

# **Intelligent Systems**

**LETTER TO SHAREHOLDERS**

**NOTICE OF MEETING AND PROXY STATEMENT  
FOR THE 2017 ANNUAL MEETING OF SHAREHOLDERS**

**2016 ANNUAL REPORT ON FORM 10-K**



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# LETTER TO SHAREHOLDERS

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Fellow Shareholders,

2016 results validate the long-term vision of Intelligent Systems' continued investment in its CoreCard Software operations. Revenue jumped 71% over the prior year and CoreCard was profitable, before accounting for loan interest due to the parent. Intelligent Systems still reported a loss since the CoreCard profit did not cover the expenses at the parent, which included a loss on an investment that did not pan out.

While happy with the CoreCard growth, and happy with their profit, I am not going to pretend that our plan has played out as originally envisioned – it has taken many more years and many more dollars than we expected when we began the process. Each year we take a look, scratch our heads a little and ask, “Are we doing the right thing by continuing to invest”? Frankly, when we answered the question positively again this year, I am more comfortable with the probability that ‘yes’ is the right answer.

We have some great customers (easily recognizable names but contracts prohibit public disclosure) utilizing our latest generation transaction processing software. Our financial technology leadership team and many of our dedicated employees in the United States, Romania, and India have been with the company for more than 10 years, developing a world class financial transaction processing platform.

Initially CoreCard planned to primarily license its technology but, over time, recognized the potential to use the technology itself to offer processing services. That effort continues to grow and while we are not doing heavy marketing or sales, prospects for whom we are the best fit continue to find us. Building out the required infrastructure takes time and the process is not always (our team would say seldom!) in our control. We need to work with each of the payment associations (Visa, MasterCard, Discover, Pulse, and others) to get approved, have our software certified, and then get their equipment connected in our data center and certified. Bringing on a new, smaller processor such as CoreCard is not a high priority or frequent event for these complex, global associations so from initial conversations to the final completion with live customers can be a multi-year process.

Growth in the processing segment is also heavily dependent on bank partnerships and cooperation. Every association ‘card’ (think MasterCard, Visa ...) has to be issued by a bank. The bank is ultimately responsible for all aspects of the card, including fraud, so it is reasonable that a bank would proceed cautiously in forming new partnerships.

Currently, all of our processing and licensing customers are using association cards that are known in the industry as “prepaid”. They may actually be gift, payroll, or other types of prepaid, but they are NOT credit cards. In the next year, we hope to also get CoreCard certified as a “credit card” processor. We expect some of our licensees to also adopt the credit branch of our technology platform.

A large part of our business is ‘outside’ of association cards. We have both licensed and processing customers who use our technology for different variations of accounts receivables. Typically this is for loans (all types including those offered by some of the newer and well known FinTech companies) and ‘closed loop’ or ‘private label’ store cards (think of jewelry store purchases on a retailer’s own card).

By explaining a little more of the business, I hope you will have a better understanding of the complexity of the technology that we have developed and also appreciate why CoreCard has to grow brick by brick, instead of by giant leaps. I'm fairly confident about where we are and what we have. It is broad in scope and able to be used internationally. There are not many companies in the FinTech industry that have the full complement and range of products that CoreCard has developed. Those that do are mostly large enterprises that have been around for many years.

What does this mean for the immediate future? While we want to keep pushing forward on our present trajectory, I am cognizant that we work for all the shareholders and will pursue any opportunity that we believe is best for our shareholders. If we should receive a good (for shareholders) offer to exit, then we would be open to that discussion. On the other hand, if we see an opportunity to either purchase, invest, or merge with another enterprise that is synergistic, we would pursue that path. Perhaps I should summarize this paragraph by saying we are unapologetically opportunistic on behalf of our shareholders.

In the meantime, every day we will keep trying to increase the real (whether recognized or not) underlying values of the assets we hold.

A handwritten signature in black ink, appearing to read "J. Lehal Strang". The signature is fluid and cursive, with a long horizontal stroke at the end.

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, May 25, 2017 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 2020 Annual Meeting;
2. Approval, by a non-binding, advisory vote, of the compensation of our named executive officers; and
3. Other matters that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on April 7, 2017 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 2016 Annual Report to Shareholders is enclosed in the same document as the Proxy Statement.

By order of the Board of Directors,

  
KAREN J. REYNOLDS  
Secretary

April 14, 2017

**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 MAY 25, 2017**

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 2017 Annual Meeting of Shareholders (the “Annual Meeting”) of Intelligent Systems Corporation and any adjournment thereof. The Annual Meeting will be held on May 25, 2017 at our principal executive offices located at 4355 Shackleford 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 April 14, 2017.

**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 April 7, 2017. On that date, we had outstanding and entitled to vote 8,743,299 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 a voting instruction card 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 card 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 Shackleford Road, Norcross, Georgia 30093, for shareholders of record, 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 March 1, 2017, and the ownership of our common stock as of that date by each director, each executive officer named in the Summary Compensation Table and by all directors 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 <sup>a, f</sup>	Percent of Class <sup>a</sup>
J. Leland Strange <sup>b</sup> <i>Chairman of the Board, President, CEO</i>	4355 Shackleford Road Norcross, GA 30093	2,065,300	23.4%
Wallace R. Weitz & Company <sup>c</sup>	1125 South 103rd St. Suite 200 Omaha, NE 68124	2,270,000	26.0%
Clifford N. Burnstein <sup>d</sup>	729 7 <sup>th</sup> Avenue New York, NY 10019	835,445	9.6%
James C. Kieffer <sup>e</sup>	Five Concourse Pkwy Suite 2200 Atlanta, GA 30328	743,720	8.5%
Cherie M. Fuzzell, <i>Director</i>		15,000	*
Philip H. Moise, <i>Director</i>		11,000	*
Parker H. Petit, <i>Director</i>		81,315	*
Bonnie L. Herron <i>Former Chief Financial Officer and Corporate Secretary</i>		151,830	1.7%
Karen J. Reynolds <i>Chief Financial Officer and Corporate Secretary</i>		--	*
All Directors and Named Executive Officers as a Group (6 persons)		2,325,445	26.0%

- Except as otherwise noted, beneficial ownership is determined on the basis of 8,743,299 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.
- Includes 293,906 shares owned by Jane H. Strange, Mr. Strange's wife. Mr. Strange disclaims any beneficial interest in the shares.
- Based on information set forth in a Schedule 13G filed on January 23, 2017, 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 2,270,000 shares of common stock, of which Wallace R. Weitz and Company has the sole power to vote and to dispose.
- 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.
- Based on information set forth in a Schedule 13G filed on February 2, 2016, in which James C. Kieffer, an individual, reported beneficial ownership of 743,720 shares of common stock, of which James C. Kieffer has the sole power to vote and to dispose.
- Includes 187,500 shares reserved for issuance to officers and directors pursuant to stock options that were exercisable at March 15, 2017 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. Petit include 34,000 shares for shares underlying stock options exercisable at March 15, 2017 or within sixty days of such date. The amounts reported above for Mr. Strange include 67,500 shares, for shares underlying stock options exercisable at March 15, 2017 or within sixty days of such date. The amount reported for Ms. Fuzzell includes 15,000 shares for shares underlying stock options exercisable at March 15, 2017 or within sixty days of such date and the amount reported for Mr. Moise includes 11,000 shares for shares underlying stock options exercisable at March 15, 2017, or within sixty days of such date. The amount reported above for Ms. Herron includes 60,000 shares for shares underlying stock options exercisable at March 15, 2017 or within sixty days of such date.



## 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 2020 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 nominees.

If a 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 directors 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 March 1, 2017.

### 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
<b><i>Nominees for election to serve until the 2020 Annual Meeting</i></b>		
Cherie M. Fuzzell <sup>1&amp;2</sup>	53	Nominee, Director, Senior Director, Global Alliances for Apple, Inc.
Parker H. Petit <sup>1&amp;2</sup>	77	Nominee, Director, CEO of MiMedx Group and President of The Petit Group
<b><i>Incumbent director elected to serve until the 2019 Annual Meeting</i></b>		
Philip H. Moise <sup>1&amp;2</sup>	67	Director, Retired Executive Vice President and General Counsel of Immucor, Inc.
<b><i>Incumbent director elected to serve until the 2018 Annual Meeting</i></b>		
J. Leland Strange	75	Director, Chairman of the Board, President and Chief Executive Officer

1. Audit Committee
2. Compensation Committee

*Cherie M. Fuzzell* has served as a director since 2012 and is being nominated for re-election to the Board for a three year term ending 2020. Ms. Fuzzell is Senior Director, Global Alliances for Apple, Inc., a global provider of personal technology devices. She served as Chief Executive Officer of Parkmobile USA, Inc., a provider of mobile payment solutions to municipalities and parking providers around the world from 2013 to July 2015. From 2008 to October 2012, Ms. Fuzzell was President and Chief Executive Officer of FirstView, LLC, a vertically integrated processor and program manager providing turnkey prepaid debit card solutions for multiple industries and applications. Prior to 2008, she was an independent industry consultant and from 1999 to 2005 served as Chief Administrative Officer and General Counsel of Nova Information Systems, Inc., an international payments processing company (now operating as Elavon, part of U.S. Bancorp). Other experience includes serving on the board of directors and compensation committee of Otix Global, Inc. [formerly NASDAQ: OTX], a manufacturer of hearing aids, prior to its acquisition in December 2010. The Board considered Ms. Fuzzell's extensive experience in and knowledge of the financial payments industry; her operational and strategic insight; her board and executive service with large and publicly traded companies; her familiarity with the company's CoreCard subsidiary business, products and services; and her educational background in accounting and law in determining that she should serve as a director of the company. The Board has determined that Ms. Fuzzell qualifies as an independent director under the applicable rules of NYSE MKT.

*Phillip 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 MKT.

*Parker (Pete) H. Petit* has served as a director since 1996 and is being nominated for re-election to the Board for a three year term ending in 2020. Mr. Petit is the Chairman, President and CEO of MiMedx Group, Inc., an integrated developer, manufacturer and marketer of bio-material based products. Mr. Petit is also the President of The Petit Group, a private investment company. Mr. Petit served as Chairman of the Board and Chief Executive Officer of Matria Healthcare, Inc., a comprehensive disease management services company from 1996 to 2008. The Board considered Mr. Petit's extensive experience as a successful entrepreneur and as an executive and member of the board of directors of several publicly traded technology and healthcare companies, as well as his familiarity with the company since 1996 in determining that he should serve as a director of the company. The Board has determined that Mr. Petit is an independent director under the applicable rules of NYSE MKT.

*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. There are no proceedings to which any director, officer, affiliate, any owner of record or beneficially of more than 5 percent of our common stock, or any security holder of the company is an adverse party to the company or has a material interest adverse to the company.

Three 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 MKT and the rules of the SEC. The Audit Committee meets the composition requirements of NYSE MKT's listing standards for Small Business Issuers (as defined by the rules of NYSE MKT).

### **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 (assuming the re-election of the nominees), 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 five times during the year ended December 31, 2016 and acted by unanimous consent on four occasions. 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 during 2016. During 2016, the Audit Committee consisted of Ms. Fuzzell (chair) and Messrs. Petit and Moise. In 2016, the Audit Committee appointed the company's independent auditor to review its report on the 2015 audit and the 2016 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 MKT. The Board has determined that Mr. Petit is a financial expert as defined by the rules of the SEC, and is financially sophisticated as defined in the listing standards of NYSE MKT. The Board based this determination, in part, on Mr. Petit's experience in actively supervising senior financial and accounting personnel and in overseeing the preparation of financial statements as the chief executive officer and chairman of publicly-traded companies.

The Board has a Compensation Committee consisting of three independent directors, Messrs. Moise and Petit and Ms. Fuzzell. The Compensation Committee met twice in 2016 and acted by unanimous consent one time. 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.

In 2016, each director attended all meetings of the Board and Committee meetings on which he or she served, with the exception of Mr. Petit, who attended 40% of the Board and 25% of the Committee meetings, due to unavoidable scheduling conflicts.

The company does not currently have a standing nominating committee. Please see "Nominations Process" below 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 as of March 1, 2017.

<b>Name</b>	<b>Age</b>	<b>Position / Principal Occupation</b>
Karen J. Reynolds	60	Chief Financial Officer and Secretary

Karen J. Reynolds was elected to succeed Bonnie L. Herron as Chief Financial Officer and Corporate Secretary as of June 22, 2016. Ms. Reynolds has served as CFO of CoreCard Software, Inc., the company's principal operating business, since September 2015. Prior to joining CoreCard, she was President and CFO of zBoost, LLC, a privately held technology company, from 2008 until 2015, and has held senior management roles at a number of other technology and services companies over her 35+ year career.

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 <sup>3</sup> \$	Other Annual Compensation \$	Total \$
J. Leland Strange	2016	300,000		--	3,975	303,975
<i>President &amp; Chief Executive Officer</i>	2015	311,538	200,000	--	3,975	515,513
Bonnie L. Herron <sup>1</sup>	2016	175,000	--	--	2,625	177,625
<i>Former Vice President, Chief Financial Officer &amp; Secretary</i>	2015	181,731	95,000	--	2,726	279,457
Karen J. Reynolds <sup>2</sup>	2016	177,231	--	81,300	2,659	261,190
<i>Chief Financial Officer &amp; Secretary</i>						

1. Ms. Herron resigned as an executive officer on June 22, 2016, but has remained as an employee to assist in the transition of responsibilities to Ms. Reynolds.
2. Ms. Reynolds was appointed CFO and Secretary on June 22, 2016. She also served as CFO of a subsidiary company for the full year of 2016.
3. The amount reported is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions related to the valuation calculation are disclosed in Note 1 to the company's Consolidated Financial Statements for the year ended December 31, 2016.

The table above sets forth information regarding compensation awarded to, earned by or paid to the company's CEO and the company's two most highly compensated persons 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 and, to a lesser extent the other Named Executive Officers, the Compensation Committee believes that a straight-forward compensation plan that is economical to administer and that consists of a reasonable base salary and option grants, as well as an occasional bonus, 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. In 2015, officers received bonuses related to their contribution to the successful sale of our former ChemFree subsidiary. No options were re-priced in the two year period ended December 31, 2016. 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.

### Grants of Plan-Based Awards

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options #	Exercise or Base Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards \$
Karen J. Reynolds	08/04/2016	30,000	3.89	81,300

## Outstanding Equity Awards at Fiscal Year End

### Option Awards

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date
J. Leland Strange	22,500 <sup>1</sup> 45,000 <sup>2</sup>	0 0	\$1.72 \$1.52	03/01/2021 08/01/2021
Bonnie L. Herron <sup>4</sup>	32,500 <sup>1</sup> 27,500 <sup>2</sup>	0 0	\$1.72 \$1.52	03/01/2021 08/01/2021
Karen J. Reynolds	0	30,000 <sup>3</sup>	\$3.89	08/03/2026

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 August 4, 2016 and vest in one third increments on the first, second and third anniversaries of the grant date.
4. Ms. Herron resigned as an executive officer on June 22, 2016.

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, 2016 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 <sup>1</sup>	264,500	\$ 1.99	834,000
Equity compensation plans not approved by security holders <sup>2</sup>	40,000	\$ 2.52	0
<b>Total</b>	<b>304,500</b>	<b>\$ 2.06</b>	<b>834,000</b>

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, 2016. The company 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.

### Director Compensation

Name	Fees Earned or Paid in Cash \$	Option Awards <sup>1</sup> \$	Total \$
Cherie M. Fuzzell	16,000	9,760	25,760
Philip H. Moise	16,000	9,760	25,760
Parker H. Petit	10,000	9,760	19,760

1. Each current director was 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 December 31, 2016, Mr. Petit has an aggregate of 40,000 stock options outstanding, of which 34,000 are fully vested and exercisable; Ms. Fuzzell has a total of 21,000 options, of which 15,000 are exercisable; and Mr. Moise has a total of 17,000 options, 11,000 of which are exercisable.

All non-employee directors have the same compensation plan. Non-employee directors earn \$8,000 per year plus a fee of \$2,000 per meeting of the Board of Directors. There is no additional compensation for serving on a committee of the Board of Directors. Total cash compensation for annual board service is capped at \$16,000 annually. Effective January 1, 1992, the company adopted the Outside Directors' Retirement Plan which provided for each non-employee director, upon resignation from the Board after reaching the age of 65, to receive a lump sum cash payment equal to \$5,000 for each full year of service as a director of the company (and its predecessors and successors) up to \$50,000. Effective March 1, 2011, the company terminated the Outside Directors' Retirement Plan and provided that the outside directors then serving would receive the retirement benefits to which they were entitled under the plan before it was terminated. At December 31, 2016 and 2015, we have accrued \$50,000 and \$59,000 respectively for future payments under the Outside Directors' Retirement Plan. 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 are 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 2016, three directors received a grant of 4,000 options each on May 26, 2016, the date of the Annual Meeting of Shareholders.

## 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 2016 and through March 15, 2017, 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, 2016 and 2015 and for the years then ended;
- discussed with the independent auditors their reviews of the quarterly unaudited financial statements of the company for fiscal 2016;
- discussed with the independent auditors the matters required to be discussed by PCAOB standards (SAS No.'s 61, 89 and 90); 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, 2016 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE  
Cherie M. Fuzzell (Chair)  
Philip H. Moise  
Parker H. Petit

### ***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 low turnover of the current Board, there would be limited benefit to the company or its shareholders to do so. Currently, Cherie M. Fuzzell, Parker H. Petit and Philip H. Moise, all of whom meet the applicable NYSE 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 2017 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 2018 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 14 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. One of the company's directors attended the 2016 Annual Meeting of Shareholders. The Board will continue to monitor shareholder interest and attendance at future meetings and reevaluate this policy as appropriate.

### **PROPOSAL 2 – 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 2017 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 and long-tenure 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 option grants, as well as an occasional bonus, 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 2 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](http://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, and regulations of the Securities and Exchange Commission thereunder require our executive officers and directors and persons who own more than ten percent of our common stock, as well as certain affiliates of these persons, to file initial reports of ownership of our common stock and changes in such ownership with the Securities and Exchange Commission. The Securities and Exchange Commission also requires executive officers, directors and persons owning more than ten percent of our common stock to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, we believe that, during the fiscal year ended December 31, 2016, the executive officers, directors, and persons owning more than ten percent of our common stock and affiliates of these persons have complied with all applicable filing requirements in a timely manner.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

Habif, Arogeti, & Wynne, LLP (“HAW”) acted as our independent registered public accounting firm for the quarterly reviews in the nine month period ended September 30, 2015. On November 2, 2015, HAW informed the company that HAW declined to stand for re-election as the company’s independent accountant. HAW informed the company that the firm had determined not to do public company audits effective immediately as it is not in its best interest given the high cost of compliance and the fact that the number of HAW’s public audit clients had been declining in recent years. The company was its only remaining public audit client.

During the period January 1, 2015 through November 2, 2015, the date of notice to the company, there were no disagreements with HAW on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of HAW, would have caused it to make reference to such disagreements in its reports. During the period January 1, 2015 through November 1, 2015, there were no “reportable events” as defined in Item 304(a)(1)(v) of SEC Regulation S-K.

Nichols, Cauley & Associates, LLC (“Nichols Cauley”) was appointed as our independent public accounting firm on December 3, 2015, and performed the audits for the years ended December 31, 2015 and 2016. 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 not yet selected auditors for the audit for the fiscal year 2017 because historically this decision is made in the second half of the year. The following is a summary of fees and expenses billed to the company by HAW and Nichols Cauley for services during 2015 and 2016:

**Audit Fees** - We were billed aggregate fees of \$141,000 for review and audit services by HAW in the year ended December 31, 2015. We were billed aggregate fees of \$95,000 for review and audit services by Nichols Cauley in the year ended December 31, 2016.

**Audit-Related Fees** - These fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our Financial Statements and are not reported under “Audit Fees”. We were billed \$10,000 and \$6,000 for such services by HAW in the years ended December 31, 2015 and 2016, respectively.

**Fees for Tax Services** - We were billed \$10,000 for tax services by HAW during the year ended December 31, 2015.

**All Other Fees** - We were billed fees of \$36,000 in other fees by HAW in the year ended December 31, 2015 and fees of \$28,000 in other fees by Nichols Cauley in the year ended December 31, 2016. Such fees were for services provided to a subsidiary of the company related to SSAE-16 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, 2016.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The lease on our headquarters and primary facility at 4355 Shackleford 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 the years ended December 31, 2016 and 2015, we paid \$210,000 and \$275,000, respectively, in rent to ISC Properties, LLC, which the company believes to be market rate.

#### **SHAREHOLDERS' PROPOSALS FOR THE ANNUAL MEETING IN 2018**

Shareholders who wish to submit a proposal for inclusion in our proxy statement for the 2018 Annual Meeting of Shareholders must submit such proposals so that they are received by the company no later than December 16, 2017. 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 2018 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, 2017. 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, 2017.

#### **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 April 7, 2017 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, 2016, 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](http://www.intelsys.com). Any request for the Form 10-K should be in writing addressed to: Karen J. Reynolds, 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>



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, 2016

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>Name of each exchange on which registered</u>
<b>Common Stock, \$.01 par value</b>	<b>NYSE MKT</b>

**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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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, 2016 was \$16,127,517 (computed using the closing price of the common stock on June 30, 2016 as reported by the NYSE MKT).

As of February 28, 2017, 8,743,299 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 25, 2017 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 "anticipate", "believe", "plan", "estimate", "expect", "likely" and "intend", and other similar expressions constitute forward-looking statements. Prospective investors 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](http://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.

On March 31, 2015, we sold our largest operating subsidiary, ChemFree Corporation to CRC Industries, Inc., a Pennsylvania corporation ("CRC"). ChemFree manufactures and markets a line of parts washers under the SmartWasher® trademark. Accordingly, we have classified the ChemFree operations as discontinued operations in all periods presented.

Following the sale of ChemFree, 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 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. Effective January 1, 2017, we increased our ownership in CoreCard from approximately 96 percent to 100 percent. 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. Our wholly owned subsidiaries, CoreCard SRL and ISC Software in Romania and India, respectively, perform software development and testing for CoreCard but do not sell products or services 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 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 small loan transactions. CoreCard also uses the same software solutions in its processing operations for companies that prefer to outsource this function to CoreCard rather than license the software for in-house operations.

The CoreCard® software solutions allow companies to offer various types of debit and credit cards as well as 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/Debit 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 revolving accounts receivable.
- Prepaid 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, and transit cards.

The CoreCard® software solutions allow financial institutions and commercial customers to optimize their card account management systems, improve customer retention, lower operating costs and create greater market differentiation. For example, the CoreCard® solutions are feature-rich, browser-based 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 a lower overall cost-of-ownership and scalability by adding additional servers as their 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, 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 - Typically 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.
- Processing Services - CoreCard has expanded the ways customers can access or deploy its software by offering 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 both prepaid cards and credit financing for a number of customers and anticipates steadily growing this business further in 2017 as it adds new processing customers. CoreCard has a data processing center and disaster recovery site at secure third party locations, is certified as compliant with the Payment Card Industry (PCI) Data Security Standards and has an SSAE-16 SOC 1 independent audit report that can be relied on by its prepaid and credit processing customers. It has obtained certification from the Discover, MasterCard, Star and Pulse networks and expects to complete direct connections and certification by other major network associations in 2017.

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

In 2015, CoreCard added Program Manager capabilities in addition to processing services, which will allow us to gain experience and increase revenue potential, although we do not expect any significant revenue impact near term.

CoreCard's principal target markets include accounts receivable businesses, prepaid card issuers, retail and private-label issuers, small third-party processors, and small and mid-size financial institutions in the United States. It is adding 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 also competes to some extent with larger and more established software suppliers, and a number of software solution providers that offer more limited functional modules. Some 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 a robust technology platform, lower



overall cost-of-ownership, greater system flexibility, and more customer-driven marketing options. Furthermore, we believe our processing option is an attractive alternative particularly for small, prepaid and credit issuers or companies entering new credit or prepaid markets that may not have the technology expertise to run the software in-house initially. Under our processing 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™, CoreSALES™, 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 sold 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 and the number of software modules licensed with initial contract revenue typically ranging from \$200,000 to \$1 million. We also derive service revenue from implementation, customization, and annual maintenance and support contracts for our licensed software. In addition to licensing our software, we offer processing services (running on the CoreCard software platform). Processing customers pay an implementation and setup fee plus monthly service fees under a contract with a term of 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 is responsible for providing compliance-related services, including data and network security, customer identification screening and regular reporting which enable its customers to be in compliance with all applicable governmental regulations including but not limited to the Bank Secrecy Act and Anti-Money Laundering regulations. Depending on the extent of changes and new governmental regulations, CoreCard may from time to time incur additional costs to modify its software and services to be compliant. CoreCard has no costs related to compliance with environmental laws.

We believe that uncertainty and turmoil in the financial services sector as well as the increased regulatory and compliance requirements have had a negative impact on buying decisions for potential customers in recent years. The situation has impacted and may continue to impact the willingness and ability of banks and network associations (such as MasterCard or Visa) to approve new customer programs which could impact demand for our product and service offerings.

Our business is not seasonal.

## **Incubator Program**

For more than twenty-five years, we have been associated with an incubator program (the Gwinnett Innovation Park) at our corporate facility in Norcross, a suburb of Atlanta, Georgia. In exchange for a monthly facility fee, incubator companies have access to office space, conference facilities, telecommunication and network infrastructure, business advice, and a network of peers. We view this program as a way to stay abreast of new business opportunities and trends which may benefit our company while simultaneously contributing to our local community in a positive way by supporting entrepreneurship and start-ups, with minimal financial outlay or management time.

## **Non-consolidated Companies**

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 believe 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 4 to our Consolidated Financial Statements for more information related to a sale and a write-down of two of our non-consolidated companies.

## **Research and Development**

We spent \$2.7 million and \$2.9 million in the years ended December 31, 2016 and 2015, 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 approximately 260 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, 2017, we had 286 full-time equivalent employees (including our subsidiaries in the United States and foreign countries). Of these, 280 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 14 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 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 April 15, 2015 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 and we lease approximately 2,000 square feet of additional office space in an adjacent facility in Bhopal, India. We believe our facilities are adequate for the foreseeable future.

### ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

### 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 MKT ("NYSE") under the symbol INS. The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock as reported by the NYSE.

Year Ended December 31,	2016		2015	
	High	Low	High	Low
1st Quarter	\$ 3.60	\$ 2.75	\$ 2.98	\$ 1.58
2nd Quarter	3.88	3.25	3.34	2.64
3rd Quarter	4.05	3.50	3.09	2.44
4th Quarter	4.47	3.53	3.49	2.72

We had 219 shareholders of record as of February 15, 2017. 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. On February 8, 2016, we paid a special cash dividend of \$0.35 per share totaling \$3,056,000 to shareholders. 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 the fourth quarter of 2016.

## 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, 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 (typically three months),
- 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.

We review each contract to determine if multiple elements exist. As such, only arrangements under the initial contract described above contain multiple elements. Our revenue recognition policies for each of the situations described above are discussed below.

Presently, our initial software contracts do not meet the criteria for separate accounting because the software usually requires significant modification or customization that is essential to its functionality. At present, we use the completed contract method to account for our contracts as we do not have an adequate basis on which to prepare reliable estimates of percentage-of-completion for these contracts. Moreover, there are inherent hazards with software implementations, such as changes in customer requirements or software defects, that make estimates unreliable.

Accordingly, software revenue related to the license and the specified service elements (except for PCS) in the initial contract are recognized at the completion of the contract, when (i) there are no material uncertainties regarding customer acceptance, (ii) cancellation provisions, if any, have expired and (iii) there are no significant obligations remaining. We account for the PCS element contained in the initial contract based on vendor-specific objective evidence of fair value, which are annual renewal fees for such services, and PCS is recognized ratably on a straight-line basis over the period specified in the contract. 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.

Purchases of additional licenses for tier upgrades or additional modules are 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.

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 product revenue since there is no Vendor Specific Objective Evidence (VSOE) for the maintenance and support services.

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.

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 believe an investment has experienced a decline in value that is other than temporary. We do not write-up the carrying value of our investments based on favorable changes or financial transactions. 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 first quarter of 2016, we recorded an impairment charge of \$700,000 to reduce the carrying value of Lumense, Inc. to management’s estimate of net realizable value. Subsequently, in the second quarter of 2016, we recorded an additional impairment charge of \$50,000 to fully write-down our minority equity ownership in Lumense, Inc. In the fourth quarter of 2015, we recorded an impairment charge of \$792,000 to reduce the carrying value of NKD Enterprises to management’s estimate of net realizable value. During the same quarter, we recorded a gain on investment of \$2.0 million when Lancop, Inc., an investee company, was sold to Cisco, Inc. Such gains or write-downs can have material impacts on our financial condition or results of operations and are generally not predictable in advance.

## Executive Summary

The results reported reflect the effect of the sale of ChemFree subsidiary on March 31, 2015, as explained in more detail in Note 2 to the Consolidated Financial Statements. As such, we have classified the ChemFree operations as discontinued operations in all periods presented. Our consolidated continuing 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 small 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.

We have frequently recognized consolidated operating losses on a quarterly and annual basis and are likely to do so in the foreseeable future. We may report operating profits on an irregular basis and our results vary in part depending on the size and number of software licenses recognized in a particular period and the level of expenses incurred to support existing customers and development and sales activities. As an example, for the quarter ended September 30, 2016, we reported consolidated operating income in part due to significant revenue associated with the initial implementation of a key global license customer, targeting the Asia Pacific market. A

significant portion of our expense is related to personnel, including approximately 260 employees located in India and Romania. In addition, we offer processing services as an alternative for customers who prefer to outsource this function instead of licensing our software and running the application in-house. We may continue to incur losses in the near future because revenue for processing services is spread out over multi-year contracts while we are currently investing in the infrastructure, resources, processes and software features to support this developing business. In addition, we have certain corporate office expenses associated with being a public company that impact our operating results, even though our main operating entity, CoreCard, is profitable from operations for the twelve months ended December 31, 2016 and is likely to operate at or near breakeven in the future.

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 or annual 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.

The sale of the ChemFree operations in 2015 resulted in significant cash balances. We used \$692,000 to repurchase shares of our common stock pursuant to a modified “Dutch” auction tender in 2015 and \$3,056,000 to pay a special cash dividend of \$0.35 per share to shareholders on February 8, 2016. 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.

## 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 from continuing operations in 2016 was \$8,178,000 which represents a 71 percent increase over 2015. We experienced revenue growth on both the products and services sides of the business. Since a significant component of the year-to-year increase in product and service revenue was related to a single new customer that went live in 2016, it is unlikely that we will experience the same year-over-year revenue growth in 2017.

- Revenue from products, which includes software license fees (and, in some cases monthly support fees when the license and support fees are bundled) was \$1,137,000 in 2016, an 85% increase over the \$614,000 reported in 2015. The increase reflects growth in the number of accounts covered by certain software licenses as well as revenue associated with the initial implementation of a key global license customer whose software license was implemented in the quarter ended September 30, 2016.
- Revenue from services was \$7,041,000 in 2016, which represents a 69 percent increase over the \$4,168,000 reported in 2015. Revenue from transaction processing services, maintenance technical and software support services, and professional services were all higher in 2016 as compared to 2015. 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 software customizations for our license customer base. Professional services generated more revenue due to an increase in the number and value of professional services contracts completed during the reporting periods in 2016 which was, in large part, a direct reflection of the customizations provided to the global software license customer implemented in the quarter ended September 30, 2016. We expect that processing services will continue to grow as our customer base increases; however, the time required to implement new customer programs has proven longer than anticipated due to delays in third party integration and approval processes. It is not possible to predict with any accuracy 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 49 percent of total revenue for the twelve months ended December 31, 2016, compared to 53 percent for the twelve months ended December 31, 2015.

- Cost of product revenue was \$626,000 or 55 percent as a percent of product revenue in 2016 compared to \$219,000 or 36 percent as a percent of product revenue in 2015. The initial implementation of a new license customer tends to skew the cost of product revenue percentage upwards as we deploy extra resources to support the implementation phase. The increase in cost of product revenue percentage in 2016 is indicative of the initial implementation of a new global license customer.
- Cost of service revenue in 2016 was \$3,352,000 or as a percentage of total service revenue 48 percent compared to \$2,331,000 or as a percentage of total service revenue 56 percent in 2015. Cost of service revenue includes three components: 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 services 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 2016, our cost of service revenue was more heavily weighted towards our professional services component which, historically, has utilized relatively more offshore employees at a lower cost. As a result, our cost of service revenue percentage in 2016 is below the 2015 percentage. In addition, we continue to devote the resources necessary to support our developing processing business, including direct costs for regulatory compliance, infrastructure, network certifications, and customer support. We are beginning to experience economies of scale in our processing environment, as indicated by the lower cost of revenue percentages year over year. However, 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 month period ended December 31, 2016, total operating expenses from continuing operations were lower than in the corresponding period in 2015. General and administrative expenses were lower in 2016 than in 2015, due to bonuses paid in 2015 related to the sale of the ChemFree subsidiary in 2015 and transaction expenses for the tender offer in 2015. In addition, the decrease in G&A in 2016 reflects lower personnel-related expense at the corporate offices in 2016. Research and development expenses were 5 percent lower in 2016 as compared to 2015, mainly due to more technical personnel expenses being charged to direct cost of services for maintenance, professional services and processing. Marketing expenses remained relatively immaterial as a percentage of total operating expenses, 7 percent in 2016 and 5 percent in 2015, however have increased 45 percent year over year as we have added new marketing initiatives for CoreCard in 2016. We anticipate increasing marketing expenditures in the future as we are better positioned to support the processing business.

**Investment Income (Loss)** – In 2016, we recorded an investment loss of \$713,000. The loss is primarily attributable to the write-down of \$750,000 on an investment, as described in more detail in Note 4 to the Consolidated Financial Statements, offset in part by a gain of \$37,000 on a final payment after the escrow period on a prior minority investment sale. In 2015, we recorded \$1,247,000 of investment income, which was comprised primarily of \$2,034,000 on the sale of our minority interest in Lancope, Inc. in the fourth quarter of 2015 offset in part by an impairment charge of \$792,000 in the fourth quarter of 2015 to write down the carrying value of another investee company, NKD Enterprises, to our estimate of net realizable value.

**Other Income** – Other income remained relatively consistent year over year at \$148,000 in 2016 and \$109,000 in 2015. This primarily reflects income earned on our cash balances in both years.

**Gain on Sale of Discontinued Operations** – As explained in more detail in Note 2 to the Consolidated Financial Statements, we recorded a gain of \$18,802,000 on the sale of our ChemFree subsidiary in 2015.

### **Liquidity and Capital Resources**

Our cash balance at December 31, 2016 was \$17,724,000 compared to \$18,059,000 at December 31, 2015. The principal use of cash during the period was the payment of a special cash dividend on February 8, 2016 of \$0.35 per share totaling \$3,056,000 to our shareholders of record as of January 29, 2016. In 2016, a principal source of cash was \$2,248,000 from the sale of one of our investee

companies, Lancope, Inc., to Cisco, Inc., on December 23, 2015. We recognized a gain of \$2,034,000 against our carrying value of \$214,000 in the fourth quarter of 2015. Cash from the sale was received in early January 2016. In addition, the remaining cash held in escrow of \$2,202,000, including interest, from the sale of our ChemFree subsidiary was released in the fourth quarter of 2016.

During the twelve months ended December 31, 2016, continuing operations used \$1,257,000 cash for operations of the FinTech business and corporate office. The most significant working capital changes since December 31, 2015 include an increase in other current assets of \$562,000 of which \$528,000 relates to an increase in work-in-process for in-process contracts, and accounts receivable increased \$367,000 due to higher billings in 2016. In addition, total deferred revenue decreased by \$466,000 as we were able to recognize for GAAP reporting, prior period milestone billings for in-process contracts and deposits for professional services when the projects were completed in 2016.

We used \$313,000 cash to acquire computer equipment for our processing data centers and to upgrade office equipment for technical resources. In addition, we used \$50,000 cash to increase our investment in a prior investee, a privately-held technology company.

In the twelve months ended December 31, 2016, discontinued operations used \$120,000 cash, to pay a tax liability related to the sale of ChemFree as further explained in Note 2 to the Consolidated Financial Statements.

We previously had a line of credit with a maximum principal availability of \$1,250,000 based on qualified receivables; however, we have not borrowed under the bank line of credit in the past five years and do not expect to need to do so in the foreseeable future. As a result, when the line of credit expired on June 30, 2016, we decided not to renew the bank line for an additional period.

Subsequent to the 2016 year-end, on January 4, 2017 we funded our investment of \$1,000,000 in a privately held technology company as explained in Note 4 to the Consolidated Financial Statements.

Although we paid a special cash dividend to shareholders in 2016, 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, although there can be no assurance that appropriate opportunities will arise.

### **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.
- As an alternative to licensing our software, we offer processing services running on the CoreCard software system. There are numerous risks associated with growing a new line of business and if we fail to manage the risks associated with processing operations, it could have a negative impact on our business.
- Increased federal and state regulations and reluctance by financial institutions to act as sponsor banks for prospective customers could increase our losses and cash requirements.
- 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 its 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 (or increased losses) 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 possibly our losses.
- 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 increased 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.
- Other general economic and political conditions could cause customers to delay or cancel purchases.

**Recent Accounting Pronouncements** – In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842) related to the accounting for leases. This pronouncement requires lessees to record most leases on their balance sheet, while expense recognition on the income statement remains similar to current lease accounting guidance. The guidance also eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. Under the new guidance, lease classification as either a finance lease or an operating lease will determine how lease-related revenue and expense are recognized. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the effect on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-08 – Revenue from Contracts with Customers (Topic 606) related to reporting revenue gross versus net, or principal versus agent considerations. This pronouncement is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers, as it pertains to principal versus agent considerations. Specifically, the guidance addresses how entities should identify goods and services being provided to a customer, the unit of account for a principal versus agent assessment, how to evaluate whether a good or service is controlled before being transferred to a customer, and how to assess whether an entity controls services performed by another party. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the effect on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09 – Compensation – Stock Compensation (Topic 718) related to simplifications of employee share-based payment accounting. This pronouncement eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. We are currently evaluating the effect on our Consolidated Financial Statements.

In April 2016, the FASB issued ASU 2016-10 – Revenue from Contract with Customers (Topic 606) related to identifying performance obligations and licensing. This pronouncement is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers. Specifically, the guidance addresses an entity's identification of its performance obligations in a contract, as well as an entity's evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the effect on our Consolidated Financial Statements.

In May 2016, the FASB issued ASU 2016-12 – Revenue from Contracts with Customers (Topic 606) related to narrow scope improvements. This pronouncement is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers. The amendments in this update do not change the core principle of the guidance in Topic 606, but rather, the amendments in this update affect certain aspects of Topic 606 which include: assessing the collectability criterion, accounting for contracts that do not meet certain criteria, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications, and completed contracts. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the effect on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties that are Under Common Control, which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. Under the amendments, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. This guidance is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies the presentation of restricted cash on the statement of cash flows. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending cash balances on the statement of cash flows. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. Under this new standard, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognize an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for fiscal years beginning after December 15, 2019. Early application is permitted. We do not believe the adoption of this new guidance will have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in this Update clarify the scope of the nonfinancial asset guidance in Subtopic 610-20. The amendments also clarify that the derecognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the derecognition and deconsolidation guidance in Subtopic 810-10. In addition, the amendments eliminate the exception in the financial asset guidance for transfers of investments (including equity method investments) in real estate entities and supersede the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsection within Topic 845. The amendments in this Update also provide guidance on the accounting for what often are referred to as partial sales of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. We are currently evaluating the impact this will have on our consolidated financial statements.

We have considered all other recently issued accounting pronouncements and do not believe the adoption of such pronouncements will have a material impact on our 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, 2016 and 2015  
Consolidated Statements of Operations for the years ended December 31, 2016 and 2015  
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2016 and 2015  
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016 and 2015  
Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015  
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. At 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, 2016. 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, 2016, the company's internal control over financial reporting is effective based on those criteria.

This Annual Report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit smaller reporting companies such as our company to provide only management's report in the Annual Report.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Please refer to the subsection entitled "Proposal 1 - The Election of Two Directors - Nominees" and "Proposal 1 – The Election of Two Directors – Executive Officers" in our Proxy Statement for the 2017 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 Two Directors - Nominees" and "Proposal 1 – The Election of Two Directors – 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](http://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 Two 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, 2016.

### 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	264,500	\$ 1.99	834,000
Equity compensation plans not approved by security holders	40,000	\$ 2.52	--
Total	304,500	\$ 2.06	834,000

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, 2016 and 2015, 12,000 options were granted in each year under the 2011 Director Plan, and zero options and 8,000 options, respectively, expired unexercised. In 2016, 12,000 options were exercised. 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 the year ended December 31, 2016, 30,000 options were granted to a new officer of the company under the 2015 Plan. No grants were made in 2015 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 Shackelford 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 and \$275,000 in the years ending December 31, 2016 and 2015, respectively. Simultaneous with the sale of our ChemFree subsidiary on March 31, 2015, we renewed our facility lease with ISC Properties, Inc. and reduced the amount of space leased.

Please refer to the subsection entitled "Proposal 1 - The Election of Two Directors - Nominees" 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 Karen J. Reynolds, 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 March 18, 2010. (Incorporated by reference to Exhibit 3(i) of the Registrant's Form 10-K for the year ended December 31, 2010.)
- 3.2 Bylaws of the Registrant dated December 7, 2007. (Incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K dated December 7, 2007.)
- 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 Incentive Stock 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 17, 2017

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:

<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
<u>/s/ J. Leland Strange</u> J. Leland Strange	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 17, 2017
<u>/s/ Karen J. Reynolds</u> Karen J. Reynolds	Chief Financial Officer (Principal Accounting and Financial Officer)	March 17, 2017
<u>/s/ Cherie M. Fuzzell</u> Cherie M. Fuzzell	Director	March 17, 2017
<u>/s/ Philip H. Moise</u> Philip H. Moise	Director	March 17, 2017
<u>/s/ Parker H. Petit</u> Parker H. Petit	Director	March 17, 2017





**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:**

Report of Independent Registered Public Accounting Firm – Nichols, Cauley & Associates, LLC.....	F-2
Consolidated Balance Sheets at December 31, 2016 and 2015.....	F-3
Consolidated Statements of Operations for the years ended December 31, 2016 and 2015 .....	F-4
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2016 and 2015 .....	F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016 and 2015.....	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015.....	F-7
Notes to Consolidated Financial Statements .....	F-8



## NICHOLS, CAULEY & ASSOCIATES, LLC

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404-214-1301 FAX 404-214-1302  
atlanta@nicholscauley.com

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
Intelligent Systems Corporation

We have audited the accompanying consolidated balance sheets of Intelligent Systems Corporation and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Intelligent Systems Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Nichols, Cauley and Associates, LLC

Atlanta, Georgia  
March 3, 2017

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

As of December 31,	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash	\$ 17,724	\$ 18,059
Marketable securities	418	396
Accounts receivable, net	1,329	962
Other current assets	1,160	2,846
Restricted cash	--	2,200
Total current assets	20,631	24,463
Investments	1,272	1,015
Property and equipment, at cost less accumulated depreciation	700	636
Other long-term assets	101	59
Total assets	\$ 22,704	\$ 26,173
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 301	\$ 78
Deferred revenue, current portion	1,474	1,830
Accrued payroll	515	495
Accrued expenses	43	25
Other current liabilities	1,338	243
Liabilities from discontinued operations	--	120
Total current liabilities	3,671	2,791
Deferred revenue, net of current portion	85	195
Other long-term liabilities	18	18
Commitments and contingencies (Note 8)		
Intelligent Systems Corporation stockholders' equity:		
Common stock, \$0.01 par value, 20,000,000 shares authorized, 8,743,299 and 8,731,299 issued and outstanding at December 31, 2016 and 2015, respectively	87	87
Additional paid-in capital	17,864	20,875
Accumulated other comprehensive loss	(163)	(184)
Accumulated income	4,158	5,270
Total Intelligent Systems Corporation stockholders' equity	21,946	26,048
Noncontrolling interest	(3,016)	(2,879)
Total stockholders' equity	18,930	23,169
Total liabilities and stockholders' equity	\$ 22,704	\$ 26,173

*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,	2016	2015
Revenue		
Products	\$ 1,137	\$ 614
Services	7,041	4,168
Total net revenue	8,178	4,782
Cost of revenue		
Products	626	219
Services	3,352	2,331
Total cost of revenue	3,978	2,550
Expenses		
Marketing	350	242
General and administrative	1,797	1,935
Research and development	2,740	2,877
Loss from operations	(687)	(2,822)
Investment income (loss)	(713)	1,247
Other income	148	109
Loss from continuing operations before income taxes	(1,252)	(1,466)
Income taxes	(3)	3
Net loss from continuing operations	(1,249)	(1,469)
Gain on sale of discontinued operations, net of taxes	--	18,802
Loss from discontinued operations, no tax effect	--	(3)
Net income (loss)	(1,249)	17,330
Net loss attributable to noncontrolling interest	137	690
Net income (loss) attributable to Intelligent Systems Corporation	\$ (1,112)	\$ 18,020
Earnings (loss) per share attributable to Intelligent Systems Corporation:		
Basic: Continuing operations	\$ (0.13)	\$ (0.09)
Discontinued operations	0.00	2.14
Earnings (loss) per share	\$ (0.13)	\$ 2.05
Diluted: Continuing operations	\$ (0.13)	\$ (0.08)
Discontinued operations	0.00	2.10
Earnings (loss) per share	\$ (0.13)	\$ 2.02
Basic weighted average common shares outstanding	8,736,299	8,806,875
Diluted weighted average common shares outstanding	8,736,299	8,912,109
Net income (loss) attributable to Intelligent Systems Corporation:		
Loss from continuing operations	\$ (1,112)	\$ (779)
Income from discontinued operations	--	18,799
Net income (loss) attributable to Intelligent Systems Corporation	\$ (1,112)	\$ 18,020

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

**Intelligent Systems Corporation**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
*(in thousands)*

<b>Year Ended December 31,</b>	<b>2016</b>	<b>2015</b>
Net income (loss)	\$ (1,249)	\$ 17,330
Other comprehensive income:		
Foreign currency translation adjustments	(1)	(6)
Unrealized gain (loss) on available-for-sale marketable securities	22	(68)
Total comprehensive income (loss)	(1,228)	17,256
Comprehensive loss attributable to noncontrolling interest	137	690
Comprehensive income (loss) attributable to Intelligent Systems Corporation	\$ (1,091)	\$ 17,946

*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)*

<b>STOCKHOLDERS' EQUITY</b>	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Intelligent Systems Corporation stockholders' equity:</b>		
<b>Common stock, number of shares</b> , beginning of year	8,731,299	8,958,028
Stock option exercised	12,000	4,000
Stock repurchased during year in tender offer	--	(230,729)
End of year	8,743,299	8,731,299
<b>Common stock, amount</b> , beginning of year	\$ 87	\$ 90
Stock repurchased during year in tender offer	--	(3)
End of year	87	87
<b>Additional paid-in capital</b> , beginning of year	20,875	21,537
Dividends paid	(3,056)	--
Stock repurchased during year in tender offer	--	(689)
Stock option exercised	14	8
Stock compensation expense	31	19
End of year	17,864	20,875
<b>Accumulated other comprehensive loss</b> , beginning of year	(184)	(110)
Foreign currency translation adjustment	(1)	(6)
Unrealized gain (loss) on available-for-sale marketable securities	22	(68)
End of year	(163)	(184)
<b>Accumulated earnings (deficit)</b> , beginning of year	5,270	(12,750)
Net income (loss)	(1,112)	18,020
End of year	4,158	5,270
<b>Total Intelligent Systems Corporation stockholders' equity</b>	21,946	26,048
<b>Noncontrolling interest</b> , beginning of year	(2,879)	(2,189)
Net loss	(137)	(690)
End of year	(3,016)	(2,879)
<b>Total stockholders' equity</b>	\$ 18,930	\$ 23,169

*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,**  
**2016**                      **2015**

	2016	2015
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (1,249)	\$ 17,330
Income from discontinued operations	--	(18,799)
Loss from continuing operations	(1,249)	(1,469)
Adjustments to reconcile net loss from continuing operations to net cash used for operating activities:		
Depreciation and amortization	248	217
Stock-based compensation expense	31	19
Non-cash investment and interest income (loss), net	750	1,005
Equity in loss of affiliate company	43	14
Loss on disposal of property and equipment	1	--
Changes in operating assets and liabilities:		
Accounts receivable, net	(367)	(461)
Other current assets	(562)	(2,508)
Other long term assets	(42)	22
Accounts payable	223	(12)
Accrued payroll	20	(87)
Deferred revenue, current portion	(356)	1,220
Accrued expenses	18	1
Other current liabilities	95	(31)
Deferred revenue, net of current portion	(110)	4
Net cash used for operating activities	(1,257)	(2,066)
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(313)	(272)
Purchase of long-term investment	(50)	(430)
Proceeds from sale of long-term investments	4,448	--
Net cash provided by (used for) investing activities	4,085	(702)
<b>FINANCING ACTIVITIES:</b>		
Distribution of dividend to stockholders	(3,056)	--
Sale of capital stock pursuant to exercise of option	14	8
Repurchase of capital stock pursuant to tender offer	--	(692)
Net cash used for financing activities	(3,042)	(684)
Net cash used for operating activities from discontinued operations	(120)	(189)
Net cash provided by investing activities from discontinued operations	--	19,082
Net cash provided by (used for) discontinued operations	(120)	18,893
Effects of exchange rate changes on cash	(1)	(6)
Net increase (decrease) in cash	(335)	15,435
Cash at beginning of year	18,059	2,624
Cash at end of year	\$ 17,724	\$ 18,059
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 120	\$ --
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION:</b>		
Unfunded investment in privately-held technology company	\$ 1,000	\$ --

*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* – As further explained in Note 2, on March 31, 2015, we sold our largest operating subsidiary, ChemFree Corporation. Accordingly, we have classified the ChemFree operations as discontinued operations in all periods presented. Our continuing 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, 2016 is adequate. However, actual write-offs might exceed the recorded allowance. Refer to Note 5.

*Marketable Securities* – Our marketable securities, which are classified as available-for-sale, are stated at fair value, and primarily consist of investments in exchange traded funds comprised of dividend paying companies. The fair value of the marketable securities is \$418,000 at December 31, 2016; an unrealized gain of \$22,000 is included in other comprehensive loss. The fair value of the marketable securities was \$396,000 at December 31, 2015; an unrealized loss of \$68,000 was included in other comprehensive loss.

*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. For the year ended December 31, 2015, no such impairment existed. As a result of a comprehensive physical inventory at our U.S. based operations in 2016, various



assets were disposed of and the cost of the assets and related accumulated depreciation were removed from the accounts. A net loss of \$1,000 was recognized in the year ended December 31, 2016.

<b>Classification</b>	<b>Useful life in years</b>
Machinery and equipment	3 - 5
Furniture and fixtures	5 - 7
Leasehold improvements	1 - 5
Building	39

The cost of each major class of property and equipment at December 31, 2016 and 2015 is as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Machinery and equipment	\$ 1,696	\$ 2,178
Furniture and fixtures	154	197
Leasehold improvements	0	258
Building	308	308
Subtotal	2,158	2,941
Accumulated depreciation	(1,458)	(2,305)
Property and equipment, net	\$ 700	\$ 636

Depreciation expense for continuing operations was \$248,000 and \$217,000 in 2016 and 2015, 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.

Following the sale of our ChemFree subsidiary in March 2015, we no longer have any leased equipment or lease rental income.

*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 believe 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. Any such charges could have a material adverse impact on our financial condition or results of operations and are generally not predictable in advance. During the year ended December 31, 2016, we recognized \$713,000 of investment loss, net, attributable to the write-down of \$750,000 on a cost method investment which was offset in part by a gain of \$37,000 on a final payment after the escrow period on a prior minority investment sale. During the year ended December 31, 2015, we recognized \$1,247,000 of investment income, net, principally related to a gain of \$2,034,000 on the sale of one of our cost method investments which was offset in part by an impairment charge of \$792,000 to reduce the carrying value of our equity method investment to \$100,000, management's estimate of realizable value. At December 31, 2016 and 2015, the aggregate value of investments was \$1,272,000 and \$1,015,000, respectively. We signed an agreement acquiring a \$1,000,000 investment in a privately-held technology company in the FinTech industry on December 30, 2016. The investment is included in the December 31, 2016 aggregate value; however, the funding of the investment did not occur until subsequent to year end on January 4, 2017.

*Patents* – Following the sale of our ChemFree subsidiary, we no longer have any undepreciated patent assets on our balance sheet and no amortization expense for continuing operations.

*Fair Value of Financial Instruments* – The carrying value of cash, accounts 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 and trade accounts. 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 available-for-sale 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 (typically three months),
- 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.

We review each contract to determine if multiple elements exist. As such, only arrangements under the initial contract described above contain multiple elements. Our revenue recognition policies for each of the situations described above are discussed below.

Presently, our initial software contracts do not meet the criteria for separate accounting because the software usually requires significant modification or customization that is essential to its functionality. At present, we use the completed contract method to account for our contracts as we do not have an adequate basis on which to prepare reliable estimates of percentage-of-completion for these contracts. Moreover, there are inherent hazards with software implementations, such as changes in customer requirements or software defects, that make estimates unreliable.

Accordingly, software revenue related to the license and the specified service elements (except for PCS) in the initial contract are recognized at the completion of the contract, when (i) there are no material uncertainties regarding customer acceptance, (ii) cancellation provisions, if any, have expired and (iii) there are no significant obligations remaining. We account for the PCS element contained in the initial contract based on vendor-specific objective evidence of fair value, which are annual renewal fees for such services, and PCS is recognized ratably on a straight-line basis over the period specified in the contract. 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.

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.

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 product revenue since there is no Vendor Specific Objective Evidence (VSOE) for the maintenance and support services.

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.

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 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. In 2015, legal expenses associated with the sale of our ChemFree subsidiary were included as a component of the transaction related expenses in determining the gain on the sale of discontinued operations.

*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, 2016 and 2015 has been recognized as a component of general and administrative expenses in the accompanying Consolidated Financial Statements. We recorded \$31,000 and \$19,000 of stock-based compensation expense in the years ended December 31, 2016 and 2015, respectively.

In each of the years ended December 31, 2016 and 2015, a total of 12,000 options were granted pursuant to the 2011 Non-employee Directors Stock Option Plan. In 2016, a total of 30,000 options were granted pursuant to the Intelligent Systems Corporation Stock Incentive Plan (the “2015 Plan”). The fair value of each option granted in 2016 and 2015 has been estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

<b>Year ended December 31,</b>	<b>2016</b>	<b>2015</b>
Risk free interest rate	.28%	.27%
Expected life of option in years	10	10
Expected dividend yield rate	0%	0%
Expected volatility	65%	66%

Under these assumptions, the weighted average fair value of options granted in 2016 and 2015 was \$2.63 and \$2.10 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, 2016 related to unvested options amounted to \$103,000 and is expected to be recognized from 2017 through 2019.

*Income Taxes* – We utilize the asset and liability method of accounting for income taxes. As such, deferred tax assets and liabilities are established to recognize the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases and for net tax operating loss carryforwards.

We follow the provisions of Financial Accounting Standards Board accounting guidance on accounting for uncertain tax positions. Accordingly, assets and liabilities are recognized for a tax position, based solely on its technical merits that is believed to be more likely than not to be fully sustainable upon examination. Accrued interest relating to uncertain tax positions is recorded as a component of interest expense and penalties related to uncertain tax positions are recorded as a component of general and administrative expense.

*Comprehensive Income (Loss)* – Comprehensive income (loss) represents net income (loss) 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 as well as unrealized gains and losses on marketable securities.

*Recent Accounting Pronouncements* – In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842) related to the accounting for leases. This pronouncement requires lessees to record most leases on their balance sheet, while expense recognition on the income statement remains similar to current lease accounting guidance. The guidance also eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. Under the new guidance, lease classification as either a finance lease or an operating lease will determine how lease-related revenue and expense are recognized. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the effect on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-08 – Revenue from Contracts with Customers (Topic 606) related to reporting revenue gross versus net, or principal versus agent considerations. This pronouncement is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers, as it pertains to principal versus agent considerations. Specifically, the guidance addresses how entities should identify goods and services being provided to a customer, the unit of account for a principal versus agent assessment, how to evaluate whether a good or service is controlled before being transferred to a customer, and how to assess whether an entity controls services performed by another party. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the effect on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09 – Compensation – Stock Compensation (Topic 718) related to simplifications of employee share-based payment accounting. This pronouncement eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. We are currently evaluating the effect on our Consolidated Financial Statements.

In April 2016, the FASB issued ASU 2016-10 – Revenue from Contract with Customers (Topic 606) related to identifying performance obligations and licensing. This pronouncement is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers. Specifically, the guidance addresses an entity's identification of its performance obligations in a contract, as well as an entity's evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the effect on our Consolidated Financial Statements.

In May 2016, the FASB issued ASU 2016-12 – Revenue from Contracts with Customers (Topic 606) related to narrow scope improvements. This pronouncement is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers. The amendments in this update do not change the core principle of the guidance in Topic 606, but rather, the amendments in this update affect certain aspects of Topic 606 which include: assessing the collectability criterion, accounting for contracts that do not meet certain criteria, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications, and completed contracts. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the effect on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties that are Under Common Control, which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. Under the amendments, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. This guidance is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies the presentation of restricted cash on the statement of cash flows. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending cash balances on the statement of cash flows. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. Under this new standard, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognize an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for fiscal years beginning after December 15, 2019. Early application is permitted. We do not believe the adoption of this new guidance will have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in this Update clarify the scope of the nonfinancial asset guidance in Subtopic 610-20. The amendments also clarify that the derecognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the derecognition and deconsolidation guidance in Subtopic 810-10. In addition, the amendments eliminate the exception in the financial asset guidance for transfers of investments (including equity method investments) in real estate entities and supersede the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsection within Topic 845. The amendments in this Update also provide guidance on the accounting for what often are referred to as partial sales of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. We are currently evaluating the impact this will have on our consolidated financial statements.

We have considered all other recently issued accounting pronouncements and do not believe the adoption of such pronouncements will have a material impact on our Consolidated Financial Statements.

## **2. DISCONTINUED OPERATIONS**

On March 31, 2015, we and CRC Industries, Inc., a Pennsylvania corporation ("CRC"), entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") whereby we sold all of the issued and outstanding stock of our wholly owned subsidiary, ChemFree Corporation ("ChemFree"), to CRC (the "ChemFree Sale"). The purchase price for the all-cash sale was \$21,600,000, subject to customary post-closing adjustments, including a working capital adjustment. The company retained all net cash of ChemFree as of the closing date. In the quarter ended March 31, 2015, the company recorded a gain on the sale of ChemFree of \$18,746,000 and retroactively classified the ChemFree operations as discontinued operations in all periods presented. Following the closing of the sale, the company recorded a net of \$56,000 in post-closing adjustments primarily to reduce our estimated tax liability, resulting in a gain on the sale of \$18,802,000 in the year ended December 31, 2015. The company applied operating loss and capital loss carryforwards against the gain on sale and incurred an alternative minimum tax liability of approximately \$120,000 on the transaction, which amount is included in liabilities of discontinued operations as of December 31, 2015. The tax was paid in 2016. At the closing, a total of \$3,300,000 of the purchase price was placed in escrow for purposes of securing our obligations to indemnify CRC and to refund a portion of the purchase price if ChemFree's actual working capital amount on the closing date is less than the agreed upon target set forth in the Stock Purchase Agreement. In 2015, \$880,000 of the escrow amount, net of the final working capital adjustment of \$220,000 was released to the company. The remaining escrow balance of \$2,200,000 which was shown as Restricted Cash as of December 31, 2015, was released in its entirety in 2016, along with interest earned.

The following condensed financial information is provided for the ChemFree discontinued operations for the periods shown:

Year ended December 31, (in thousands)	2016	2015
Net sales	--	\$ 2,902
Operating income	--	197
Net income before income taxes	--	6
Income taxes	--	9
Net loss from discontinued operations	--	\$ (3)

The only liabilities of discontinued operations, presented separately on the balance sheet as of December 31, 2015, consist of \$120,000 in current tax liabilities, which were paid in 2016.

### 3. OPTION AGREEMENT

On March 20, 2012, Intelligent Systems Corporation entered into an Option Agreement (the "Option Agreement") with Central National Bank, a national banking association ("CNB"). The Option Agreement grants to CNB the option to acquire from ISC the number of shares of stock in the company's CoreCard Software subsidiary equal to five percent of ISC's equity ownership in CoreCard. At the end of 2016, ISC increased its ownership of CoreCard from approximately 96 percent on a fully diluted basis to 100 percent. The number of shares covered by the option may be increased, up to ten percent based on achievement of certain volumes of prepaid cards issued by CNB and processed by CoreCard, as defined in the Option Agreement. The option has an exercise price of one million dollars for each five percent of ISC's interest in CoreCard, expires on December 31, 2017 and can be exercised at any time before it expires. Further, at any time between September 30, 2014 and June 30, 2017, subject to certain earlier termination provisions, CNB may elect to require ISC to repurchase the option at a purchase price equal to the fair market value of the option less one million dollars. As of December 31, 2016, CNB has not requested that ISC repurchase the option. We entered into the Option Agreement in recognition of CNB's cooperation and contribution to building CoreCard's card processing business. During the year ended December 31, 2012, we recorded an expense of \$18,000 in the marketing category and carry a long-term liability of \$18,000 at December 31, 2016 and 2015 to recognize the financial impact of the Option Agreement.

### 4. INVESTMENTS

At December 31, 2016 and 2015, our ownership interest in NKD Enterprises, LLC was 25.5%. We account for our investment by the equity method of accounting. The carrying value of NKD Enterprises, LLC is included in long-term investments. In December 2015, we recorded an impairment charge of \$792,000 to reduce the carrying value of our investment in NKD Enterprises, LLC to management's estimate of net realizable value.

At December 31, (in thousands)	Carrying Value	
	2016	2015
NKD Enterprises, LLC	\$ 64	\$ 107

The following table presents the unaudited summarized financial information for NKD Enterprises, LLC for the respective time periods:

<b>As of and for the year ended December 31, (in thousands)</b>	<b>2016</b>	<b>2015</b>
Revenues	\$ 2,050	\$ 1,878
Operating loss	(168)	(58)
Net loss	(168)	(58)
<b>As of and for the year ended December 31, (in thousands)</b>	<b>2016</b>	<b>2015</b>
Current assets	\$ 107	\$ 133
Non-current assets	3,002	3,004
Current liabilities	400	260
Stockholders' equity	2,709	2,877

On December 23, 2015, one of our investee companies in which we held a small equity stake, Lancope Inc., was sold to Cisco, Inc. We recognized a gain of \$2,034,000 against our carrying value of \$214,000 in the fourth quarter of 2015. Cash from the sale of \$2,248,000 (which is included in "Other Current Assets" at December 31, 2015) was received in early January 2016. A portion of the sale proceeds is being held in escrow for eighteen months for claims that the buyer may assert against Lancope, Inc. Our portion of the escrow may be as much as \$390,000; however, as there is presently no way to estimate how much, if any, of the escrow will be released to us, we have not included any provision for the receipt of any escrow funds in our current financial statements.

In the quarter ended March 31, 2016, we recorded an impairment charge of \$700,000 to reduce the carrying value of our minority equity ownership in Lumense, Inc., an early stage sensor technology company, to \$50,000. Subsequently, in the quarter ended June 30, 2016, we recorded an additional impairment charge of \$50,000 to fully write-down our minority equity ownership in Lumense to zero. Given that Lumense has no reasonable prospects to fund its operations and product development, we believe a full write-down is prudent and required.

On December 30, 2016 we signed an agreement to invest \$1,000,000 in a privately held technology company and program manager, 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; the liability for the investment funding is shown in "Other Current Liabilities" at December 31, 2016.

## 5. ACCOUNTS RECEIVABLE AND CUSTOMER CONCENTRATIONS

At December 31, 2016 and 2015, our allowance for doubtful accounts amounted to \$15,000 and \$0, respectively. Net charges against the allowance for doubtful accounts were \$0 in both 2016 and 2015.

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.

	<b>Revenue</b>		<b>Accounts Receivable</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Customer A	13.2%	22.5%	14.2%	23.6%
Customer B	28.5%	2.0%	52.2%	28.9%
Customer C	10.3%	18.7%	5.2%	6.4%
Customer D	3.6%	3.9%	3.2%	11.6%

Subsequent to December 31, 2016, Customer B remitted payments totaling approximately \$547,000 in January 2017 for a total payment of 79% of their year-end accounts receivable balance.



## 6. SHORT-TERM BORROWINGS

Terms and borrowings under our primary credit facility are summarized as follows:

<b>Year ended December 31,</b>	<b>2016</b>	<b>2015</b>
Maximum outstanding (month-end)	\$ --	\$ --
Outstanding at year-end	--	--
Interest rate at year-end	--	6.0%
Average interest rate	--	6.0%

We established a working capital credit facility with a bank in October 2003 and in the past, renewed the line periodically with the last renewal on June 27, 2014 with a maximum principal availability of \$1.25 million based on qualified receivables. Since we have not borrowed under the bank line of credit in the past five years and did not expect to need to do so in the foreseeable future, when the line of credit expired on June 30, 2016, we did not renew the bank line for an additional period.

## 7. INCOME TAXES

The income tax provision from continuing operations consists of the following:

<b>Year ended December 31, (in thousands)</b>	<b>2016</b>	<b>2015</b>
Current	\$ --	\$ 3
Total	\$ --	\$ 3

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

<b>Year ended December 31,</b>	<b>2016</b>	<b>2015</b>
Statutory rate	35%	35%
Change in valuation allowance	(35%)	(35%)
Effective rate	0%	0%

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

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Deferred tax assets:		
Federal, state and foreign loss carryforwards	\$ 1,440	\$ 1,850
Deferred revenue	30	68
Federal and state tax credits	642	653
Other	823	(79)
Total deferred tax asset	2,935	2,492
Less valuation allowance	(2,935)	(2,492)
Net deferred tax asset	\$ --	\$ --

Federal and state tax credits of \$642,000 included in the above table expire at various dates between 2024 and 2035.

We had a deferred tax asset of approximately \$2.9 million and \$2.5 million at December 31, 2016 and December 31, 2015, respectively. The deferred tax asset has been offset by a valuation allowance in 2016 and 2015 of \$2.9 million and \$2.5 million, respectively, because the company believes that it is more likely than not that the amount will not be realized. No deferred taxes have been provided on temporary differences related to investments in foreign subsidiaries because these investments are considered to be permanent.

As of December 31, the following net operating loss carryforwards, if unused as offsets to future taxable income, will expire during the following years:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
2021	\$ 689	\$ 689
2022	849	849
2030	--	4
2031	--	298
Thereafter	2,578	3,445
<b>Total</b>	<b>\$ 4,116</b>	<b>\$ 5,285</b>

Of the net operating losses detailed above, \$1.5 million are related to net operating losses that CoreCard incurred prior to its acquisition by the company. These net operating losses are subject to Separate Return Limitation Year rules. These net operating loss carryforwards expire in years 2021 and 2022.

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, 2016 and 2015. 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.

## **8. COMMITMENTS AND CONTINGENCIES**

*Leases* – We have noncancellable operating leases for offices and data centers expiring at various dates through March 2018. Future minimum lease payments are as follows:

<b>Year ended December 31, (in thousands)</b>	
2017	\$ 271
2018	64
<b>Total minimum lease payments</b>	<b>\$ 335</b>

The above future minimum lease payments include a total of \$274,000 payable to a related party. See Note 11 for further discussion.

Rental expense for leased facilities related to continuing operations amounted to \$351,000 and \$416,000 in the years ended December 31, 2016 and 2015, respectively.

*Legal Matters* – There are no 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.

## **9. POST-RETIREMENT BENEFITS**

Effective January 1, 1992, we adopted the Outside Directors' Retirement Plan which provides that each non-employee director, upon resignation from the Board of Directors after reaching the age of 65, will receive a cash payment equal to \$5,000 for each full year of service as a director of the Company (and its predecessors and successors) up to \$50,000. The plan was terminated in 2011. At December 31, 2016 and 2015, we have accrued \$50,000 and \$59,000, respectively, which is included in other current liabilities in the Consolidated Balance Sheets, for future payments that were earned under the plan before it was terminated.

## **10. 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 \$38,000 and \$36,000 in 2016 and 2015, respectively.

## **11. 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 and \$275,000 to ISC Properties, LLC in the years ended December 31, 2016 and 2015, respectively. We have determined that ISC Properties, LLC is not a variable interest entity.

## **12. STOCKHOLDERS' EQUITY**

We have authorized 20,000,000 shares of common stock, \$0.01 par value per share and 2,000,000 shares of special stock, of which none is outstanding. On April 22, 2015, we commenced a modified "Dutch" auction style tender offer to purchase for cash shares of our common stock for an aggregate purchase price of no more than \$5 million. The tender offer expired May 19, 2015. We accepted for tender 230,729 shares of common stock at a purchase price per share of \$3.00 for an aggregate purchase price of \$692,000. Shares repurchased were cancelled, resulting in a decline in the number of outstanding shares at December 31, 2015.

## **13. 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 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 the year ended December 31, 2016, 30,000 options were granted to a new officer of the company under the 2015 Plan. No grants were made in 2015 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. 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, 2016, a total of 1,285,500 options under all plans have been granted, 740,320 have been exercised, 240,680 have been cancelled, 256,500 are fully vested and exercisable and 48,000 are not vested. All options expire ten years from their respective dates of grant.

As of December 31, 2016, there was \$103,000 unrecognized compensation cost related to stock options granted under the plans, which is expected to be a recognized over a weighted-average period of 2.8 years.

Stock option activity during the years ended December 31, 2016 and 2015 was as follows:

	<b>2016</b>	<b>2015</b>
Options outstanding at January 1	274,500	274,500
Options cancelled	0	(8,000)
Options exercised	(12,000)	(4,000)
Options granted	42,000	12,000
<b>Options outstanding at December 31</b>	<b>304,500</b>	<b>274,500</b>
<b>Options available for grant at December 31</b>	<b>834,000</b>	<b>876,000</b>
<b>Options exercisable at December 31</b>	<b>256,500</b>	<b>254,500</b>
Exercise price ranges per share:		
Granted	\$3.50 - \$3.89	\$2.97
Exercised	\$0.69 - \$1.66	\$2.08
Outstanding	\$0.69 - \$3.89	\$0.69 - \$3.84
Weighted average exercise price per share:		
Granted	\$3.78	\$2.97
Exercised	\$1.18	\$2.08
Outstanding at December 31	\$2.06	\$1.76
Exercisable at December 31	\$1.76	\$1.72

The following tables summarize information about the stock options outstanding under the company's option plans as of December 31, 2016.

**Options Outstanding:**

Range of Exercise Price	Number Outstanding	Wgt. Avg. Contractual Life Remaining	Wgt. Avg. Exercise Price	Aggregate Intrinsic Value
\$0.69 - \$1.72	226,500	4.8 yrs	\$1.54	\$ 593,970
\$2.97 - \$3.89	78,000	6.8 yrs	\$3.59	\$ 68,880
<b>\$0.69 - \$3.89</b>	<b>304,500</b>	<b>5.3 yrs</b>	<b>\$2.06</b>	<b>\$ 662,850</b>

**Options Exercisable:**

Range of Exercise Price	Number Exercisable	Wgt. Avg. Contractual Life Remaining	Wgt. Avg. Exercise Price	Aggregate Intrinsic Value
\$0.69 - \$1.72	226,500	4.8 yrs	\$1.54	\$ 566,970
\$2.97 - \$3.84	30,000	2.4 yrs	\$3.45	\$ 68,880
<b>\$0.69 - \$3.84</b>	<b>256,500</b>	<b>4.5 yrs</b>	<b>\$1.76</b>	<b>\$ 635,850</b>

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, 2016 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, 2016. The amount of aggregate intrinsic value will change based on the fair value of the company's common stock.

#### 14. FOREIGN REVENUES AND OPERATIONS

Foreign revenues are based on the location of the customer. Revenues from customers associated with continuing operations by geographic areas for the years ended December 31, 2016 and 2015 are as follows:

<b>Year ended December 31, (in thousands)</b>	<b>2016</b>	<b>2015</b>
Foreign Countries:		
European Union	\$ 2,383	\$ 128
Other	--	4
Subtotal	2,383	132
United States	5,795	4,650
Total	\$ 8,178	\$ 4,782

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 \$183,000 and \$191,000 at December 31, 2016 and 2015, respectively, substantially all long-lived assets are in the United States.

At December 31, 2016 and 2015, continuing operations of foreign subsidiaries had assets of \$648,000 and \$501,000, respectively, and total liabilities of \$526,000 and \$435,000, 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.

#### 15. INDUSTRY SEGMENTS

Following the sale of our ChemFree subsidiary, management considers our remaining 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.

## 16. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) 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 income (loss) 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:

<b>Year ended December 31, (in thousands, except per share data)</b>	<b>2016</b>	<b>2015</b>
<b>Basic</b>		
Net income (loss) attributable to Intelligent Systems Corporation	\$ (1,112)	\$ 18,020
Weighted average common shares outstanding	8,736	8,807
Net income (loss) per share	\$ (0.13)	\$ 2.05
<b>Diluted</b>		
Net income (loss) attributable to Intelligent Systems Corporation	\$ (1,112)	\$ 18,020
Weighted average common shares outstanding	8,736	8,807
Effect of dilutive potential common shares: stock options	--	105
Total	8,736	8,912
Net income (loss) per share	\$ (0.13)	\$ 2.02

At December 31, 2016 and 2015, respectively, there were zero and 105,000 dilutive stock options exercisable.

## 17. SUBSEQUENT EVENTS

On December 30, 2016, Intelligent Systems and its wholly owned subsidiary CoreCard MergerSub, Inc. entered into an Agreement and Plan of Merger with CoreCard providing for the recapitalization of CoreCard. Pursuant to the Merger Agreement, MergerSub merged with and into CoreCard on January 1, 2017. As a result of the merger, we now own 100% of the outstanding shares of CoreCard. As such, beginning in 2017, we will no longer reduce income or losses by the amount that had been allocable in prior periods to the non-controlling common stock interest in CoreCard.

We are not aware of any other significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our Consolidated Financial Statements.

## Directors and Officers

### **J. Leland Strange\***

Chairman of the Board, President  
and Chief Executive Officer

### **Cherie M. Fuzzell** \* 1&2

Senior Director, Global Alliances  
Apple, Inc.

### **Philip H. Moise**\* 1 & 2

Former Executive Vice President and General Counsel  
Immucor, Inc.

### **Parker H. Petit**\* 1 & 2

Chairman, President and Chief Executive Officer  
MiMedx Group

### **Karen J. Reynolds**

Chief Financial Officer and Corporate Secretary

\* director

<sup>1</sup> audit committee

<sup>2</sup> 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](http://www.amstock.com)

## Annual Meeting

The Annual Meeting of Shareholders will be held  
May 25, 2017 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](http://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**

4355 Shackleford Road  
Norcross, Georgia 30093  
[www.intelsys.com](http://www.intelsys.com)