equity grants (the value of which are calculated consistent with financial accounting under GAAP) equal to \$200,000.

Terms and Conditions of Options

Options granted under the New Plan will be nonqualified stock options (as noted above).

Specified Terms and Conditions. The documentation for each option grant will specify the vesting and any other terms and conditions the Board chooses to include in such grants.

Expiration of Options. Each option granted under the New Plan will be exercisable starting on the date the option becomes vested and ending on the 10th anniversary of the date of grant. Any option that has not become vested as of the date the Non-Employee Director ceases to be a member of the Board will expire immediately as of the date the Non-Employee Director ceases to be a member of the Board.

Non-Transferability of Options. Generally, options will not be transferrable, other than on the death of the Non-Employee Director.

Stock Grants

Each stock award will be documented in a grant agreement. This will set out the terms of the stock award, including the number of shares, any applicable vesting schedule and related forfeiture provisions, the purchase price (if any) required to be paid by the grantee, and other discretionary provisions that the Board determines are appropriate.

Change of Control

In the event there is a Change of Control of the Company, grants under the New Plan would become immediately vested (and exercisable, in the case of options).

Consistent with the 2011 Plan, the 2020 Plan defines Change of Control as follows:

1. The accumulation by an unrelated person of beneficial ownership of more than 25% of the Company's stock; or
2. The sale, or agreement to sell, all or substantially all the Company's assets to an unrelated person, in a merger or otherwise; or
3. A change in control within the meaning of the SEC rules (control means "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract, or otherwise").

Tax Treatment of Stock Options Granted under the New Plan

A Non-Employee Director will not recognize taxable income at the time of grant, but will have to recognize taxable income equal to the excess of the fair market value of the shares acquired over the exercise price paid for the shares as of the date of exercise.

Tax Treatment of Stock Awards Granted under the New Plan

Stock awards consist of shares of Common Stock that are transferred to the Non-Employee Director that may be subject to restrictions and risks of forfeiture or may be granted as unrestricted stock. Generally, the value of the stock award is taxable as of the date of grant, if the grant is not subject to any restrictions, and will, if there are substantial restrictions, become taxable to the Non-Employee Director when the restrictions and risk of forfeiture lapse. The amount of income is the value of the shares in excess of the purchase price (if any) paid for them.

If a stock award is made with substantial restrictions, the general tax rule described above will not apply if the Non-Employee Director files an election under Internal Revenue Code Section 83(b) to recognize the fair market value of the shares awarded, determined as of the date granted, without taking into account the restrictions on such stock. Such an election is required to be made no later than 30 days after the shares are transferred to the Non-Employee Director. If an 83(b) election is made, the Non-Employee Director will not have any additional income when the shares vest, even if they are worth more at that time. If the Non-Employee Director makes this election and later forfeits shares, there is no deduction permitted, so an election under Code Section 83(b) may represent a tax risk to the Non-Employee Director (i.e., paying tax on shares that never become vested).

Tax Reporting and Withholding by the Company

Non-Employee Directors compensation is generally reported annually on IRS Form 1099-MISC. There is generally no withholding from compensation of Non-Employee Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE 2020 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN.

PROPOSAL 3 – TO APPROVE, BY A NON-BINDING, ADVISORY VOTE, THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

We are asking our shareholders to provide advisory approval of the compensation of our Named Executive Officers, as described in the Executive Compensation section of this Proxy Statement. While this vote is advisory and non-binding on the company, it will provide information to our Compensation Committee regarding investor sentiment about our executive compensation philosophies, policies and practices which the Compensation Committee will be able to consider for the remainder of 2020 and beyond. The compensation of our Named Executive Officers and our compensation philosophies and practices are described in the Executive Compensation discussion and accompanying tables.

The Compensation Committee endeavors to provide compensation arrangements that are reasonable given the company's size, the nature of its business and the executive's duties and that align pay with creating shareholder value, minimize risky behavior,

and reward the executive for his/her contribution to achieving our business goals. Given the nature of our business, the small number of our executives, and the significant ownership held by Mr. Strange, the Compensation Committee believes that a straight-forward compensation plan that is economical to administer and that consists of a reasonable base salary and appropriate periodic bonuses is appropriate for the company.

Neither the approval nor the disapproval of this proposal will be binding on us or the Board or will be construed as overruling decisions by us or the Board.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” PROPOSAL 3 APPROVING THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

CODE OF ETHICS

The company has adopted a Code of Ethics that applies to all directors, officers, and employees. The Code of Ethics is posted on our website at www.intelsys.com. The company discloses on its website, within the time required by the rules of the SEC, any waivers of, or amendments to, the Code of Ethics for the benefit of an executive officer.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who are beneficial owners of more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon our review of copies of Forms 3, 4 and 5 furnished to us, we believe that all of our directors, executive officers and any other applicable stockholders timely filed all reports required by Section 16(a) of the Exchange Act during the fiscal year ended December 31, 2019, except Leland Strange was delinquent in filing a Form 4 report in May 2019. Such filing has been made as of the time of filing this report.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Nichols, Cauley & Associates, LLC (“Nichols Cauley”) acted as our independent registered public accounting firm for the fiscal years ended December 31, 2019 and 2018. We expect that representatives of Nichols Cauley will be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions. The Audit Committee has selected Nichols Cauley for the audit for the fiscal year 2020. The following is a summary of fees and expenses billed to the company by Nichols Cauley for services during 2019 and 2018:

Audit Fees - We were billed aggregate fees of \$157,000 and \$83,000 for review and audit services by Nichols Cauley in the years ended December 31, 2019 and 2018, respectively.

All Other Fees - We were billed fees of \$28,000 and \$27,000 in other fees by Nichols Cauley in the years ended December 31, 2019 and 2018, respectively. Such fees were for services provided to a subsidiary of the company related to SSAE-18 Type II reports for the subsidiary’s processing services.

It is the policy of the Audit Committee to approve in advance, either verbally or in writing, all audit services and permitted non-audit services provided to the company by the independent accountants. All such services were pre-approved by the Audit Committee in the two years ended December 31, 2019.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The lease on our headquarters and primary facility at 4355 Shackelford Road, Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by our Chairman and Chief Executive Officer, J. Leland Strange. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. In both years ended December 31, 2019 and 2018, we paid \$210,000 in rent to ISC Properties, LLC, which the company believes to be market rate.

SHAREHOLDERS' PROPOSALS FOR THE ANNUAL MEETING IN 2021

Shareholders who wish to submit a proposal for inclusion in our proxy statement for the 2021 Annual Meeting of Shareholders must submit such proposals so that they are received by the company no later than December 14, 2020. Such proposals must comply with Exchange Act Rule 14a-8 and all other applicable proxy rules and requirements contained in our Bylaws relating to shareholder proposals to be included in our proxy materials. Shareholders intending to present proposals at the Annual Meeting of Shareholders in 2021 but who do not wish to submit the proposal for inclusion in our proxy statement pursuant to Rule 14a-8 should submit these proposals to the Secretary of the company by certified mail, return receipt requested, at our offices in Norcross, Georgia on or before December 16, 2020. Our bylaws contain an advance notice provision that states that, among other things, in order for business to be brought properly before an annual meeting of shareholders by a shareholder, the shareholder must have given timely notice of the business in writing to the Secretary of the company. To be timely under the Bylaws, a shareholder's notice must be received at our principal offices by December 16, 2020.

OTHER MATTERS WHICH MAY COME BEFORE THE MEETING

The Board is not aware of any matter other than those stated above that are to be brought before the meeting. However, if any other matter should be presented for consideration and voting, the persons named in the enclosed form of proxy intend to vote the proxy in accordance with their judgment of what is in the best interest of the company.

ADDITIONAL INFORMATION

Any record or beneficial owner of our common stock as of July 6, 2020 may request a copy of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2019, including financial statements, schedules and exhibits. Shareholders may also view and download a free copy of our Annual Report on Form 10-K from our web site at www.intelsys.com. Any request for the Form 10-K should be in writing addressed to: Matthew A. White, Intelligent Systems Corporation, 4355 Shackleford Road, Norcross, Georgia 30093. We will provide copies of any exhibits to the Form 10-K upon request and upon the payment of our reasonable expenses in furnishing such exhibits.

IMPORTANT NOTICE CONCERNING THE AVAILABILITY OF PROXY MATERIALS

This Proxy Statement and our Annual Report to Shareholders are available at <https://materials.proxyvote.com/45816D>

Appendix A

INTELLIGENT SYSTEMS CORPORATION 2020 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN

Purpose and Shareholder Approval.

Intelligent Systems Corporation, a Georgia corporation (the "Company"), hereby adopts the Intelligent Systems Corporation Non-Employee Directors' Stock Incentive Plan (the "Plan"), effective as of August 6, 2020. The Plan is adopted to replace the existing 2011 Non-Employee Directors Stock Option Plan and will permit a variety of equity-based grants to be made as part of the compensation arrangements for the non-employee members of the Company's board of directors (the "Board") as part of the Company's strategy for providing appropriate amounts and types of compensation for its non-employee members of the Board ("Non-Employee Directors").

The adoption the Plan is contingent on and subject to its approval by the Company's shareholders at the Company's annual shareholders meeting scheduled for August 6, 2020. No grants or awards shall be made under the Plan if the Plan is not so approved.

Definitions. Unless the context clearly indicates otherwise, the following terms shall have the following meanings:

"Award" or "Grant" means an award of Restricted Stock, a grant of unrestricted Shares or Stock Options.

"Award Document" means the document that sets forth the terms and conditions of an Award or Grant; provided, however, that in the case of a Grant of unrestricted Shares, no Award Document shall be required. Awards shall be evidenced by an Award Document in such form as the Committee shall from time to time approve, which Award Document shall comply with and be subject to the terms and conditions of the Plan and such other terms and conditions as the Committee shall from time to time require that are not inconsistent with the terms of the Plan. A Grantee shall not have any rights with respect to an Award until and unless such Grantee shall have executed an Award Document containing the terms and conditions determined by the Committee.

"Change of Control" shall mean, except as otherwise provided in the Award Agreement, the first to occur of any of the following events:

The accumulation by an unrelated person of beneficial ownership of more than 25% of the Company's stock; or

The sale, or agreement to sell, all or substantially all of the Company's assets to an unrelated person, in a merger or otherwise; or

A change in control within the meaning of the SEC rules (control means "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract, or otherwise").

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" shall have the meaning set forth in Section 3(a).

"Common Stock" means the Common Stock of the Company.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean:

If the Common Stock is traded in a public market, then the Fair Market Value per Share shall be, the last reported sale price per share thereof on the relevant date (or the closing price as of the most recent trading day prior to the relevant date if the relevant date is not a trading day); or

If the Common Stock is not traded in a public market on the relevant date, the Fair Market Value shall be as determined in good faith by the Committee.

“Grant Date” means the date established by the Committee as of which any Award has been granted to a Grantee.

“Grantee” means any Non-Employee Director who has received a Grant or Award under the Plan.

“Option” or “Stock Option” means an option to acquire Shares on the terms and conditions set forth in the relevant Award Document. No Option granted under the Plan is intended to be an “incentive stock option” as that phrase is used for purposes of Code Section 422.

“Option Price” means the price at which Shares may be purchased upon exercise of an Option, as calculated pursuant to the applicable provisions of the Plan.

“Restricted Stock” means Shares issued to a Non-Employee Directors pursuant to an Award that is subject to terms and conditions set forth in the applicable Award Document.

“Shares” means the shares of Common Stock that are the subject of Awards.

“Termination of Service in Connection with a Change of Control” shall be deemed to occur with respect to a Grantee if, within the one-year period (or such longer period as may be specified in an Award Document) beginning on the date of a Change of Control, the service of the Grantee shall be terminated due to a required resignation from the Board.

Administration of the Plan.

Committee. The Plan shall be administered by the Board and references herein to the Committee shall be deemed to be a reference to the Board acting in its capacity as administrator of the Plan.

Grants. The Committee shall from time to time at its discretion direct the Company to grant Awards pursuant to the terms of the Plan. The Committee shall have plenary authority to (i) determine the Grantees to whom and the times at which Awards shall be granted, (ii) determine the price at which Options shall be granted, (iii) determine the number of Shares to be granted pursuant to each Award and (v) approve the form and terms and conditions of the Award Documents and of each Award; all subject, however, to the express provisions of the Plan, including, specifically, Section 9. In making such determinations, the Committee may take into account the nature of the Grantee’s services and responsibilities, the Grantee’s present and potential contribution to the Company’s success and such other factors as it may deem relevant. The interpretation and construction by the Committee of any provisions of the Plan or of any Award granted under it shall be final, binding and conclusive.

Exculpation. No member of the Committee shall be personally liable for monetary damages as such for any action taken or any failure to take any action in connection with the administration of the Plan or the granting of Awards thereunder except to the extent such exculpation is prohibited by provisions of the applicable business corporations law; *provided, however*, that the provisions of this Section 3(c) shall not apply to the responsibility or liability of a member of the Committee pursuant to any criminal statute or to the liability of a member of the Committee for the payment of taxes pursuant to local, state or federal law.

Indemnification. Service on the Committee shall constitute service as a member of the Board. Each member of the Committee shall be entitled without further act on his or her part to indemnity from the Company to the fullest extent provided by applicable law and the Company’s Articles of Incorporation and/or Bylaws in connection with or arising out of any action, suit or proceeding with respect to the administration of the Plan or the granting of Options or Awards

thereunder in which he or she may be involved by reason of his or her being or having been a member of the Committee, whether or not he or she continues to be such member of the Committee at the time of the action, suit or proceeding.

All actions taken by the Committee hereunder must be approved by a majority of the members of the Board who are not Non-Employee Directors.

Eligibility. Only Non-Employee Directors may receive Grants or Awards under the Plan.

Term of the Plan. No Award may be granted under the Plan after August 6, 2030.

Stock Options and Terms. Options granted pursuant to the Plan shall be evidenced by the Award Documents in such form as the Committee shall from time to time approve, which Award Documents shall comply with and be subject to the following terms and conditions and such other terms and conditions as the Committee shall from time to time require that are not inconsistent with the terms of the Plan.

Number of Shares. Each Award Document shall state the number of Shares to which it pertains.

Option Price. Each Award Document shall state the Option Price that shall be at least 100% of the Fair Market Value of the Shares at the time the Option is granted as determined by the Committee in accordance with this Section 6(b).

Exercise. No Option shall be deemed to have been exercised prior to the receipt by the Company of written notice of such exercise and of payment in full of the Option Price for the Shares to be purchased. Each such notice shall specify the number of Shares to be purchased and shall (unless the Shares are covered by a then current registration statement or a Notification under Regulation A under the Securities Act of 1933, as amended (the "Act")), contain the Grantee's acknowledgment in form and substance satisfactory to the Company that (i) such Shares are being purchased for investment and not for distribution or resale (other than a distribution or resale that, in the opinion of counsel satisfactory to the Company, may be made without violating the registration provisions of the Act), (ii) the Grantee has been advised and understands that (A) the Shares have not been registered under the Act and are "restricted securities" within the meaning of Rule 144 under the Act and are subject to restrictions on transfer and (B) the Company is under no obligation to register the Shares under the Act or to take any action that would make available to the Grantee any exemption from such registration, (iii) such Shares may not be transferred without compliance with all applicable federal and state securities laws, and (iv) an appropriate legend referring to the foregoing restrictions on transfer and any other restrictions imposed under the Award Documents may be endorsed on the certificates. Notwithstanding the foregoing, if the Company determines that issuance of Shares should be delayed pending (I) registration under federal or state securities laws, (II) the receipt of an opinion that an appropriate exemption from such registration is available, (III) the listing or inclusion of the Shares on any securities exchange or in an automated quotation system or (IV) the consent or approval of any governmental regulatory body whose consent or approval is necessary in connection with the issuance of such Shares, the Company may defer exercise of any Option granted hereunder until any of the events described in this Section 6(c) has occurred.

No Shareholder Rights Prior to Exercise. No Grantee shall, solely by reason of having been granted one or more Options, have any rights as a shareholder of the Company and shall have no right to vote Shares subject to the Option, nor any right to receive any dividends declared or paid with respect to such Shares unless and until the Grantee has exercised his or her Option and acquired such Shares.

Medium of Payment. A Grantee shall pay for Shares (i) in cash, (ii) by certified check payable to the order of the Company, or (iii) by such other mode of payment as the Committee may approve, including, without limitation, payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board. Furthermore, the Committee may provide in an Award Document that payment may be made in whole or in part in shares of Common Stock held by the Grantee. If payment is made in whole or in part in shares of Common Stock, then the Grantee shall deliver to the Company certificates registered in the name of such Grantee representing the shares of Common Stock owned by such Grantee, free of all liens, claims and encumbrances of every kind and having an aggregate Fair Market Value on the date of delivery that is at least as great as the Option Price of the Shares (or relevant portion thereof) with respect to which such Option is to be exercised by the payment in shares of Common Stock, accompanied by stock powers

duly endorsed in blank by the Grantee. Notwithstanding the foregoing, the Committee may impose from time to time such limitations and prohibitions on the use of shares of Common Stock to exercise an Option as it deems appropriate.

Termination of Options.

No Option shall be exercisable after the first to occur of the following:

Expiration of the Option term specified in the Award Document, which shall not exceed ten years from the date of grant;

Except as otherwise provided in the Award Document, expiration of ninety (90) days from the date the Grantee's service with the Company terminates for any reason; or

The date, if any, set by the Board as an accelerated expiration date pursuant to Section 11 hereof.

Notwithstanding the foregoing, the Committee may extend the period during which an Option may be exercised to a date no later than the date of the expiration of the Option term specified in the Award Documents, as they may be amended.

During the period in which an Option may be exercised after the termination of the Grantee's service with the Company, such Option shall only be exercisable to the extent it was exercisable immediately prior to such Grantee's termination of service, except to the extent specifically provided to the contrary in the applicable Award Document.

Transfers. No Option may be transferred except by will or by the laws of descent and distribution. During the lifetime of the person to whom an Option is granted, such Option may be exercised only by him or her. Notwithstanding the foregoing, an Option may be transferred pursuant to the terms of a "qualified domestic relations order" within the meaning of Sections 401(a)(13) and 414(p) of the Code or within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended.

Holding Period. No Option may be exercised except to the extent the Option has become vested pursuant to its terms.

Other Provisions. The Award Documents shall contain such other provisions including, without limitation, provisions authorizing the Committee to accelerate the exercisability of all or any portion of an Option, additional restrictions upon the exercise of the Option or additional limitations upon the term of the Option, as the Committee shall deem advisable.

Amendment. The Committee shall have the right to amend Award Documents issued to a Grantee, subject to the Grantee's consent if such amendment is not favorable to the Grantee, except that the consent of the Grantee shall not be required for any amendment made under Section 11.

Unrestricted Stock. The Committee may grant Shares that are not subject to any restrictions or risk of forfeiture to any Non-Employee Director. The Company shall issue, in the name of each Grantee to whom such Shares have been granted, stock certificates representing the total number of Shares granted to the Grantee, as soon as reasonably practicable after the Grant Date or may document the ownership of such Shares by any other method that the Committee has determined to be appropriate and legally sufficient for such Shares to be considered issued and outstanding.

Restricted Stock.

Restricted Stock is an Award of shares of Common Stock that is granted subject to the satisfaction of such conditions and restrictions as the Committee may determine. Each Award Document shall state the number of shares of Restricted Stock to which it pertains. No cash or other consideration shall be required to be paid by a Grantee for an Award.

At the time a grant of Restricted Stock is made, the Committee may, in its sole discretion, establish a period of time (a "restricted period") applicable to such Restricted Stock. Each Award of Restricted Stock may be subject to a different restricted period. Restricted Stock may not be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the restricted period or prior to the satisfaction of any other restrictions prescribed by the Committee with respect to such Restricted Stock.

The Company shall issue, in the name of each Grantee to whom Restricted Stock has been granted, stock certificates representing the total number of shares of Restricted Stock granted to the Grantee, as soon as reasonably practicable after the Grant Date or may document the ownership of such Restricted Stock by any other method that the Committee has determined to be appropriate and legally sufficient for such Restricted Stock to be considered issued and outstanding. The Committee may provide in an Award Document that either (i) the Secretary of the Company shall hold such certificates for the Grantee's benefit until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse, or (ii) such certificates shall be delivered to the Grantee, provided, however, that such certificates shall bear a legend or legends that comply with the applicable securities laws and regulations and makes appropriate reference to the restrictions imposed under the Plan and the Award Document.

Unless the Committee otherwise provides in an Award Document, holders of Restricted Stock shall have the right to vote such Shares. Under no circumstances shall the holder of Restricted Stock be entitled to receive any dividends declared or paid with respect to such Shares until such time as the Restricted Stock becomes vested. The Committee may provide that any dividends paid on Restricted Stock must be reinvested in shares of Common Stock, which shall then be subject to the same vesting conditions and restrictions applicable to such Restricted Stock. All distributions, if any, received by a Grantee with respect to Restricted Stock as a result of any stock split, stock dividend, combination of shares, or other similar transaction shall be subject to the restrictions applicable to the original Grant.

Unless the Committee otherwise provides in an Award Document, in the event that a Grantee's service with the Company terminates for any reason, any Restricted Stock held by such Grantee shall be forfeited by the Grantee and reacquired by the Company. Upon forfeiture of Restricted Stock, the Grantee shall have no further rights with respect to such Award, including but not limited to any right to vote Restricted Stock or any right to receive dividends with respect to shares of Restricted Stock.

Upon the expiration or termination of any restricted period and the satisfaction of any other conditions prescribed by the Committee, the restrictions applicable to shares of Restricted Stock shall lapse, and, unless otherwise provided in the Award Document, a stock certificate for such shares shall be delivered, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be. The restrictions upon such Restricted Stock shall lapse only if the Grantee on the date of such lapse is, and has continuously served as a Non-Employee Director from the date such Award was granted.

Restricted Stock are intended to be subject to a substantial risk of forfeiture during the restricted period, and, in the case of Restricted Stock subject to federal income tax in accordance with section 83 of the Code. Section 83 generally provides that Grantee will recognize compensation income with respect to each installment of the Restricted Stock on the Vesting Date in an amount equal to the then Fair Market Value of the shares for which restrictions have lapsed. Alternatively, Grantee may elect, pursuant to Section 83(b) of the Code, to recognize compensation income for all or any part of the Restricted Stock at the date of grant in an amount equal to the fair market value of the Restricted Stock subject to the election on the date of grant. Such election must be made within 30 days of the date of grant and Grantee shall immediately notify the Company if such an election is made.

Limitations on Compensation of Non-Employee Directors. The fair value of Awards granted to any Non-Employee Director during any one fiscal year, along with cash compensation paid to such Non-Employee Director in respect of such director's service as a member of the Board during such year (including service as a member or chair of any committees of the Board) during such fiscal year shall not be in excess of two hundred thousand dollars (\$200,000).

Limitations on Awards.

Shares Subject to Plan. The aggregate maximum number of Shares for which Awards may be granted pursuant to the Plan is 200,000, adjusted as provided in Section 12.

The Shares shall be issued from authorized and unissued Common Stock or Common Stock held in or hereafter acquired for the treasury of the Company.

Shares covered by an Award shall be counted against the limit set forth in this Section 10. If any Shares covered by an Award granted under the Plan are not purchased or are forfeited or expire, or if an Award otherwise terminates without delivery of any Common Stock subject thereto, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award shall, to the extent of any such forfeiture, termination, cash-settlement or expiration, again be available for the grant of Awards under the Plan in the same amount as such Shares were counted against the limit set forth in this section.

If an Option terminates or expires without having been fully exercised for any reason, or is canceled or forfeited or cash-settled pursuant to the terms of an Award, the Shares for which the Option was not exercised may again be the subject of an Award granted pursuant to the Plan. To the extent Shares subject to an Option are withheld by the Company as a means of paying the exercise price, the Shares that are so withheld shall be treated as granted and shall not again be available for subsequent grants of Awards under the Plan.

No Repricing. Other than pursuant to Section 12, the Committee shall not without the approval of the Company's stockholders (a) lower the exercise price per Share of an Option after it is granted, (b) cancel an Option when the exercise price per Share exceeds the Fair Market Value of one Share in exchange for cash or another Award (other than in connection with a Change in Control), or (c) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the Shares are listed. The foregoing limitations on modifications of Options shall not be applicable to changes the Committee determines to be necessary in order to achieve compliance with applicable law, including Internal Revenue Code Section 409A.

Change of Control. In the event of a Change of Control, the Committee may take whatever action with respect to Awards outstanding as it deems necessary or desirable, including, without limitation, accelerating the expiration or termination date or the date of exercisability in any Award Documents, settling any Award by means of a cash payment (including a cash payment equal to the amount paid per share of Common Stock in such Change of Control less, in the case of Options, the Option Price) or removing any restrictions from or imposing any additional restrictions on any outstanding Awards. Except to the extent otherwise provided in an Award Document, the following provisions shall apply in the event of a Change of Control:

Awards Assumed or Substituted by Surviving Entity. Awards assumed by an entity that is the surviving or successor entity following a Change of Control (the "Surviving Entity") or are otherwise equitably converted or substituted in connection with a Change of Control shall have the same vesting schedule in effect following the Change of Control. Following the Change in Control, if a Termination of Service in Connection with a Change in Control occurs, then all the Grantee's outstanding Awards shall become fully exercisable and/or vested as the case may be as of the date of termination.

Awards not Assumed or Substituted by Surviving Entity. Upon the occurrence of a Change of Control, and except with respect to any Awards assumed by the Surviving Entity or otherwise equitably converted or substituted in connection with the Change of Control in a manner approved by the Committee, all outstanding Awards shall become immediately vested or exercisable, as the case may be, at or immediately prior to the consummation of the event that constitutes the Change of Control.

Adjustments on Changes in Capitalization. The aggregate number of Shares and class of Shares as to which Awards may be granted hereunder, the number of Shares covered by each outstanding Award, and the Option Price for each related outstanding Option, shall be appropriately adjusted in the event of a stock dividend, extraordinary cash dividend, stock split, recapitalization or other change in the number or class of issued and outstanding equity securities of the Company resulting from a subdivision or consolidation of the Common Stock and/or, if appropriate, other outstanding equity securities or a recapitalization or other capital adjustment (not including the issuance of Common Stock on the conversion of other securities of the Company that are convertible into Common Stock) affecting the Common Stock which is effected without receipt of consideration by the Company. The Committee shall have authority to determine the adjustments to be made under this Section, and any such determination by the Committee shall be final, binding and conclusive.

Amendment of the Plan. The Board may amend the Plan from time to time in such manner as it may deem advisable; provided that, without obtaining shareholder approval, the Board may not: (i) increase the maximum number of Shares as to which Awards may be granted, except for adjustments pursuant to Section 12, (ii) expand the class of persons eligible to receive Grants or Awards under the Plan or (iii) otherwise adopt any amendment constituting a change requiring shareholder approval under applicable laws or applicable listing requirements of the exchange on which the Company's securities are listed. No amendment to the Plan shall adversely materially affect any outstanding Award, however, without the consent of the Grantee.

No Commitment to Retain. The grant of an Award shall not be construed to imply or to constitute evidence of any agreement, express or implied, on the part of the Company or any Affiliate to retain the Grantee as a Non-Employee Director or in any other capacity.

Source of Shares; Fractional Shares. The Common Stock that may be issued (which term includes Common Stock reissued or otherwise delivered) pursuant to an Award under the Plan shall be authorized but unissued Stock or may be Common Stock otherwise acquired by the Company. No fractional shares of Stock shall be issued under the Plan, and shares issued shall be rounded down to the nearest whole share, but fractional interests may be accumulated pursuant to the terms of an Award. Notwithstanding anything in the Plan to the contrary, the Company may satisfy its obligation to issue Shares hereunder by book-entry registration.

Section 409A. The Committee intends that all Awards shall be exempt from Code Section 409A.

Unfunded Status of Plan. The Plan shall be unfunded. Neither the Company, nor the Board nor the Committee shall be required to segregate any assets that may at any time be represented by Awards made pursuant to the Plan. Neither the Company, nor the Board, nor the Committee shall be deemed to be a trustee of any amounts to be paid or securities to be issued under the Plan.

Governing Law. The validity, performance, construction and effect of this Plan shall, except to the extent preempted by federal law, be governed by the laws of the State of Georgia, without giving effect to principles of conflicts of law.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K.

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

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 number 1-9330

INTELLIGENT SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Georgia

58-1964787

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

4355 Shackleford Road, Norcross, Georgia

30093

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number: **(770) 381-2900**

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	INS	NYSE American

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

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

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

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

Indicated 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2019 was \$150,626,257 (computed using the closing price of the common stock on June 30, 2019 as reported by the NYSE American).

As of February 28, 2020, 8,924,988 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 21, 2020 are incorporated by reference in Part III hereof.

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PART I

Forward-Looking Statements

In addition to historical information, this Form 10-K may contain forward-looking statements relating to Intelligent Systems Corporation ("ISC"). All statements, trend analyses and other information contained in the following discussion relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as "may", "will", "anticipate", "believe", "intend", "plan", "estimate", "expect", "strategy" and "likely", and other similar expressions constitute forward-looking statements. Prospective investors and current shareholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. A number of the factors that we believe could impact our future operations are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K. ISC undertakes no obligation to update or revise its forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results except as required by law.

ITEM 1. BUSINESS

Overview

Intelligent Systems Corporation, a Georgia corporation, and its predecessor companies have operated since 1973 and its securities have been publicly traded since 1981. In this report, sometimes we use the terms "company", "us", "ours", "we", "Registrant" and similar words to refer to Intelligent Systems Corporation and subsidiaries. Our executive offices are located at 4355 Shackleford Road, Norcross, Georgia 30093 and our telephone number is (770) 381-2900. Our Internet address is www.intelsys.com. We publish our Securities and Exchange Commission ("SEC") reports on our website as soon as reasonably practicable after we file them with or furnish them to the SEC, and shareholders may access and download these reports free of charge.

We are primarily engaged in the business of providing technology solutions and processing services to the financial technology and services market, commonly referred to as the FinTech industry. Our FinTech operations are conducted through our wholly owned CoreCard Software, Inc. ("CoreCard") subsidiary and its affiliate companies in Romania and India, as well as the corporate office which provides significant administrative, human resources and executive management support to CoreCard. We also have two other wholly owned subsidiaries, CoreCard SRL in Romania and ISC Software in India, that perform software development and testing as well as processing operations support for CoreCard.

For further information about trends and risks likely to impact our business, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

CoreCard Software, Inc. – We conduct our business primarily through CoreCard. CoreCard SRL and ISC Software in Romania and India, respectively, perform software development, software testing, business analysis, operations and support for CoreCard but have not to date sold products or services directly to third parties. Accordingly, this discussion describes the CoreCard business involving the three entities as a single business unit. CoreCard designs, develops, and markets a comprehensive suite of software solutions to program managers, accounts receivable businesses, financial institutions, retailers and processors to manage their credit and debit cards, prepaid cards, private label cards, fleet cards, loyalty programs, and accounts receivable and loan transactions. CoreCard utilizes the same core software solution in its processing operations as it sells to licensees, although licensees typically request a variety of customizations which may or may not deviate from the core software solution offering.

The CoreCard® software solutions allow companies to offer various types of debit and credit cards as well as installment and revolving loans, to set up and maintain account data, to record advances and payments, to assess fees, interest and other charges, to resolve disputes and chargebacks, to manage collections of accounts receivable, to generate reports and to settle transactions with financial institutions and network associations.

The CoreCard® proprietary software applications are based on CoreCard's core financial transaction processing platform (CoreENGINE™) and address the unique requirements of customers and program managers that issue or process:

- Credit Cards/Loans – revolving or non-revolving credit issued to consumer or business accounts (with or without a physical card) that typically involve interest, fees, settlement, collections, etc. Within this market, CoreCard offers software specifically tailored to handle private label cards, network branded (i.e. MasterCard or VISA) bank cards, fleet cards, short-term consumer loans and any other type of “system of record” accounts receivable.
- Prepaid/Debit Cards – pre-loaded funds drawn down for purchase or cash withdrawal typically involving a variety of fees but no interest. Numerous examples exist including gift cards, loyalty/reward cards, health benefit cards, payroll and benefits disbursement, student aid disbursement, government assistance payments, corporate expense cards, transit cards and any other type of “system of record” stored value accounts.

The CoreCard® software solutions allow customers to optimize their card account management systems, improve customer retention, lower operating costs and create greater market differentiation. The CoreCard® solutions are feature-rich, have web interfaces including a standard library of APIs and contain financial transaction processing solutions that allow customers to automate, streamline and optimize business processes associated with the set-up, administration, management and settlement of credit, prepaid and loan accounts, to process transactions, and to generate reports and statements for these accounts. In addition, because the CoreCard products are designed to run on lower cost, scalable PC-based servers, rather than expensive legacy mainframe computers, customers may benefit from lower overall costs since the solution provides scalability by adding additional servers as card volume grows. The CoreCard product functionality includes embedded multi-lingual, multi-currency support, web-based interface, real-time processing, complex rules-based authorizations, account hierarchies, documented APIs for easy integration to the backend functionality and robust fee libraries. These features support customer-defined pricing and payment terms and allow CoreCard's customers to create new and innovative card programs to differentiate themselves in the marketplace and improve customer retention.

We believe CoreCard is unique among software companies because it offers a full array of card and account management software solutions, available either for in-house license or outsourced processing by CoreCard's processing business (“Processing Services”) at the customer's option. CoreCard also provides customers with a unique option to license the same CoreCard software that is used in the CoreCard processing environment and transfer it in-house for customer controlled processing at a later date.

- License – CoreCard sells a software license to a customer who then runs the CoreCard software system, configured for the customer's unique requirements, at a customer controlled location. It usually requires substantial additional resources from CoreCard to customize or operate the licensed software and CoreCard is de-emphasizing the license option.
- Processing Services – CoreCard offers processing services that allow customers to outsource their card processing requirements to CoreCard. CoreCard manages all aspects of the processing functions using its proprietary software configured for each processing customer.

We continue to add resources to expand upon our infrastructure investment to support CoreCard's Processing Services line of business. CoreCard processes prepaid cards and credit cards (private label and open loop/network) for a number of customers and anticipates steadily growing this business further in 2020. CoreCard has multiple secure processing data centers at third party locations, is certified as compliant with the Payment Card Industry (PCI) Data Security Standards and has an SSAE-18 SOC 1 independent audit report that can be relied on by its prepaid and credit processing customers. In addition, CoreCard expects in 2020, its first SSAE-18 SOC 2 independent audit report which can be relied upon by all customers. It has obtained certification from Discover, MasterCard, Visa, Star and Pulse.

CoreCard added a significant new license customer in 2018, which represented 60% of our consolidated revenues for the twelve months ended December 31, 2019. We expect future professional services, maintenance, and license revenue from this customer in 2020 and future years, however the amount and timing will be dependent on various factors not in our control such as the number of accounts on file and the level of customization needed by the customer.

CoreCard has relationships with several financial institutions that are important for network certification, referrals for processing or program managers, and sponsoring prospective card programs.

CoreCard has Program Manager capabilities in addition to processing services, which has allowed us to gain additional experience adding the potential for increased revenue, although we do not expect any significant revenue impact as a Program Manager near term.

CoreCard's principal target markets include consumer revolving credit portfolios, accounts receivable businesses, prepaid card issuers, retail and private-label issuers (large and small), small third-party processors, and small, mid-size and large financial institutions in the United States. It has customers in international markets as well. CoreCard competes with third-party card processors that allow customers to outsource their account transaction processing rather than acquire software to manage their transactions in-house. CoreCard competes with several larger and more established software processors. Many of CoreCard's competitors, especially certain processors, have significantly more financial, marketing and development resources than does CoreCard and have large, established customer bases often tied to long-term contracts. CoreCard believes it can compete successfully in its selected markets by providing to its licensed software customers and processing customers a robust technology platform, lower overall cost per account fees, greater system flexibility, and more customer-driven marketing options. Additionally, the size and flexibility of CoreCard makes it possible to get to market more quickly with customized, flexible programs. Under our Processing Services option, customers can contract with CoreCard to provide processing services for their accounts using CoreCard software configured to the customer's preferences, with an option to license the same software and bring it in-house when and if the customer decides to become its own processor in the future. We believe this transition path for customers is unique in the industry.

The CoreCard® software platform and modules include CoreENGINE™, CoreISSUE™, CoreFRAUD™, CoreCOLLECT™, CoreAPP™, CoreMONEY™ and CoreACQUIRE™. Using a proprietary, base transaction processing platform called CoreENGINE, the CoreCard application modules have been further enhanced to meet the specific requirements of different market segments; for instance, CoreISSUE is available in different versions tailored to the requirements for issuing prepaid cards, fleet cards, bank cards or private label cards/accounts as well as accounts receivable management. In addition, CoreCard configures and/or customizes its robust base modules with additional or specific functionality to meet each customer's requirements. The company has developed and licensed such products to customers in the prepaid, fleet, private label, retail and credit markets. As is typical of most software companies, CoreCard expects to continually enhance and upgrade its existing software solutions and to develop additional modules to meet changing customer and market requirements. To date, CoreCard has focused its extensive development and limited sales activities on building a base of customers in each of its target markets, as well as putting in place the infrastructure and processes to be able to scale the business successfully, particularly for the Processing Services business.

Historically, most of the company's sales have resulted from prospects contacting CoreCard based on an online search. CoreCard typically sells its products directly to customers, often in competitive situations, with relatively long sales and implementation cycles.

We have several revenue streams. We receive software license fees that vary depending upon the number of licensed users, number of accounts on the system, and the number of software modules licensed. We also derive service revenue from implementation, customization, and annual maintenance and support contracts for our licensed software. Processing customers pay an implementation and setup fee plus monthly service fees, primarily based on number of accounts, under a contract with a term of generally three or more years. Depending on factors such as contract terms, customer implementation and testing schedule, and extent of customization or configuration required and whether we are licensing or processing, the timing of revenue recognition on contracts may lead to considerable fluctuation in revenue and profitability. There are often delays in implementation cycles, especially for processing customers, due to third party approvals or processes that are outside of CoreCard's control and thus it is not possible to predict with certainty when we will be able to begin recognizing revenue on new contracts.

CoreCard's licensed software products are used by its customers to manage and process various credit, debit and prepaid card programs and there are a number of federal and state regulations governing the issuance of and the processing of financial transactions associated with such cards. CoreCard's customers are required to comply with such regulations and, to the extent that customers depend on their licensed CoreCard software to manage and process their card accounts, the CoreCard software features and functionality must allow customers to comply with the various governmental regulations. CoreCard continually evaluates applicable regulations and regularly upgrades and enhances its software to help its customers meet their obligations to comply with current and anticipated governmental regulations. As part of CoreCard's processing business, CoreCard provides compliance-related services, including data and network security, customer identification screening and regular reporting, which enable its customers to be in compliance with applicable governmental regulations including but not limited to the Bank Secrecy Act and Anti-Money Laundering regulations with final responsibility for compliance resting with the customer. Depending on the extent of changes and new governmental regulations, CoreCard will regularly incur additional costs to modify its software and services to be compliant. CoreCard has no costs related to compliance with environmental laws.

Our business is not considered seasonal although the use of certain of our products may grow with higher end-of-year spending patterns and possibly cause a small revenue increase during this period.

Non-consolidated Companies

We are primarily engaged in the FinTech industry through CoreCard's operations; however, from time to time, we have invested in entrepreneurial companies that we believe are bringing new applications or technologies to business markets and may continue to do so. Typically, these companies are privately held, early stage companies in technology-related fields. From time to time, we may increase our investment in a company or write down the value of an investment if we determine that it is impaired or there may be a liquidation event in which we participate. Typically, the timing and amounts of such events are not predictable. Please refer to Note 3 to our Consolidated Financial Statements for more information.

Research and Development

We spent \$5.5 million and \$3.4 million in the years ended December 31, 2019 and 2018, respectively, on company sponsored research and development. All of our consolidated research and development expense is related to our FinTech business. We maintain a workforce of over 500 employees in our offshore operations in India and Romania for software development and testing, as well as operations support for processing services. We continuously add new features and functionality to our financial technology software in response to market requirements and trends and expect to continue to do so.

Patents, Trademarks and Trade Secrets

We have one U.S. patent covering aspects of CoreCard's core software platform. It may be possible for competitors to duplicate certain aspects of our products and processes even though we regard such aspects as proprietary. We have registered with the U.S. Patent and Trademark Office and several foreign jurisdictions various trademarks and service marks for our products. We believe that an active trade secret, trade name, trademark, and copyright protection program is one element in developing and maintaining brand recognition and protecting our intellectual property. We presently market our products under trademarks and service marks such as CoreCard®, CoreENGINE™, CoreISSUE™, CoreCOLLECT™, CoreMONEY™ and others.

Personnel

As of February 15, 2020, we had approximately 530 full-time equivalent employees (including our subsidiaries in the United States and foreign countries). Of these, over 500 are involved in CoreCard's software development, testing and operations, and 6 in corporate functions. Our employees are not represented by a labor union, we have not had any work stoppages or strikes and we believe our employee relations are good.

Financial Information About Geographic Areas

See Note 11 to the Consolidated Financial Statements. Except for the risk associated with fluctuations in currency, we do not believe there are any specific risks attendant to our foreign operations that are significantly different than the general business risks discussed elsewhere in this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We have a lease covering approximately 15,000 square feet in Norcross, Georgia to house our product development, sales, service and administration operations for our domestic operations. Our Norcross lease was renewed March 31, 2018 for a three year term. We also lease a small office in Timisoara, Romania. We own a 6,350 square foot office facility in Bhopal, India, to house the software development and testing activities of our offshore subsidiaries; we lease approximately 4,700 square feet of additional office space in the same facility in Bhopal, India; and we lease approximately 5,500 square feet in Mumbai, India to house additional staff for our offshore software development activities. We plan to procure additional office space in India and North America to support our continual hiring efforts.

ITEM 3. LEGAL PROCEEDINGS

On or about July 9, 2019, a securities class action complaint was filed in the United States District Court for the Eastern District of New York (Case No. 1:19-cv-03949) by Michael Skrzeczkoski, individually and on behalf of all others similarly situated, against the company, and certain current and former directors and officers. The complaint alleges, among other things, that certain of our press releases and SEC filings were misleading as a result of the failure to disclose alleged related party transactions affecting revenue recognition and the absence of disclosure regarding certain allegations against former director Parker H. Petit in connection with his former position with MiMedx, Inc. The complaint seeks to recover attorney's fees and costs and unspecified damages on behalf of purchasers who acquired our stock during the period from January 23, 2019, through May 29, 2019, and purportedly suffered financial harm as a result of the alleged misleading statements. On September 26, 2019, the Court appointed Edgardo Canez as lead plaintiff ("Lead Plaintiff") on behalf of the putative class. On November 18, 2019, Lead Plaintiff, individually and on behalf of a putative class of persons or entities who purchased or otherwise acquired publicly traded company securities from May 23, 2014 through May 29, 2019, filed an amended class action complaint against the company, and certain current and former directors and officers (the "Amended Complaint"). The Amended Complaint alleges similar allegations in violation of Sections 10(b) and 20(a) of the Securities Exchange Act as the previously filed complaint. The Amended Complaint seeks to recover attorney's fees and costs and unspecified damages. On January 2, 2020, Defendants submitted a motion to dismiss and on March 3, 2020, briefing on the motion to dismiss was completed. The motion to dismiss is currently pending. We dispute these claims and intend to defend the matter vigorously.

On or about February 14, 2020, two purported shareholders, derivatively and on behalf of the Company, filed substantially similar shareholder derivative actions in the Eastern District of New York against certain current and former directors and officers (the "Individual Defendants"), and the Company as a nominal defendant. The complaints assert claims against Messrs. Strange, Moise, Petit, Fuzzell and Chandler for a violation of Section 14(a) of the Securities Exchange Act by issuing purportedly misleading statements in the Company's 2017 and 2018 Proxies, and against the Individual Defendants for breaches of fiduciary duty, waste of corporate assets, and unjust enrichment arising out of, among other things, purportedly undisclosed related party transactions and other relationships as well as certain allegations against former director Parker H. Petit in connection with his former position with MiMedx, Inc and other companies. The relief sought in the complaints includes changes to the Company's corporate governance procedures, unspecified damages, equitable relief, restitution, and attorney's fees and costs.

For information regarding our accounting for legal contingencies, see Note 7 of the Notes to Consolidated Financial Statements in this Form 10-K

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed and traded on the NYSE American ("NYSE") under the symbol INS. We had 180 shareholders of record as of February 15, 2020. This number does not include beneficial owners of our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries. The company has not paid regular dividends in the past and does not intend to pay dividends in the foreseeable future.

Equity Compensation Plan Information

See Item 12 for information regarding securities authorized for issuance under equity compensation plans, which is incorporated herein by reference.

Recent Sales of Unregistered Securities

There have been no sales of unregistered securities by the company during the period covered by this Form 10-K.

Repurchases of Securities

The company did not repurchase any of its shares of common stock during 2019.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. We consider certain accounting policies related to revenue recognition and valuation of investments to be critical policies due to the estimation processes involved in each. For a detailed description on the application of these and other accounting policies, see Note 1 to the Consolidated Financial Statements.

Revenue Recognition – Product revenue consists of fees from software licenses. Service revenue consists of fees for processing services; professional services for software customization, consulting, and training; reimbursable expenses; and software maintenance and customer support.

Our software license arrangements generally fall into one of the following four categories:

- an initial contract with the customer to license certain software modules, to provide services to get the customer live on the software (such as training and customization) and to provide post contract support ("PCS") for a specified period of time thereafter,
- purchase of additional licenses for new modules or for tier upgrades for a higher volume of licensed accounts after the initial contract,
- other optional standalone contracts, usually performed after the customer is live on the software, for services such as new interfaces or custom features requested by the customer, additional training and problem resolution not covered in annual maintenance contracts, and
- contracts for certain licensed software products that involve an initial fee plus recurring monthly fees during the contract life.

At contract inception, we assess the products and services promised in our contracts with customers and identify a performance obligation for each promise to transfer to the customer a product or service (or bundle of products or services) that is distinct. If a

product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. To identify our performance obligations, we consider all of the products or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. We recognize revenue when or as we satisfy a performance obligation by transferring control of a product or service to a customer. Our revenue recognition policies for each of the situations described above are discussed below.

Our software licenses generally have significant stand-alone functionality to the customer upon delivery and are considered to be functional intellectual property. Additionally, the purpose in granting these software licenses to a customer is typically to provide the customer a right to use our intellectual property. Our software licenses are generally considered distinct performance obligations, and revenue allocated to the software license is typically recognized at a point in time upon delivery of the license. Initial implementation fees do not meet the criteria for separate accounting because the software usually requires significant modification or customization that is essential to its functionality. We recognize revenue related to implementations over the life of the customer once the implementation is complete.

We account for the PCS element contained in the initial contract based on relative standalone selling price, which is annual renewal fees for such services, and PCS is recognized ratably on a straight-line basis over the period specified in the contract as we generally satisfy these performance obligations evenly using a time-elapsed output method over the contract term given there is no discernible pattern of performance. Upon renewal of the PCS contract by the customer, we recognize revenues ratably on a straight-line basis over the period specified in the PCS contract. All of our software customers purchase software maintenance and support contracts and renew such contracts annually.

Certain initial software contracts contain specified future service elements for scheduled completion following the implementation, and related recognition, of the initial license. In these instances, after the initial license recognition, where distinct future performance obligations are identified in the contract and we could reliably measure the completion of each identified performance obligation, we have recognized revenue at the time the individual performance obligation was completed.

Purchases of additional licenses for tier upgrades or additional modules are generally recognized as license revenue in the period in which the purchase is made for perpetual licenses or ratably over the remaining contract term for non-perpetual licenses.

Services provided under standalone contracts that are optional to the customer and are outside of the scope of the initial contract are single element services contracts. These standalone services contracts are not essential to the functionality of the software contained in the initial contract and generally do not include acceptance clauses or refund rights as may be included in the initial software contracts, as described above. Revenues from these services contracts, which are generally performed within a relatively short period of time, are recognized when the services are complete or in some cases as the services are provided. These revenues generally re-occur as contracts are renewed. Payment terms for professional services may be based on an upfront fixed fee with the remainder due upon completion or on a time and materials basis.

For contracts for licensed software which include an initial fee plus recurring monthly fees for software usage, maintenance and support, we recognize the total fees ratably on a straight-line basis over the estimated life of the contract as services revenue.

Revenues from processing services are typically volume- or activity-based depending on factors such as the number of accounts processed, number of accounts on the system, number of hours of services or computer resources used. For processing services which include an initial fee plus recurring monthly fees for services, we recognize the initial fees ratably on a straight-line basis over the estimated life of the contract as services revenue. The payment terms may include tiered pricing structures with the base tier representing a minimum monthly usage fee. For processing services revenues, we stand ready to provide continuous access to our processing platforms and perform an unspecified quantity of outsourced and transaction-processing services for a specified term or terms. Accordingly, processing services are generally viewed as a stand-ready performance obligation comprised of a series of distinct daily services. We typically satisfy our processing services performance obligations over time as the services are provided.

Technology or service components from third parties are frequently embedded in or combined with our products or service offerings. We are often responsible for billing the client in these arrangements and transmitting the applicable fees to the third party. We determine whether we are responsible for providing the actual product or service as a principal, or for arranging for the solution or service to be provided by the third party as an agent. Judgment is applied to determine whether we are the principal or the agent by evaluating whether we have control of the product or service prior to it being transferred to the customer. The principal versus agent assessment is performed at the performance obligation level. Indicators that we consider in determining if we have

control include whether we are primarily responsible for fulfilling the promise to provide the specified product or service to the customer, whether we have inventory risk and discretion in establishing the price the customer ultimately pays for the product or service. Depending upon the level of our contractual responsibilities and obligations for delivering solutions to end customers, we have arrangements where we are the principal and recognize the gross amount billed to the customer and other arrangements where we are the agent and recognize the net amount retained.

Revenue is recorded net of applicable sales tax.

Deferred revenue consists of advance payments by software customers for annual or quarterly PCS, advance payments from customers for software licenses and professional services not yet delivered, and initial implementation payments for processing services or bundled license and support services in multi-year contracts. Deferred revenue is classified as long-term until such time that it becomes likely that the services or products will be provided within 12 months of the balance sheet date.

Valuation of Investments – We hold minority interests in non-publicly traded companies whose values are difficult to determine and are based on management’s estimate of realizability of the value of the investment. Future adverse changes in market conditions, poor operating results, lack of progress of the investee company or its inability to raise capital to support its business plan could result in investment losses or an inability to recover the current carrying value of the investment. Our policy with respect to minority interests is to record an impairment charge when we conclude an investment has experienced a decline in value that is other than temporary. At least quarterly, we review our investments to determine any impairment in their carrying value and we write-down any impaired asset at quarter-end to our best estimate of its current realizable value. In the second quarter of 2018, we recorded an impairment charge of \$250,000 to reduce the carrying value of an investee company.

Executive Summary

Our consolidated operations consist of our CoreCard Software subsidiary and its affiliate companies in Romania and India, as well as the corporate office which provides significant administrative, human resources and executive management support to CoreCard. We provide technology solutions and processing services to the financial services market, commonly referred to as the FinTech industry. We derive our product revenue from licensing our comprehensive suite of financial transaction management software to accounts receivable businesses, financial institutions, retailers and processors to manage their credit and debit cards, prepaid cards, private label cards, fleet cards, loyalty programs, and accounts receivable and loan transactions. Our service revenue consists of fees for software maintenance and support for licensed software products, fees for processing services that we provide to companies that outsource their financial transaction processing functions to us, and professional services primarily for software customizations provided to both license and processing customers.

Our results vary in part depending on the size and number of software licenses recognized as well as the value and number of professional services contracts recognized in a particular period. As we continue to grow our Processing Services business, we continue to gain economies of scale on the investment we have made in the infrastructure, resources, processes and software features developed over the past number of years to support this growing side of our business. We are adding new processing customers at a faster pace than we are adding new license customers, resulting in steady growth in the processing revenue stream. However, we are also experiencing growth in our license revenue and associated professional services due to the addition of a large new customer in 2018. In total, this customer represented 60 percent of our consolidated revenues for 2019. We expect future professional services, maintenance, and license revenue from this customer in 2020 and future years; however, the amount and timing will be dependent on various factors not in our control such as the number of accounts on file and the level of customization needed by the customer. License revenue from this customer, similar to other license arrangements, is tiered based on the number of active accounts on the system. Once the customer achieves each tier level they receive a perpetual license up to that number of accounts; inactive accounts do not count toward the license tier. The customer receives an unlimited perpetual license at a maximum tier level that allows them to utilize the software for any number of active accounts. They currently use the software for a single institution and additional license fees apply if multiple institutions are added. Support and maintenance fees are charged based on the tier level achieved and increase at new tier levels.

While we typically receive revenue based on the number of active accounts on file rather than transaction volume, the recently declared pandemic related to the coronavirus could adversely impact our future results if the ability of our customers to continue to add new accounts is negatively impacted by the decrease in economic activity caused by the virus. As noted above, we receive license revenue when our customers achieve new active account tiers. The impact of slower growth or declines in active accounts would result in lower than expected license revenue which would then result in lower than expected maintenance revenue. Similarly, we typically receive processing revenue based on the number of active accounts our customers have on our system. If our customers fail to add new

accounts or experience declines in active accounts due to inactivity, we could experience lower than expected growth in processing revenue or lower processing revenue. We could also experience delays or declines in professional services revenue and new customer sign-ups and implementations if customers or potential customers delay or cancel their plans due to the economic slowdown caused by the virus. Additionally, our operations could be impacted, and we could experience higher costs if, despite our mitigation and prevention efforts, the virus spread prevents affected employees from performing key duties.

The infrastructure of our multi customer environment is scalable for the future. A significant portion of our expense is related to personnel, including approximately 500 employees located in India and Romania. In 2017, we opened a second office in India, located near Mumbai, to enable us to attract the level of talent required for our software development and testing. Our ability to hire and train employees on our processes and software impacts our ability to onboard new customers and deliver professional services for software customizations. In addition, we have certain corporate office expenses associated with being a public company that impact our operating results.

Our revenue fluctuates from period to period and our results are not necessarily indicative of the results to be expected in future periods. It is difficult to predict the level of consolidated revenue on a quarterly basis for a number of reasons, including the following:

- Software license revenue in a given period may consist of a relatively small number of contracts and contract values can vary considerably depending on the software product and scope of the license sold. Consequently, even minor delays in delivery under a software contract (which may be out of our control) could have a significant and unpredictable impact on the consolidated revenue that we recognize in a given quarterly or annual period.
- Customers may decide to postpone or cancel a planned implementation of our software for any number of reasons, which may be unrelated to our software or contract performance, but which may affect the amount, timing and characterization of our deferred and/or recognized revenue.
- Customers typically require our professional services to modify or enhance their CoreCard software implementation based on their specific business strategy and operational requirements, which vary from customer to customer and period to period.
- The timing of new processing customer implementations is often dependent on third party approvals or processes which are typically not under our direct control.

We continue to maintain a strong cash position. We intend to use cash balances to support the domestic and international operations associated with our CoreCard business and to expand our operations in the FinTech industry through financing the growth of CoreCard and, if appropriate opportunities become available, through acquisitions of businesses in this industry. Additionally, in November 2018, our Board of Directors authorized a share repurchase program of \$5 million. We did not make any share repurchases in 2018 or 2019.

Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented in this Annual Report.

Revenue – Total revenue for the year ended December 31, 2019 was \$34,303,000 which represents a 71 percent increase over 2018.

- Revenue from products, which includes software license fees was \$5,725,000 in 2019, compared to \$1,349,000 in 2018, primarily due to an increase in active accounts related to a large new license customer, as discussed above.
- Revenue from services was \$28,578,000 in 2019, which represents a 52 percent increase from 2018 revenue of \$18,751,000. The increase is primarily due to higher professional services revenue from a large new customer added in 2018, as discussed above, and higher professional services revenue from existing customers. Additionally, revenue from transaction processing services and maintenance support services were higher in 2019 as compared to 2018. Processing services benefited from an increase in the number of customers and accounts on file while maintenance revenue increased due to additional revenue associated with an increase in our license customer base. We expect that processing services will continue to grow as our customer base increases; however, the time required to implement new customer programs could be delayed due to third party integration and approval processes. It is difficult to accurately predict the number and value of professional services contracts that CoreCard's customers will require in a given period. Customers typically request our professional services to

modify or enhance their CoreCard software implementation based on their specific business strategy and operational requirements, which vary from customer to customer and period to period.

Cost of Revenue – Total cost of revenue was 34 percent of total revenue for the twelve months ended December 31, 2019, compared to 42 percent for the twelve months ended December 31, 2018. The decrease in cost of revenue as a percentage of revenue is primarily driven by increased product sales with low associated costs. Cost of revenue includes costs to provide annual maintenance and support services to our installed base of licensed customers, costs to provide professional services, and costs to provide our financial transaction processing services. The cost and gross margins on such revenues can vary considerably from period to period depending on the customer mix, customer requirements and project complexity as well as the mix of our U.S. and offshore employees working on the various aspects of services provided. In addition, we continue to devote the resources necessary to support our growing processing business, including direct costs for regulatory compliance, infrastructure, network certifications, and customer support. However, we are continuing to experience economies of scale in our processing environment and did experience a decrease year over year for our cost of financial transaction processing services as a percentage of transaction processing services revenue. This may be subject to change in the future if new regulations or processing standards are implemented causing us to incur additional costs to comply.

Operating Expenses – For the twelve months ended December 31, 2019, total operating expenses from consolidated operations were higher than in the corresponding period in 2018, primarily as the result of increased research and development expenses as well as higher general and administrative expenses. Research and development expenses were \$5,516,000 in 2019 compared to \$3,353,000 in 2018. The increase was primarily due to payroll and related expense for additional offshore technical personnel and recognition-based bonus payments and accruals. General and administrative expenses were higher in 2019 than in 2018, due to higher legal costs associated with on-going litigation and higher advisory expenses related to continuing contract negotiations and strategic initiatives of the Board, as well as higher personnel-related expense at CoreCard and the corporate offices in 2019. Marketing expenses decreased in 2019 as compared to the 2018 as we continued to place less focus on marketing initiatives for CoreCard in 2019. Our client base increased in 2019 and 2018 with minimal marketing efforts as we continue to have prospects contact us via online searches; however, we will continue to re-evaluate our marketing expenditures as needed to competitively position the Processing Services business.

Investment Income (Loss) – In 2019, we recorded investment income of \$34,000 comprised of realized gains on the sale of marketable securities. In 2018, we recorded \$363,000 of investment losses, which was comprised of a \$250,000 impairment loss on our minority equity ownership in one of our investee companies, a privately held technology company and program manager in the FinTech industry, and \$113,000 of unrealized losses on marketable securities.

Other Income, net – Other income, net was \$99,000 in 2019 and \$469,000 in 2018. The decrease results from losses on equity method investments, 2018 interest income of \$171,000 related to finance charges on the sale of equipment purchased for a new license customer that did not recur in 2019, partially offset by higher interest rates on higher cash balances.

Income Taxes – We recorded \$2,546,000 in 2019 for income tax expense, an effective tax rate of 18.8%, compared to tax expense of \$4,000 in 2018, an effective tax rate of 0.1%. The increase in the effective tax rate is due to the utilization of net operating loss carry forwards in 2018, offset by an excess tax benefit related to the exercise of stock options. We expect our future effective tax rate to be within the range of 23-25%.

Liquidity and Capital Resources

Our cash balance at December 31, 2019 was \$26,415,000 compared to \$18,919,000 at December 31, 2018. During the year ended December 31, 2019, cash provided by operations was \$10,585,000 compared to cash provided by operations of \$6,656,000 for the year ended December 31, 2018. The increase is primarily due to higher operating income and lower net working capital balances.

We advanced \$2,000,000 on various Promissory Notes, as described in more detail in Note 6 to the Consolidated Financial Statements. We used \$1,676,000 of cash to acquire computer equipment and related software primarily to enhance our existing processing environment in the U.S. as well for computer equipment for the technical resources added in our India office during 2019.

We do not expect to pay any regular or special dividends in the foreseeable future. We expect to have sufficient liquidity from cash on hand as well as projected customer payments to support our operations and capital equipment purchases in the foreseeable future. Currently we expect to use cash in excess of what is required for our current operations for opportunities we believe will expand our FinTech business, as exemplified in transactions described in Notes 3 and 5, although there can be no assurance that appropriate opportunities will arise. Additionally, in November 2018, our Board of Directors authorized a share repurchase program of \$5 million. We did not make any share repurchases in 2018 or 2019.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements that are reasonably likely to have a current or future material adverse effect on our financial condition, liquidity or results of operations.

Factors That May Affect Future Operations

Future operations are subject to risks and uncertainties that may negatively impact our future results of operations or projected cash requirements. It is difficult to predict future quarterly and annual results with certainty.

Among the numerous factors that may affect our consolidated results of operations or financial condition are the following:

- Weakness or instability in the global financial markets could have a negative impact due to potential customers (most of whom perform some type of financial services) delaying decisions to purchase software or initiate processing services.
- Increased federal and state regulations and reluctance by financial institutions to act as sponsor banks for prospective customers could result in losses and additional cash requirements.
- In 2018, we added a large new license customer that represented 60% of our consolidated revenues for the twelve months ended December 31, 2019. Failure to meet our responsibilities under the related contract could result in breach of contract and loss of the customer and related future revenues.
- Delays in software development projects could cause our customers to postpone implementations or delay payments, which would increase our costs and reduce our revenue and cash.
- We could fail to deliver software products which meet the business and technology requirements of our target markets within a reasonable time frame and at a price point that supports a profitable, sustainable business model.
- Our processing business is impacted, directly or indirectly, by more regulations than our licensed software business. If we fail to provide services that comply with (or allow our customers to comply with) applicable regulations or processing standards, we could be subject to financial or other penalties that could negatively impact our business.
- Software errors or poor quality control may delay product releases, increase our costs, result in non-acceptance of our software by customers or delay revenue recognition.
- We could fail to expand our base of customers as quickly as anticipated, resulting in lower revenue and profits and increased cash needs.
- We could fail to retain key software developers and managers who have accumulated years of know-how in our target markets and company products, or fail to attract and train a sufficient number of new software developers and testers to support our product development plans and customer requirements at projected cost levels.
- Increasing and changing government regulations in the United States and foreign countries related to such issues as data privacy, financial and credit transactions could require changes to our products and services which could increase our costs and could affect our existing customer relationships or prevent us from getting new customers.
- Delays in anticipated customer payments for any reason would increase our cash requirements and could adversely impact our profits.
- Competitive pressures (including pricing, changes in customer requirements and preferences, and competitor product offerings) may cause prospective customers to choose an alternative product solution, resulting in lower revenue and profits (or losses).
- Our future capital needs are uncertain and depend on a number of factors; additional capital may not be available on acceptable terms, if at all.
- Volatility in the markets, including as a result of political instability, civil unrest, war or terrorism, or pandemics or other natural disasters, such as the recent outbreak of coronavirus, could adversely affect future results of operations and could negatively impact the valuation of our investments.
- Other general economic and political conditions could cause customers to delay or cancel purchases.

Recent Accounting Pronouncements – Refer to Note 1 of the Notes to the Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS

The following Consolidated Financial Statements and related report of independent registered public accounting firm are included in this report and are incorporated by reference in Part II, Item 8 hereof. See Index to Financial Statements on page F-1 hereof.

Report of Independent Registered Public Accounting Firm – Nichols, Cauley & Associates, LLC
Consolidated Balance Sheets at December 31, 2019 and 2018
Consolidated Statements of Operations for the years ended December 31, 2019 and 2018
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019 and 2018
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019 and 2018
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018
Notes to Consolidated Financial Statements

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. As of the end of the period covered by this Annual Report, we carried out an evaluation, under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective at that reasonable assurance level.

(b) Changes in internal control over financial reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment.

There were no significant changes in the company's internal control over financial reporting or in other factors identified in connection with this evaluation that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

(c) Management's report on internal control over financial reporting

The management of Intelligent Systems Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a – 15(f) under the Securities Exchange Act of 1934. The company maintains accounting and internal control systems which are intended to provide reasonable assurance that the assets are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with management's authorization and accounting records are reliable for preparing financial statements in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, risk.

The company's management evaluated the effectiveness of the company's internal control over financial reporting as of December 31, 2019. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in *Internal Control – Integrated Framework*. Based on our evaluation management believes that, as of December 31, 2019, the company's internal control over financial reporting is effective based on those criteria. The effectiveness of the company's internal control over financial reporting as of December 31, 2019 has been audited by Nichols, Cauley & Associates, LLC, the company's independent registered public accounting firm, as stated in their report, which appears in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K on page F-2.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Please refer to the subsection entitled "Proposal 1 - The Election of Three Directors - Nominees" and "Proposal 1 – The Election of Three Directors – Executive Officers" in our Proxy Statement for the 2020 Annual Meeting of Shareholders (the "Proxy Statement") for information about the individuals nominated as directors and about the directors and executive officers of the company. This information is incorporated into this Item 10 by reference. Information regarding compliance by directors and executive officers of the company and owners of more than 10 percent of our common stock with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, is contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement. This information is incorporated into this Item 10 by reference. Information regarding the company's Audit Committee and its composition is contained under the caption "Proposal 1 – The Election of One Director - Nominee" and "Proposal 1 – The Election of One Director – Meetings and Committees of the Board of Directors" in the Proxy Statement. This information is incorporated into this Item 10 by reference.

There have been no material changes to the procedures by which shareholders may recommend nominees to the company's Board of Directors.

We have a Code of Ethics that applies to all directors, officers, and employees. The Code of Ethics is posted on our website at www.intelsys.com. We also disclose on our website, within the time required by the rules of the SEC, any waivers of, or amendments to, the Code of Ethics for the benefit of an executive officer.

ITEM 11. EXECUTIVE COMPENSATION

Please refer to the subsection entitled "Proposal 1 - The Election of Three Directors - Executive Compensation" in the Proxy Statement for information about management compensation. This information is incorporated into this Item 11 by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the amount of securities authorized for issuance under our equity compensation plans as of December 31, 2019.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	126,500	\$ 8.94	763,000
Equity compensation plans not approved by security holders	--	--	--
Total	126,500	\$ 8.94	763,000

Effective August 22, 2000, the company adopted the Non-Employee Director Stock Option Plan (the "Director Plan"). The Director Plan expired in 2010 and was replaced by the 2011 Non-Employee Director Stock Option Plan (the "2011 Director Plan"), with essentially the same terms and conditions as the expired Director Plan. Up to 200,000 shares of common stock were authorized for issuance under the Director Plan and 2011 Director Plan to non-employee directors with each director receiving an initial grant of 5,000 options followed by annual grants of 4,000 options on the date of each subsequent Annual Meeting. In the years ended December 31, 2019 and 2018, 12,000 options were granted in each year, respectively, under the 2011 Director Plan, and in 2018 4,000 options expired unexercised. In 2019, under the Directors Plans, 82,000 options were exercised and 6,000 options were canceled. The company instituted the 2003 Stock Incentive Plan (the "2003 Plan") in March 2003 and the 2003 Plan expired in 2013. The 2003 Plan authorized the issuance of up to 450,000 options to purchase shares of common stock to officers and key employees. In 2015, shareholders approved the Intelligent Systems Corporation Stock Incentive Plan (the "2015 Plan") that provides for the issuance of up to 750,000 shares of common stock to employees and key consultants and advisors. In 2019, 30,000 shares were granted and no grants were made in 2018 under the 2015 Plan. In 2019, 25,000 options were exercised and in 2018, 20,000 options were exercised under the 2015 Plan. Stock options are granted under the company's equity compensation plans at fair market value on the date of grant and vest ratably over two or three year periods after the date of grant.

Please refer to the subsection entitled "Voting – Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement for information about the ownership of our common stock by certain persons. This information is incorporated into this Item 12 by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The lease on our headquarters and primary facility at 4355 Shackleford Road, Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by J. Leland Strange, our Chairman and Chief Executive Officer. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. We paid ISC Properties, LLC \$210,000 in both years ending December 31, 2019 and 2018.

Please refer to the subsection entitled "Proposal 1 - The Election of Three Directors - Nominee" in the Proxy Statement referred to in Item 10 for information regarding the independence of the company's directors. This information is incorporated into this Item 13 by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Please refer to the subsection entitled "Independent Registered Public Accountants" in the Proxy Statement for information about the fees paid to and services performed by our independent public accountants. This information is incorporated into this Item 14 by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

We are filing the following exhibits with this report or incorporating them by reference to earlier filings. Shareholders may request a copy of any exhibit by contacting Matthew A. White, Secretary, Intelligent Systems Corporation, 4355 Shackelford Road, Norcross, Georgia 30093; telephone (770) 381-2900. There is a charge of \$.50 per page to cover expenses of copying and mailing.

- 2.1 Purchase Agreement between CRC Industries, Inc. and Intelligent Systems Corporation dated March 31, 2015. (Incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K dated March 31, 2015.)
- 3.1 Amended and Restated Articles of Incorporation of the Registrant dated May 4, 2011. (Incorporated by reference to Exhibit 3(i) of the Registrant's Form 10-Q for the period ended March 31, 2011.)
- 3.2 Bylaws of the Registrant dated December 7, 2007. (Incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-Q dated May 3, 2019.)
- 10.1 Lease Agreement dated April 1, 2015, between the Registrant and ISC Properties, LLC. (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q for the quarter ended March 31, 2015.)
- 10.3 Management Compensation Plans and Arrangements:
 - (a) Intelligent Systems Corporation Stock Incentive Plan
 - (b) 2011 Non-Employee Directors Stock Option Plan

Exhibit 10.3(a) is incorporated by reference to the Registrant's 2015 Definitive Proxy Statement on Schedule 14A.
Exhibit 10.3(b) is incorporated by reference to the Registrant's 2011 Definitive Proxy Statement on Schedule 14A.
- 21.1 List of subsidiaries of Registrant.
- 23.1 Consent of Nichols, Cauley & Associates, LLC.
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document ***
- 101.SCH XBRL Taxonomy Extension Schema ***
- 101.CAL XBRL Taxonomy Extension Calculation ***
- 101.DEF XBRL Taxonomy Extension Definitions ***
- 101.LAB XBRL Taxonomy Extension Labels ***
- 101.PRE XBRL Taxonomy Extension Presentation ***

*** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTELLIGENT SYSTEMS CORPORATION
Registrant

Date: March 16, 2020

By: /s/ J. Leland Strange
J. Leland Strange
Chairman of the Board, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Capacity	Date
<u>/s/ J. Leland Strange</u> J. Leland Strange	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2020
<u>/s/ Matthew A. White</u> Matthew A. White	Chief Financial Officer (Principal Accounting and Financial Officer)	March 16, 2020
<u>/s/ A. Russell Chandler III</u> A. Russell Chandler III	Director	March 16, 2020
<u>/s/ Philip H. Moise</u> Philip H. Moise	Director	March 16, 2020

INTELLIGENT SYSTEMS CORPORATION
INDEX TO FINANCIAL STATEMENTS

The following consolidated financial statements of the Registrant and its subsidiaries are submitted herewith in response to Item 8:

Financial Statements:

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NICHOLS, CAULEY & ASSOCIATES, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Intelligent Systems Corporation

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Intelligent Systems Corporation and subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited Intelligent Systems Corporation's internal control over financial reporting as of December 31, 2019, based on criteria established in 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinion

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that responds to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Nichols, Cauley and Associates, LLC

We have served as the Company's auditor since 2015.

Atlanta, Georgia

March 16, 2020

Intelligent Systems Corporation
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

As of December 31,	2019	2018
ASSETS		
Current assets:		
Cash	\$ 26,415	\$ 18,919
Marketable securities	--	349
Accounts receivable, net	8,759	3,731
Notes and interest receivable, current portion	--	581
Other current assets	905	1,202
Total current assets	36,079	24,782
Investments	3,081	760
Notes and interest receivable, net of current portion	1,795	1,745
Property and equipment, at cost less accumulated depreciation	2,177	1,513
Other long-term assets	1,108	504
Total assets	\$ 44,240	\$ 29,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 403	\$ 272
Deferred revenue, current portion	689	781
Accrued payroll	2,503	1,145
Accrued expenses	153	71
Income tax payable	1,100	284
Other current liabilities	1,345	719
Total current liabilities	6,193	3,272
Deferred revenue, net of current portion	23	111
Long-term lease obligation	460	--
Deferred tax liability	275	--
Total long-term liabilities	758	111
Commitments and contingencies (Note 9)		
Intelligent Systems Corporation stockholders' equity:		
Common stock, \$0.01 par value, 20,000,000 shares authorized, and 8,924,988 and 8,817,988 issued and outstanding at December 31, 2019 and 2018, respectively	89	88
Additional paid-in capital	15,450	15,050
Accumulated other comprehensive loss	(94)	(92)
Accumulated income	21,844	10,875
Total stockholders' equity	37,289	25,921
Total liabilities and stockholders' equity	\$ 44,240	\$ 29,304

The accompanying notes are an integral part of these consolidated financial statements.

Intelligent Systems Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

Year Ended December 31,	2019	2018
Revenue		
Products	\$ 5,725	\$ 1,349
Services	28,578	18,751
Total net revenue	34,303	20,100
Cost of revenue		
Products	--	136
Services	11,759	8,388
Total cost of revenue	11,759	8,524
Expenses		
Marketing	151	255
General and administrative	3,495	1,826
Research and development	5,516	3,353
Income from operations	13,382	6,142
Investment income (loss)	34	(363)
Other income, net	99	469
Income before income taxes	13,515	6,248
Income taxes	2,546	4
Net income	\$ 10,969	\$ 6,244
Earnings per share:		
Basic	\$1.24	\$0.71
Diluted	\$1.22	\$0.70
Basic weighted average common shares outstanding	8,873,071	8,796,321
Diluted weighted average common shares outstanding	8,967,901	8,948,518

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

Year Ended December 31,	2019	2018
Net income	\$ 10,969	\$ 6,244
Other comprehensive income (loss):		
Foreign currency translation adjustments	(2)	28
Unrealized gain/loss on available-for-sale marketable securities	--	23
Comprehensive income	\$ 10,967	\$ 6,295

The accompanying notes are an integral part of these consolidated financial statements.

Intelligent Systems Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

<i>(in thousands, except share amounts)</i>	Common Stock	Additional Paid- In Capital	Accumulated Other Comprehensive Loss	Accumulated Earnings	Stockholders' Equity
Balance at December 31, 2017	8,777,988	\$ 88	\$ (143)	\$ 4,631	\$ 19,453
Stock options exercised	40,000	111			111
Net income				6,244	6,244
Stock compensation expense		62			62
Foreign currency translation adjustment			28		28
Unrealized loss on marketable securities			23		23
Balance at December 31, 2018	8,817,988	\$ 88	\$ (92)	\$ 10,875	\$ 25,921
Stock options exercised	107,000	1			210
Net income				10,969	10,969
Stock compensation expense		191			191
Foreign currency translation adjustment			(2)		(2)
Balance at December 31, 2019	8,924,988	\$ 89	\$ (94)	\$ 21,844	\$ 37,289

The accompanying notes are an integral part of these consolidated financial statements.

Intelligent Systems Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,	
	2019	2018
OPERATING ACTIVITIES:		
Net income	\$ 10,969	\$ 6,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,012	614
Stock-based compensation expense	191	62
Gain on sale of investment	(34)	--
Provision (benefit) for deferred income taxes	555	(280)
Non-cash investment expense	--	363
Non-cash interest income	(49)	(59)
Equity in loss of affiliate company	332	25
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,028)	(2,523)
Other current assets	224	1,171
Other long-term assets	61	(18)
Accounts payable	131	(49)
Accrued payroll	1,358	550
Deferred revenue, current portion	(92)	(72)
Accrued expenses	82	(27)
Other current liabilities	961	595
Deferred revenue, net of current portion	(88)	60
Other long-term liabilities	--	--
Net cash provided by operating activities	10,585	6,656
INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,676)	(865)
Advances on note and interest receivable	(2,000)	(1,035)
Proceeds from sale of investments	379	--
Net cash used for investing activities	(3,297)	(1,900)
FINANCING ACTIVITIES:		
Sale of capital stock pursuant to exercise of option	210	111
Net cash provided by financing activities	210	111
Effects of exchange rate changes on cash	(2)	28
Net increase in cash	7,496	4,895
Cash at beginning of year	18,919	14,024
Cash at end of year	\$ 26,415	\$ 18,919
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 1,159	\$ --

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – In this document, terms such as the “company”, “we”, “us”, “our” and “ISC” refer to Intelligent Systems Corporation, a Georgia corporation, and its consolidated subsidiaries.

Consolidation – The financial statements include the accounts of Intelligent Systems Corporation and its majority owned and controlled U.S. and non-U.S. subsidiary companies after elimination of material inter-company accounts and transactions.

Nature of Operations – Our operations consist primarily of our CoreCard Software, Inc. (“CoreCard”) subsidiary and its affiliate companies in Romania and India, as well as the corporate office which provides significant administrative, human resources and executive management support to CoreCard. CoreCard provides technology solutions and processing services to the financial technology and services market, commonly referred to as the FinTech industry.

Use of Estimates – In preparing the financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Areas where we use estimates and make assumptions are to determine our allowance for doubtful accounts, valuation of our investments, depreciation and amortization expense, accrued expenses and deferred income taxes.

Translation of Foreign Currencies – We consider that the respective local currencies are the functional currencies for our foreign operations. We translate assets and liabilities to U.S. dollars at period-end exchange rates. We translate income and expense items at average rates of exchange prevailing during the period. Translation adjustments are recorded as accumulated other comprehensive gain or loss as a separate component of stockholders’ equity. Upon sale of an investment in a foreign operation, the currency translation adjustment component attributable to that operation is removed from accumulated other comprehensive loss and is reported as part of gain or loss on sale of discontinued operations.

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable are customer obligations due under normal trade terms. They are stated at the amount management expects to collect. We sell our software products and transaction processing services to companies involved in a variety of industries that provide some form of credit or prepaid financing options or perform financial services. We perform continuing credit evaluations of our customers’ financial condition and we do not require collateral. The amount of accounting loss for which we are at risk in these unsecured receivables is limited to their carrying value.

Senior management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. We include any accounts receivable balances that are estimated to be uncollectible in our overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to us, we believe our allowance for doubtful accounts as of December 31, 2019 is adequate. However, actual write-offs might exceed the recorded allowance. Refer to Note 4 for additional information.

Marketable Securities – Our marketable securities are stated at fair value and primarily consist of investments in exchange traded funds comprised of dividend paying companies. We sold our marketable securities in November 2019 resulting in a realized gain of \$34,000 for the year ended December 31, 2019. The fair value of the marketable securities was \$349,000 at December 31, 2018; an unrealized loss of \$113,000 was included in investment income (loss) due to the adoption of new accounting guidance during 2018.

Property and Equipment – Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related asset. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repairs and maintenance costs are expensed as incurred. We continually evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of property and equipment may warrant revision, or that the remaining balance of these assets may not be recoverable. An asset is considered to be impaired when its carrying amount exceeds the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition. The amount

of the impairment loss, if any, which is equal to the amount by which the carrying value exceeds its fair value, is charged to current operations.

Classification	Useful life in years
Machinery and equipment	3 - 5
Furniture and fixtures	5 - 7
Building	39

The cost of each major class of property and equipment at December 31, 2019 and 2018 is as follows:

<i>(in thousands)</i>	2019	2018
Machinery and equipment	\$ 4,995	\$ 3,321
Furniture and fixtures	203	194
Building	301	313
Subtotal	5,499	3,828
Accumulated depreciation	(3,322)	(2,315)
Property and equipment, net	\$ 2,177	\$ 1,513

Depreciation expense was \$1,012,000 and \$614,000 in 2019 and 2018, respectively. These expenses are included in general and administrative expenses or, for assets associated with our processing data centers, are included in cost of services.

Investments – For entities in which we have a 20 to 50 percent ownership interest and over which we exercise significant influence, but do not have control, we account for investments in privately-held companies under the equity method, whereby we record our proportional share of the investee’s net income or net loss as an adjustment to the carrying value of the investment. We account for investments of less than 20 percent in non-marketable equity securities of corporations at the lower of cost or market. Our policy with respect to investments is to record an impairment charge when we conclude that an investment has experienced a decline in value. We have elected to use the measurement alternative for our non-marketable equity securities, defined as cost adjusted for changes from observable transactions for identical or similar investments of the same issuer, less impairment. At least quarterly, we review our investments to determine any impairment in their carrying value and we write-down any impaired asset at quarter-end to our best estimate of its current realizable value. Any such charges could have a material adverse impact on our financial condition or results of operations and are generally not predictable in advance. We did not recognize any impairment losses in 2019. During the year ended December 31, 2018, we recognized an impairment loss of \$250,000 on our minority equity ownership in one of our investee companies, a privately held technology company and program manager in the FinTech industry. At December 31, 2019 and 2018, the aggregate value of investments was \$3,081,000 and \$760,000, respectively.

Fair Value of Financial Instruments – The carrying value of cash, accounts receivable, notes receivable, accounts payable and certain other financial instruments (such as accrued expenses and other current assets and liabilities) included in the accompanying consolidated balance sheets approximates their fair value principally due to the short-term maturity of these instruments.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash, trade accounts, and notes receivable. Our available cash is held in accounts managed by third-party financial institutions. Cash may exceed the Federal Deposit Insurance Corporation, or FDIC, insurance limits. While we monitor cash balances on a regular basis and adjust the balances as appropriate, these balances could be impacted if the underlying financial institutions fail. To date, we have experienced no loss or lack of access to our cash; however, we can provide no assurances that access to our cash will not be impacted by adverse conditions in the financial markets.

A concentration of credit risk may exist with respect to trade receivables, as a substantial portion of our customers are concentrated in the financial services industry.

We perform ongoing credit evaluations of customers worldwide and do not require collateral from our customers. Historically, we have not experienced significant losses related to receivables from individual customers or groups of customers in any particular industry or geographic area.

Fair Value Measurements – In determining fair value, we use quoted market prices in active markets. Generally accepted accounting principles (“GAAP”) establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. GAAP emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are based on data obtained from sources independent of the company that market participants would use in pricing the asset or liability. Unobservable inputs are inputs that reflect the company’s assumptions about the estimates market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is measured in three levels based on the reliability of inputs:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.
- Level 3 - Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment is needed in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Our marketable securities investments are classified within level 1 of the valuation hierarchy.

The fair value of equity method and cost method investments has not been determined as it is impracticable to do so due to the fact that the investee companies are relatively small, early stage private companies for which there is no comparable valuation data available without unreasonable time and expense.

Revenue Recognition – Product revenue consists of fees from software licenses. Service revenue consists of fees for processing services; professional services for software customization, consulting, training; reimbursable expenses; and software maintenance and customer support.

Our software license arrangements generally fall into one of the following four categories:

- an initial contract with the customer to license certain software modules, to provide services to get the customer live on the software (such as training and customization) and to provide post contract support (“PCS”) for a specified period of time thereafter,
- purchase of additional licenses for new modules or for tier upgrades for a higher volume of licensed accounts,
- other optional standalone contracts, usually performed after the customer is live on the software, for services such as new interfaces or custom features requested by the customer, additional training and problem resolution not covered in annual maintenance contracts, and
- contracts for certain licensed software products that involve an initial fee plus recurring monthly fees during the contract life.

At contract inception, we assess the products and services promised in our contracts with customers and identify a performance obligation for each promise to transfer to the customer a product or service (or bundle of products or services) that is distinct. A performance obligation is distinct if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. To identify our performance obligations, we consider all of the products or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. We recognize revenue when or as we satisfy a performance obligation by transferring control of a product or service to a customer. Our revenue recognition policies for each of the situations described above are discussed below.

Our software licenses generally have significant stand-alone functionality to the customer upon delivery and are considered to be functional intellectual property. Additionally, the purpose in granting these software licenses to a customer is typically to provide the customer a right to use our intellectual property. Our software licenses are generally considered distinct performance obligations, and revenue allocated to the software license is typically recognized at a point in time upon delivery of the license. Initial implementation fees do not meet the criteria for separate accounting because the software usually requires significant modification or customization that is essential to its functionality. We recognize revenue related to implementations over the life of the customer once the implementation is complete.

We account for the PCS element contained in the initial contract based on relative standalone selling price, which is annual renewal fees for such services, and PCS is recognized ratably on a straight-line basis over the period specified in the contract as we generally satisfy these performance obligations evenly using a time-elapsed output method over the contract term given there is no discernible pattern of performance. Upon renewal of the PCS contract by the customer, we recognize revenues ratably on a straight-line basis over the period specified in the PCS contract. All of our software customers purchase software maintenance and support contracts and renew such contracts annually.

Certain initial software contracts contain specified future service elements for scheduled completion following the implementation, and related recognition, of the initial license. In these instances, after the initial license recognition, where distinct future performance obligations are identified in the contract and we could reliably measure the completion of each identified performance obligation, we have recognized revenue at the time the individual performance obligation was completed.

Purchases of additional licenses for tier upgrades or additional modules are generally recognized as license revenue in the period in which the purchase is made for perpetual licenses or ratably over the remaining contract term for non-perpetual licenses.

Services provided under standalone contracts that are optional to the customer and are outside of the scope of the initial contract are single element services contracts. These standalone services contracts are not essential to the functionality of the software contained in the initial contract and generally do not include acceptance clauses or refund rights as may be included in the initial software contracts, as described above. Revenues from these services contracts, which are generally performed within a relatively short period of time, are recognized when the services are complete or in some cases as the services are provided. These revenues generally re-occur as contracts are renewed. Payment terms for professional services may be based on an upfront fixed fee with the remainder due upon completion or on a time and materials basis.

For contracts for licensed software which include an initial fee plus recurring monthly fees for software usage, maintenance and support, we recognize the total fees ratably on a straight-line basis over the estimated life of the contract as services revenue.

Revenues from processing services are typically volume- or activity-based depending on factors such as the number of accounts processed, number of accounts on the system, number of hours of services or computer resources used. For processing services which include an initial fee plus recurring monthly fees for services, we recognize the initial fees ratably on a straight-line basis over the estimated life of the contract as services revenue. The payment terms may include tiered pricing structures with the base tier representing a minimum monthly usage fee. For processing services revenues, we stand ready to provide continuous access to our processing platforms and perform an unspecified quantity of outsourced and transaction-processing services for a specified term or terms. Accordingly, processing services are generally viewed as a stand-ready performance obligation comprised of a series of distinct daily services. We typically satisfy our processing services performance obligations over time as the services are provided.

Technology or service components from third parties are frequently embedded in or combined with our products or service offerings. We are often responsible for billing the client in these arrangements and transmitting the applicable fees to the third party. We determine whether we are responsible for providing the actual product or service as a principal, or for arranging for the solution or service to be provided by the third party as an agent. Judgment is applied to determine whether we are the principal or the agent by evaluating whether we have control of the product or service prior to it being transferred to the customer. The principal versus agent assessment is performed at the performance obligation level. Indicators that we consider in determining if we have control include whether we are primarily responsible for fulfilling the promise to provide the specified product or service to the customer, whether we have inventory risk and discretion in establishing the price the customer ultimately pays for the product or service. Depending upon the level of our contractual responsibilities and obligations for delivering solutions to end customers, we have arrangements where we are the principal and recognize the gross amount billed to the customer and other arrangements where we are the agent and recognize the net amount retained.

Revenue is recorded net of applicable sales tax.

Deferred Revenue – Deferred revenue consists of advance payments by software customers for annual or quarterly PCS, advance payments from customers for software licenses and professional services not yet delivered, and initial implementation payments for processing services or bundled license and support services in multi-year contracts. We do not anticipate any loss under these arrangements. Deferred revenue is classified as long-term until such time that it becomes likely that the services or products will be provided within 12 months of the balance sheet date.

Cost of Revenue – For cost of revenue for software contracts, we capitalize the contract specific direct costs, which are included in other current assets and other long-term assets on the Consolidated Balance Sheets, and recognize the costs when the associated revenue is recognized. Cost of revenue for services includes direct cost of services rendered, including reimbursed expenses, pass-through third party costs, and data center, network association and compliance costs for processing services. We also capitalize the initial implementation fees for processing services contracts and recognize the costs over the life of the contract, when the corresponding revenue is recognized.

Software Development Expense – Research and development costs are expensed in the period in which they are incurred. Contract specific software development costs are capitalized and recognized when the related contract revenue is recognized.

Warranty Costs – The warranty related to software license contracts consists of a defined number of months (usually three) of PCS after the go-live date, which is accrued as of the go-live date and recognized over the warranty period.

Legal Expense – Legal expenses for continuing operations are recorded as a component of general and administrative expense in the period in which such expenses are incurred.

Research and Development – Research and development costs consist principally of compensation and benefits paid to certain company employees and certain other direct costs. All research and development costs are expensed as incurred.

Stock Based Compensation – We record compensation cost related to unvested stock-based awards by recognizing the unamortized grant date fair value on a straight line basis over the vesting periods of each award. We have estimated forfeiture rates based on our historical experience. Stock option compensation expense for the years ended December 31, 2019 and 2018 has been recognized as a component of general and administrative expenses in the accompanying Consolidated Financial Statements. We recorded \$191,000 and \$62,000 of stock-based compensation expense for the years ended December 31, 2019 and 2018, respectively.

A total of 12,000 options were granted in each of the years ended December 31, 2019 and 2018, respectively, pursuant to the 2011 Non-employee Directors Stock Option Plan. An additional 30,000 options were granted during the year ended December 31, 2019, pursuant to the 2015 Incentive Stock Plan. The fair value of each option granted in 2019 and 2018 has been estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Year ended December 31,	2019	2018
Risk free interest rate	2.58%	1.91%
Expected life of option in years	10	10
Expected dividend yield rate	0%	0%
Expected volatility	51%	52%

Under these assumptions, the weighted average fair value of options granted in 2019 and 2018 was \$16.15 and \$4.86 per share, respectively. The fair value of the grants is being amortized over the vesting period for the options. All of the company's stock-based compensation expense relates to stock options. The total remaining unrecognized compensation cost at December 31, 2019 related to unvested options was \$414,000 and is expected to be recognized in 2020 and 2021.

Income Taxes – We account for income taxes under the liability method. We record deferred income taxes using enacted tax laws and rates for the years in which the taxes are expected to be paid. Deferred income tax assets and liabilities are recorded based on the differences between the financial reporting and income tax bases of assets and liabilities. We assess whether it is more likely than not that we will generate sufficient taxable income to realize our deferred tax assets. We record a valuation allowance, as necessary, to reduce our deferred tax assets to the amount of future tax benefit that we estimate is more likely than not to be realized.

We record tax benefits for positions that we believe are more likely than not of being sustained under audit examinations. We assess the potential outcome of such examinations to determine the adequacy of our income tax accruals. We recognize interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes on our Consolidated Statements of Operations. We adjust our income tax provision during the period in which we determine that the actual results of the examinations may differ from our estimates or when statutory terms expire. Changes in tax laws and rates are reflected in our income tax provision in the period in which they occur.

Comprehensive Income (Loss) – Comprehensive income (loss) represents net income adjusted for the results of certain stockholders' equity changes not reflected in the Consolidated Statements of Operations. These items are accumulated over time as "accumulated other comprehensive loss" on the Consolidated Balance Sheet and consist primarily of net earnings/loss and foreign currency translation adjustments associated with foreign operations that use the local currency as their functional currency.

Accounting Pronouncements Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under prior accounting guidance. ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. We adopted ASU 2016-02 as of January 1, 2019 utilizing the modified retrospective transition method at the beginning of the first quarter of 2019. We have elected the package of practical expedients, which allows the Company not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date, (3) initial direct costs for any existing leases as of the adoption date and (4) the application of hindsight when determining lease term and assessing impairment of right-of-use assets. The adoption of the new standard on January 1, 2019, resulted in a lease obligation and related right-of-use asset of approximately \$1,258,000. The impact on the statement of operations was not material.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, to require financial assets carried at amortized cost to be presented at the net amount expected to be collected based on historical experience, current conditions and forecasts. Subsequently, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, to clarify that receivables arising from operating leases are within the scope of lease accounting standards. Further, the FASB issued ASU No. 2019-04, ASU No. 2019-05, ASU 2019-10 and ASU 2019-11 to provide additional guidance on the credit losses standard. The ASUs are effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASUs is on a modified retrospective basis. We plan to adopt the ASUs on January 1, 2020. The ASUs are currently not expected to have a material impact on our consolidated financial statements.

2. REVENUE

Disaggregation of Revenue

In the following table, revenue is disaggregated by type of revenue for the years ended December 31, 2019 and 2018:

Year ended December 31, (in thousands)	2019	2018
License	\$ 5,725	\$ 1,349
Professional services	19,203	11,041
Processing and maintenance	7,650	6,394
Third party	1,725	1,316
Total	\$ 34,303	\$ 20,100

Foreign revenues are based on the location of the customer. Revenues from customers by geographic areas for the years ended December 31, 2019 and 2018 are as follows:

Year ended December 31, (in thousands)	2019	2018
European Union	\$ 3,834	\$ 2,745
United States	30,469	17,355
Total	\$ 34,303	\$ 20,100

3. INVESTMENTS

Beginning in 2017, and in subsequent periods we entered into a Loan Agreement and various Promissory Notes, as discussed in more detail in Note 5, with a privately-held identity and professional services company with ties to the FinTech industry. In June 2019, we converted the Loan Agreement and all Promissory Notes into equity resulting in ownership of 40 percent of the company. We also entered into two new Loan Agreements with principal balances of \$1,000,000 and \$500,000, respectively, that bear interest at the rate of 6.0 percent annually with maturity dates of June 2021 and October 2021, respectively. We account for our investment using the equity method of accounting which resulted in a loss of \$332,000 for the twelve months ended December 31, 2019, included in other income, net on the Consolidated Statement of Operations. The carrying value of \$2,321,000 is included in long-term investments.

At December 31, 2019, our ownership interest in NKD Enterprises, LLC was 25.5 percent. We account for our investment by the equity method of accounting. The carrying value of NKD Enterprises, LLC is included in long-term investments and was \$0 as of December 31, 2019 due to losses incurred to date.

On December 30, 2016 we signed an agreement to invest \$1,000,000 in a privately held technology company and program manager in the FinTech industry, with \$500,000 of the investment held in escrow to pay future fees to CoreCard pursuant to a Processing Agreement entered into by the parties. The investment was funded on January 4, 2017. In the quarter ended June 30, 2018, we recorded an impairment charge of \$250,000 to reduce the carrying value due to the investee's limited funding to support its operation and sales and marketing efforts. CoreCard remains in an ongoing business relationship with the company pursuant to a Processing Agreement and a Program Management Services Agreement. CoreCard is positioned to assume the program management aspects of the investee company if the need should arise to ensure their program(s) ongoing viability and the completion of the Processing Agreement with CoreCard.

4. ACCOUNTS RECEIVABLE AND CUSTOMER CONCENTRATIONS

At December 31, 2019 and 2018, our allowance for doubtful accounts was \$0. There were no charges against the allowance for doubtful accounts in 2019 or 2018.

The following table indicates the percentage of consolidated revenue from continuing operations and year-end accounts receivable represented by each customer that represented more than 10 percent of consolidated revenue from continuing operations or year-end accounts receivable.

	Revenue		Accounts Receivable	
	2019	2018	2019	2018
Customer A	60%	40%	80%	53%
Customer B	11%	13.2%	11%	14%

5. NOTES RECEIVABLE

During the quarter ended September 30, 2017, we entered into a Loan Agreement with a privately-held identity and professional services company with ties to the FinTech industry. We committed to lend up to \$1,500,000 all of which has been advanced as of December 31, 2019. During 2018, we advanced \$550,000 on three separate simple Promissory Note(s). As discussed in Note 3, we converted the Loan Agreement and all outstanding Promissory Notes to an equity ownership of 40 percent of the company. At the same time, we entered into and advanced a \$1,000,000 Loan Agreement that bears interest at the rate of 6.0 percent annually with a maturity date of June 2021 and in October 2019, we entered into and advanced a \$500,000 Loan Agreement that bears interest at the rate of 6.0 percent annually with a maturity date of October 2021. In the quarter ended March 31, 2018, we entered into a Convertible Loan Agreement with a private limited India based company in the FinTech industry. We committed to lend up to \$435,000 with an initial advance of \$235,000. The loan bears interest at the rate of 5.0 percent annually with the maturity date on the third anniversary of funding of such Promissory Note. We are entitled to convert the principal on the initial note for up to ten percent ownership of shares of the company.

6. INCOME TAXES

The income tax provision from operations consists of the following:

Year ended December 31, (in thousands)		
	2019	2018
Current	\$ 1,991	\$ 284
Deferred	555	(280)
Total	\$ 2,546	\$ 4

Following is a reconciliation of estimated income taxes at the statutory rate from operations to estimated tax expense (benefit) as reported:

Year ended December 31,	2019	2018
Statutory rate	21 %	21%
State and local taxes, net of federal benefit	3.7	--
Equity compensation	(5.7)	--
Other	(0.2)	(21%)
Effective rate	18.8%	--%

Net deferred tax assets consist of the following at December 31:

<i>(in thousands)</i>	2019	2018
Deferred tax assets:		
Unrealized loss on investments	\$ 582	\$ 475
Federal and state tax credits	--	294
Fixed assets	(370)	(185)
Other	95	171
Total deferred tax asset	307	755
Less valuation allowance	(582)	(475)
Net deferred tax (liability) asset	\$ (275)	\$ 280

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act of 2017, which, among other provisions, decreases the maximum federal corporate income tax rate from 35% to 21% beginning January 1, 2018.

We had a net deferred tax liability of approximately \$0.3 million and a net deferred tax asset of \$0.3 million at December 31, 2019 and December 31, 2018, respectively. The gross deferred tax asset has been offset by a valuation allowance in 2019 and 2018 of \$0.6 million and \$0.5 million, respectively, because the company believes that it is more likely than not that the amount will not be realized. We have maintained a valuation allowance on deferred tax assets resulting from unrealized capital losses as we are not able to conclude that it is more likely than not that these will be realized due to the unpredictability of future capital gains. No deferred taxes have been provided on temporary differences related to investments in foreign subsidiaries because these investments are considered to be permanent.

We have recognized tax benefits from all tax positions we have taken, and there has been no adjustment to any carry forwards (net operating loss or research and development credits) in the past two years. There were no unrecognized tax benefits as of December 31, 2019 and 2018. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. There were no accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the periods presented. We have determined we have no uncertain tax positions.

We file a consolidated U.S. federal income tax return for all subsidiaries in which our ownership equals or exceeds 80%, as well as individual subsidiary returns in various states and foreign jurisdictions.

7. COMMITMENTS AND CONTINGENCIES

Leases

We have noncancellable operating leases for offices and data centers expiring at various dates through June 2024. These operating leases are included in "Other long-term assets" on the Company's December 31, 2019 Consolidated Balance Sheet and represent the Company's right to use the underlying asset for the lease term. The Company's obligation to make lease payments are included in "other current liabilities" and "Long-term lease obligation" on the Company's December 31, 2019 Consolidated Balance Sheet. Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, the Company recognized right-of-use assets and lease liabilities for operating leases of approximately \$1,258,000 on January 1, 2019. Operating lease right-of-use assets and liabilities commencing after January 1, 2019 are recognized at commencement date based on the present value of lease payments over the lease term. As of December 31, 2019, total right-of-use assets and operating lease liabilities were approximately \$945,000. Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments. The weighted average discount rate used to determine our lease liabilities was 5.5 percent as of December 31, 2019. The weighted average remaining lease term as of December 31, 2019 was 1.1 years.

Future minimum lease payments are as follows:

Year ended December 31, (in thousands)	
2020	531
2021	310
2022	90
2023	26
2024	6
Total minimum lease payments	\$ 963

The above future minimum lease payments include a total of \$274,000 payable to a related party. See Note 9 for further discussion.

The above future minimum lease payments include \$78,000 for operating leases for our offshore subsidiaries located in Bhopal, India and Mumbai, India. The rental expense for these facilities is classified as Research and Development expense as the facilities are utilized to house the software development and testing activities of our offshore subsidiaries. Lease expense of \$563,000 for the year ended December 31, 2019, consisted of \$230,000 included in Cost of revenue, \$210,000 included in General and Administrative and \$123,000 included in Research and Development. We used \$565,000 in cash from operations for operating leases in 2019.

Rental expense for leased facilities related to domestic operations amounted to \$439,000 and \$382,000 in the years ended December 31, 2019 and 2018, respectively.

Legal Matters

On or about July 9, 2019, a securities class action complaint was filed in the United States District Court for the Eastern District of New York (Case No. 1:19-cv-03949) by Michael Skrzeczkoski, individually and on behalf of all others similarly situated, against the company, and certain current and former directors and officers. The complaint alleges, among other things, that certain of our press releases and SEC filings were misleading as a result of the failure to disclose alleged related party transactions affecting revenue recognition and the absence of disclosure regarding certain allegations against former director Parker H. Petit in connection with his former position with MiMedx, Inc. The complaint seeks to recover attorney's fees and costs and unspecified damages on behalf of purchasers who acquired our stock during the period from January 23, 2019, through May 29, 2019, and purportedly suffered financial harm as a result of the alleged misleading statements. On September 26, 2019, the Court appointed Edgardo Canez as lead plaintiff ("Lead Plaintiff") on behalf of the putative class. On November 18, 2019, Lead Plaintiff, individually and on behalf of a putative class of persons or entities who purchased or otherwise acquired publicly traded company securities from May 23, 2014 through May 29, 2019, filed an amended class action complaint against the company, and certain current and former directors and officers (the "Amended Complaint"). The Amended Complaint alleges similar allegations in violation of Sections 10(b) and 20(a) of the Securities Exchange Act as the previously filed complaint. The Amended Complaint seeks to recover attorney's fees and costs and unspecified damages. On January 2, 2020, Defendants submitted a motion to dismiss and on March 3, 2020, briefing on the motion to dismiss was completed. The motion to dismiss is currently pending. We dispute these claims and intend to defend the matter vigorously. We have not determined the likelihood of loss to be probable nor is any potential loss estimable at this time, therefore we have not recorded any related liability as of December 31, 2019.

On or about February 14, 2020, two purported shareholders, derivatively and on behalf of the Company, filed substantially similar shareholder derivative actions in the Eastern District of New York against certain current and former directors and officers (the "Individual Defendants"), and the Company as a nominal defendant. The complaints assert claims against Messrs. Strange, Moise, Petit, Fuzzell and Chandler for a violation of Section 14(a) of the Securities Exchange Act by issuing purportedly misleading statements in the Company's 2017 and 2018 Proxies, and against the Individual Defendants for breaches of fiduciary duty, waste of corporate assets, and unjust enrichment arising out of, among other things, purportedly undisclosed related party transactions and other relationships as well as certain allegations against former director Parker H. Petit in connection with his former position with MiMedx, Inc and other companies. The relief sought in the

complaints includes changes to the Company's corporate governance procedures, unspecified damages, equitable relief, restitution, and attorney's fees and costs. We have not determined the likelihood of loss to be probable nor is any potential loss estimable at this time, therefore we have not recorded any related liability as of December 31, 2019.

There are no other pending or threatened legal proceedings. However, in the ordinary course of business, from time to time we may be involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon our financial condition and/or results of operations. We accrue for unpaid legal fees for services performed to date.

8. DEFINED CONTRIBUTION PLANS

We maintain a 401(k) defined contribution plan covering all U.S. employees. Our matching contributions, net of forfeitures, under the plan, which are optional and based on the level of individual participant's contributions, amounted to \$41,000 and \$38,000 in 2019 and 2018, respectively.

9. RELATED PARTY TRANSACTION

The lease on our headquarters and primary facility in Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by our Chairman and Chief Executive Officer, J. Leland Strange. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. We paid rent of \$210,000 to ISC Properties, LLC in both years ended December 31, 2019 and 2018. We have determined that ISC Properties, LLC is not a variable interest entity.

10. STOCK OPTION PLANS

We instituted the 2003 Incentive Stock Plan (the "2003 Plan") in March 2003. The 2003 Plan authorized the issuance of up to 450,000 options to purchase shares of common stock to officers and key employees, with vesting of such options occurring equally over a 3-year time period. In 2013, the 2003 Plan expired with 197,500 options ungranted. In the years ended December 31, 2019 and 2018, 25,000 shares and no shares, respectively, were exercised under the 2003 Plan. In June 2015, shareholders approved the 2015 Incentive Stock Plan (the "2015 Plan") which authorizes the issuance of up to 750,000 options to purchase shares of common stock to employees and key consultant and advisors. In 2019, no shares were exercised under the 2015 Plan. In 2018, 20,000 shares were exercised under the 2015 Plan. In 2019, 30,000 shares were granted and in 2018 no shares were granted under the 2015 Plan.

In August 2000, we instituted a Non-Employee Directors' Stock Option Plan (the "Directors Plan") that authorized the issuance of up to 200,000 shares of common stock to non-employee directors. Upon adoption of the Directors Plan, each non-employee director was granted an option to acquire 5,000 shares. At each Annual Meeting, each director receives a grant of 4,000 options, which vest in 50% increments on the first and second anniversary. The Directors Plan expired in 2011, with 60,000 options ungranted. The shareholders approved a new plan, the 2011 Non-Employee Directors Stock Plan (the "2011 Directors Plan"), in May 2011, with essentially the same terms and conditions as the Directors Plan. In the years ended December 31, 2019 and 2018, 12,000 options were granted to non-employee members of our board of directors at the 2019 and 2018 Annual Meetings, respectively, pursuant to the 2011 Directors Plan. Additionally, in 2019 and 2018, 8,000 and 12,000 shares, respectively, were exercised under the Directors Plan. In 2019 and 2018, 74,000 and 8,000 shares, respectively, were exercised under the 2011 Directors Plan.

Stock options under all plans are granted at an exercise price equal to fair value on the date of grant and vest over 2-3 years. As of December 31, 2019, a total of 1,356,500 options under all plans have been granted, 947,320 have been exercised, 282,680 have been cancelled, 84,500 are fully vested and exercisable and 42,000 are not vested. All options expire ten years from their respective dates of grant.

As of December 31, 2019, there was \$414,000 unrecognized compensation cost related to stock options granted under the plans, which is expected to be a recognized over a period of 1.5 years.

Stock option activity during the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Options outstanding at January 1	207,500	243,500
Options cancelled	(16,000)	(8,000)
Options exercised	(107,000)	(40,000)
Options granted	42,000	12,000
Options outstanding at December 31	126,500	207,500
Options available for grant at December 31	763,000	805,000
Options exercisable at December 31	84,500	179,000
Exercise price ranges per share:		
Granted	\$19.99-\$39.11	\$ 7.80
Exercised	\$ 0.69 - \$ 7.80	\$ 0.69 - \$ 3.89
Outstanding	\$ 1.52 - \$ 39.11	\$ 0.69 - \$ 7.80
Weighted average exercise price per share:		
Granted	\$ 25.45	\$ 7.80
Exercised	\$ 1.97	\$ 2.79
Outstanding at December 31	\$ 8.94	\$ 2.33
Exercisable at December 31	\$ 2.21	\$ 1.82

The following tables summarize information about the stock options outstanding under the company's option plans as of December 31, 2019.

Options Outstanding:

Range of Exercise Price	Number Outstanding	Wgt. Avg. Contractual Life Remaining	Wgt. Avg. Exercise Price	Aggregate Intrinsic Value
\$1.52 - \$1.72	67,500	1.5 yrs	\$ 1.59	\$ 2,588,850
\$3.50 - \$39.11	59,000	8.6 yrs	\$ 17.35	\$ 1,332,740
\$1.52 - \$39.11	126,500	4.8 yrs	\$ 8.94	\$ 3,921,590

Options Exercisable:

Range of Exercise Price	Number Exercisable	Wgt. Avg. Contractual Life Remaining	Wgt. Avg. Exercise Price	Aggregate Intrinsic Value
\$1.52 - \$1.72	67,500	1.5 yrs	\$ 1.59	\$ 2,588,850
\$3.50 - \$7.80	17,000	7.5 yrs	\$ 4.70	\$ 599,040
\$1.52 - \$7.80	84,500	2.7 yrs	\$ 2.21	\$ 3,187,890

Aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the company's closing stock price on the last trading day of the year ended December 31, 2019 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2019. The amount of aggregate intrinsic value will change based on the fair value of the company's common stock.

11. FOREIGN OPERATIONS

In 2003, we established a subsidiary of CoreCard Software in Romania for software development and testing activities. In 2006, we established a subsidiary in India for additional software development and testing activities as well as support for processing operations. With the exception of a facility in India which was acquired in 2007 to house our India-based employees and which had a net book value of \$153,000 and \$175,000 at December 31, 2019 and 2018, respectively, substantially all long-lived assets are in the United States.

At December 31, 2019 and 2018, continuing operations of foreign subsidiaries had assets of \$1,226,000 and \$1,094,000, respectively, and total liabilities of \$1,267,000 and \$711,000, respectively. The majority of these assets and liabilities are in India. There are no currency exchange restrictions related to our foreign subsidiaries that would affect our financial position or results of operations. Refer to Note 1 for a discussion regarding how we account for translation of non-U.S. currency amounts.

12. INDUSTRY SEGMENTS

Management considers our subsidiaries, consisting of CoreCard and its affiliate companies, to be one operating segment. Historically, we have described this industry segment as Information Technology Products and Services but as our company and the financial software and services industries have evolved, we now consider the financial transaction solutions and services (“FinTech”) industry segment to be more appropriate.

13. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to Intelligent Systems Corporation (numerator) by the weighted average number of common shares outstanding (denominator) during the period and excludes the dilutive effect of stock options. Diluted earnings per share gives effect to all dilutive potential common shares outstanding during a period. In computing diluted income per share, the average stock price for the period is used in determining the number of shares assumed to be reacquired under the treasury stock method for the hypothetical exercise of stock options.

The following tables represent required disclosure of the reconciliation of the income (loss) and the shares used in the basic and diluted income (loss) per share computation:

Year ended December 31, (in thousands, except per share data)	2019	2018
Basic		
Net income attributable to Intelligent Systems Corporation	\$ 10,969	\$ 6,244
Weighted average common shares outstanding	8,873	8,796
Earnings per share	\$ 1.24	\$ 0.71
Diluted		
Net income attributable to Intelligent Systems Corporation	\$ 10,969	\$ 6,244
Weighted average common shares outstanding	8,873	8,796
Effect of dilutive potential common shares: stock options	95	152
Total	8,968	8,948
Earnings per share	\$1.22	\$ 0.70

At December 31, 2019 and 2018, respectively, there were 95,000 and 152,000 dilutive stock options exercisable.

INVESTOR INFORMATION

Directors and Officers

J. Leland Strange*

Chairman of the Board, President
and Chief Executive Officer

A. Russell Chandler, III * 1 & 2

Retired, Chairman of Whitehall Group, Ltd.

Philip H. Moise* 1 & 2

Former Executive Vice President and General Counsel
Immucor, Inc.

Matthew A. White

Chief Financial Officer and Corporate Secretary

* director

¹ audit committee

² compensation committee

Auditors

Nichols, Cauley & Associates, LLC
Atlanta, Georgia

Legal Counsel

Ledbetter Wanamaker Glass LLP
Atlanta, Georgia

Transfer Agent and Registrar

American Stock Transfer and Trust Company
59 Maiden Lane
Plaza Level
New York, New York 10038
(800) 937-5449
www.amstock.com

Annual Meeting

The Annual Meeting of Shareholders will be held
August 6, 2019 at 4:00 p.m. at our principle executive
offices at 4355 Shackleford Road, Norcross, GA 30093.

Communication from the Company

SEC-filed reports and press releases are posted on the
Company's website at www.intelsys.com.

The Company will mail SEC-filed reports to shareholders
upon request to:

Intelligent Systems Corporation
4355 Shackleford Road
Norcross, Georgia 30093
(770) 381-2900

Intelligent Systems

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