

# **Intelligent Systems**

**LETTER TO SHAREHOLDERS**

**NOTICE OF MEETING AND PROXY STATEMENT  
FOR THE 2018 ANNUAL MEETING OF SHAREHOLDERS**

**2017 ANNUAL REPORT ON FORM 10-K**



## INTELLIGENT SYSTEMS CORPORATION

### To Fellow Shareholders of Intelligent Systems,

As I write the letter this year, I shouldn't tell you how tempted I was to just say, "Go back and read last year's letter." – I did read it again - and the business description, results, strategy, direction, and expectations can all be summarized the same way for 2017. Revenue did increase 14% and we continued to 'invest' (just look at our R&D numbers) to be in a position to continue our growth in 2018.

CoreCard Software is currently the only 'operating' entity of Intelligent Systems; when we talk about the 'business', we are talking about CoreCard and its affiliates. Processing revenues represented an ever growing percentage of our revenues and we hope to continue that trend. In order to scale, we need to take advantage of our resources (people), a strong customer base, and the power of the software platform we have built over the past many years.

- Our current resources include 350 experienced and talented technical payments professionals. We added 25% to our India headcount in 2017 to prepare ourselves for more growth in 2018. (It is important you know it takes nearly a year for new people to become productive in our systems.)
- Our customer base is strong with some highly recognizable names. Our software is processing accounts in numerous international locales and more are being added in 2018. We, along with our licensees, converted several customers from other processors last year and we expect to continue the trend by converting more this year.
- The platform is scalable and I believe it may be the best choice on the market for flexible credit programs. As evidence of the power of the platform, we continue to add customers without having any sales personnel and doing very limited marketing. Of course, this poses the question as to why we don't add sales people and grow faster – the answer lies in the above comment about training new resources. Our growth has been impeded somewhat by our lack of trained resources as we conservatively grew our resources and took on only new business that we were absolutely certain we could handle well.

CoreCard Software has been unique in that it was willing to license to a third party the same software it uses to process third party accounts. We have been slowly evolving to offer fewer licenses and this year we plan to focus almost completely on processing. That does NOT mean we will no longer offer licensed software but it does give direction and focus to our management and resource efforts.

From time to time, when an appropriate opportunity becomes available, we still invest in companies – primarily in FinTech or related businesses that complement our CoreCard operations. During the past year, we sold the majority of our equity position in one such company that also has a processing contract with CoreCard - we were one of their early

investors. This resulted in an approximate \$1.5 million gain. We also had other investment activity that you can read about in the footnotes to our financial statements. Shareholders often ask, “Do you have any other ‘gems’ hidden in the investment category?” My quick lighthearted response is, “I sure hope so!” however, the truth is that it is likely to be erratic and, as long-term shareholders will remember, we sometimes end up with investments we would prefer to forget that resulted in write-offs. But yes, we hope there are some that will eventually generate good returns – but we don’t expect one to materialize in 2018.

A key metric that we always believed was pivotal is a \$10 million revenue number to ‘begin’ scaling. Of course, it needs to be much higher than that to fully optimize the ability to scale earnings. 2018 is shaping up to be a very good year for CoreCard and we expect our growth to be greater than last year’s growth with a possibility of being considerably better. *(As I write this in mid-March, we do NOT have contracted business that would guarantee much higher growth but we have the potential to make that happen.)*

It seems like I am constantly reminding shareholders that we are still too small to see revenue and/or earnings be predictable on a quarter to quarter basis. Management has reasonable insight on what to expect for the year but it cannot ‘manage’ to quarterly numbers as revenue recognition depends on so many more things than when the work was done. For example, we may do a lot of work for a specific customer on a specific project and the customer may have actually paid for some or all of the work but we cannot recognize the revenue until they go ‘live’ with whatever we worked on. And they get to decide, within reason, when they go live.

In summary, we remain focused on being opportunistic and doing whatever it takes to maximize shareholder value in the medium term. Our confidence is justified both by our past experience and our awareness of our resources. We firmly believe we are on the right track and shareholders should continue to see increasing underlying value in their Intelligent Systems Corporation investment in 2018.

A handwritten signature in blue ink, appearing to read "J. Lalal Stray". 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 24, 2018 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 one director to the Board of Directors to serve until the 2021 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 6, 2018 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 2017 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 13, 2018

**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 24, 2018**

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 2018 Annual Meeting of Shareholders (the “Annual Meeting”) of Intelligent Systems Corporation and any adjournment thereof. The Annual Meeting will be held on May 24, 2018 at our principal executive offices located at 4355 Shackelford Road, Norcross, Georgia 30093 at 4:00 p.m. local time. We expect to mail this Proxy Statement and the accompanying proxy to shareholders on or about April 13, 2018.

**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 6, 2018. On that date, we had outstanding and entitled to vote 8,777,988 shares of common stock with each share entitled to one vote.

**Quorum**

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

**Proxies**

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

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

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

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

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

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

**Dissenters’ Rights of Appraisal**

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

## Security Ownership of Certain Beneficial Owners and Management

The following table contains information concerning the persons who are known to us to be beneficial owners of more than 5 percent of our common stock as of March 1, 2018, 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	25.9%
Clifford N. Burnstein <sup>d</sup>	729 7 <sup>th</sup> Avenue New York, NY 10019	835,445	9.5%
James C. Kieffer <sup>e</sup>	Five Concourse Pkwy Suite 2200 Atlanta, GA 30328	758,270	8.6%
A. Russell Chandler, III, <sup>g</sup> <i>Director</i>		25,000	*
Philip H. Moise, <i>Director</i>		16,000	*
Parker H. Petit, <i>Director</i>		81,315	*
Karen J. Reynolds <i>Chief Financial Officer and Corporate Secretary</i>		10,000	*
All Directors and Named Executive Officers as a Group (5 persons)		2,197,615	24.7%

- a. Except as otherwise noted, beneficial ownership is determined on the basis of 8,777,988 shares of common stock issued and outstanding plus securities deemed outstanding pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934, as amended. Pursuant to the rules of the Securities and Exchange Commission (the "SEC"), a person is deemed to beneficially own shares of the company's common stock if that person has or shares "voting power", which includes the power to vote or to direct the voting of a security, or "investment power", which includes the power to dispose of or to direct the disposition of a security. An asterisk indicates beneficial ownership of less than 1 percent. In computing the number of shares of common stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed to be outstanding all shares of common stock subject to options or other convertible securities held by that person or entity that are currently exercisable or that will become exercisable within 60 days of March 15, 2018. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or entity.
- b. Includes 293,906 shares owned by Jane H. Strange, Mr. Strange's wife. Mr. Strange disclaims any beneficial interest in the shares.
- c. Based on information set forth in a Schedule 13G filed on January 24, 2018, 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.
- d. Based on information set forth in a Schedule 13D filed on August 3, 2009, in which Clifford N. Burnstein, an individual, reported beneficial ownership of 835,445 shares of common stock, of which Clifford N. Burnstein has the sole power to vote and to dispose.
- e. Based on information set forth in a Schedule 13G filed on February 9, 2018, in which James C. Kieffer, an individual, reported beneficial ownership of 758,270 shares of common stock, of which James C. Kieffer has the sole power to vote and to dispose.
- f. Includes 126,500 shares reserved for issuance to officers and directors pursuant to stock options that were exercisable at March 15, 2018 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, 2018 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, 2018 or within sixty days of such date. The amount reported for Mr. Moise includes 15,000 shares for shares underlying stock options exercisable at March 15, 2018, or within sixty days of such date. The amount reported for Ms. Reynolds includes 10,000 shares for shares underlying stock options exercisable at March 15, 2018 or within sixty days of such date.
- g. A. Russell Chandler, III, was selected by the Board on September 27, 2017 to serve the unexpired term of Cherie M. Fuzzell, who resigned from the Board on September 23, 2017.



## PROPOSAL 1 – THE ELECTION OF ONE DIRECTOR

### Nominee

At the Annual Meeting of Shareholders, shareholders will elect one director to the Board to serve a three-year term until the 2021 Annual Meeting of Shareholders. The other directors' terms expire at the Annual Meeting of Shareholders listed in the following table for each category of directors, or upon their earlier death, resignation or removal from office. Directors are elected by a plurality of the shares present and voting at the meeting. A "plurality" means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. Therefore, shares that are withheld or abstain from voting and broker non-votes will have no effect on the outcome of the vote. Unless contrary instructions are given, the persons named as proxies will vote the shares represented by a signed proxy card "FOR" the nominee.

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

The Board has nominated the person named in the following table to serve as a director of the company. The nominee 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, 2018.

### THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" PROPOSAL 1 TO ELECT ONE NOMINEE TO SERVE AS DIRECTOR OF THE COMPANY.

<b>Name</b>	<b>Age</b>	<b>Position / Principal Occupation</b>
<b><i>Current director and nominee to serve until the 2021 Annual Meeting</i></b>		
J. Leland Strange	76	Director, Chairman of the Board, President and Chief Executive Officer
<b><i>Incumbent director elected to serve until the 2019 Annual Meeting</i></b>		
Philip H. Moise <sup>1&amp;2</sup>	68	Director, Retired Executive Vice President and General Counsel of Immucor, Inc.
<b><i>Incumbent directors elected to serve until the 2020 Annual Meeting</i></b>		
A. Russell Chandler, III <sup>1,2 &amp;3</sup>	73	Director, Retired, Chairman of Whitehall Group, Ltd.
Parker H. Petit <sup>1 &amp;2</sup>	78	Director, CEO of MiMedx Group and President of The Petit Group

1. Audit Committee

2. Compensation Committee

3. A. Russell Chandler, III, was selected by the Board on September 27, 2017 to serve the unexpired term of Cherie M. Fuzzell, who resigned from the Board on September 23, 2017.

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

Philip H. Moise has served as a director since 2013. Mr. Moise served as Executive Vice President, General Counsel and Secretary of Immucor, Inc. from 2007 until 2012. Immucor manufactures and sells instruments and reagents used to classify components of human blood prior to blood therapies and transfusions. Previously a publicly-held company, Immucor was acquired and taken private in 2011. Before joining Immucor, Mr. Moise was in the private practice of law for almost 30 years, where he represented public and private companies in the technology and life sciences industries. He represented Intelligent Systems for approximately 25 years before joining Immucor in 2007. The Board considered Mr. Moise's familiarity with the company's business and history; his business

experience as an executive with a publicly traded company; his extensive legal background and experience in corporate transactions and corporate governance; and his familiarity with board and regulatory matters impacting publicly traded companies in determining that he should serve as a director of the company. The Board has determined that Mr. Moise qualifies as an independent director under the applicable rules of NYSE American.

*Parker (Pete) H. Petit* has served as a director since 1996. 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 American.

*J. Leland Strange* has served as our President since 1983 and our Chief Executive Officer and Chairman of the Board since 1985. He is being nominated for re-election to the Board for a three year term ending in 2021. 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 American and the rules of the SEC. The Audit Committee meets the composition requirements of NYSE American's listing standards for Small Business Issuers (as defined by the rules of NYSE American).

### **Board Leadership Structure and Role in Risk Oversight**

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

### **Meetings and Committees of the Board of Directors**

The Board met four times during the year ended December 31, 2017 and acted by unanimous consent on one occasion. The Board has established an Audit Committee and a Compensation Committee, but has no nominating committee. The Audit Committee of the Board met four times in 2017. During 2017, the Audit Committee consisted of Ms. Fuzzell (chair), until her resignation on September 23, 2017, when she was succeeded by Mr. Chandler (chair), and Messrs. Petit and Moise. In 2017, the Audit Committee appointed the company's independent auditor to review its report on the 2016 audit and the 2017 quarterly reviews, and carried out a number of other responsibilities, as outlined in the Audit Committee Charter.

All members of the Audit Committee currently meet the applicable independence and qualifications standards of the NYSE American. The Board has determined that Mr. 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 American. 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. Chandler, Moise (chair) and Petit. Mr. Chandler succeeded Ms. Fuzzell, upon her resignation from the Board, on the committee. The Compensation Committee met once in 2017. 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 2017, 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 75% of the Board and 75% of the Committee meetings.

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

#### **Executive Officers**

The following information is provided about our non-director executive officer as of March 1, 2018.

<b>Name</b>	<b>Age</b>	<b>Position / Principal Occupation</b>
Karen J. Reynolds	61	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>2</sup> \$	Other Annual Compensation \$	Total \$
J. Leland Strange <i>President &amp; Chief Executive Officer</i>	2017	300,000	--	--	4,050	304,050
	2016	300,000	--	--	3,975	303,975
Karen J. Reynolds <sup>1</sup> <i>Chief Financial Officer &amp; Secretary</i>	2017	180,000	--	--	2,700	182,700
	2016	177,231	--	81,300	2,659	261,190

- 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.
- 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, 2017.

The table above sets forth information regarding compensation awarded to, earned by or paid to the company's CEO and the company's most highly compensated person serving as an executive officer during the fiscal year other than the CEO (the "Named Executive Officers"). The Compensation Committee endeavors to provide compensation arrangements that are reasonable given the company's size, the nature of its business and the executive's duties; align pay with creating shareholder value; minimize risky behavior; and reward the executive for his/her contribution to achieving our business goals. Given the nature of our business, the small number of executives and the significant ownership held by Mr. Strange, the Compensation Committee believes that a straight-forward compensation plan that is economical to administer and that consists of a reasonable base salary and 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. No bonuses were awarded in 2017 or 2016. No options were re-priced in the two year period ended December 31, 2017. All Other Annual Compensation shown above includes matching contributions by the company to the respective accounts of the executive officers pursuant to the terms of our Tax-Deferred Savings and Protection Plan (the "401(k) Plan"). Such amounts are fully vested. It is our policy to provide executives with the same benefits provided to other employees with respect to medical, dental, life insurance and 401(k) plans.

### Outstanding Equity Awards at Fiscal Year End

#### Option Awards

Name	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price	Option Expiration Date
	Exercisable	Unexercisable		
J. Leland Strange	22,500 <sup>1</sup>	0	\$1.72	03/01/2021
	45,000 <sup>2</sup>	0	\$1.52	08/01/2021
Karen J. Reynolds	10,000	20,000 <sup>3</sup>	\$3.89	08/03/2026

- 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.
- 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.
- 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.

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, 2017 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>	215,500	\$ 2.19	817,000
Equity compensation plans not approved by security holders <sup>2</sup>	28,000	\$ 1.95	0
<b>Total</b>	<b>243,500</b>	<b>\$ 2.17</b>	<b>817,000</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, 2017. 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.

Name	Fees Earned or Paid in Cash \$	Option Awards <sup>1</sup> \$	Total \$
A. Russell Chandler, III <sup>2</sup>	4,000	11,700	15,700
Cherie M. Fuzzell <sup>3</sup>	12,000	9,340	21,340
Philip H. Moise	16,000	9,340	25,340
Parker H. Petit	14,000	9,340	23,340

1. Ms. Fuzzell and Messrs. Moise and Petit, were awarded 4,000 stock options at fair market value on the date of grant pursuant to the terms of the 2011 Non-Employee Directors' Stock Option Plan. Mr. Chandler was awarded an initial grant of 5,000 stock options at fair market value upon election to the Board. The amount reported is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. At December 31, 2017, Mr. Chandler has an aggregate of 5,000 stock options outstanding of which zero are fully vested; Mr. Petit has an aggregate of 40,000 stock options outstanding, of which 34,000 are exercisable; Ms. Fuzzell has a total of 19,000 options, of which 19,000 are exercisable and unvested options of 6,000 were canceled upon resignation from the Board; and Mr. Moise has a total of 21,000 options, 16,000 of which are exercisable.
2. Elected to serve the unexpired term of Ms. Fuzzell on September 27, 2017.
3. Resigned from the Board on September 23, 2017.

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, 2017 and 2016, we have accrued \$50,000 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 2017,

three directors received a grant of 4,000 options each on May 25, 2017, the date of the Annual Meeting of Shareholders and one new director received an initial grant of 5,000 options on September 28, 2017.

### ***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 2017 and through March 15, 2018, 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, 2017 and 2016 and for the years then ended;
- discussed with the independent auditors their reviews of the quarterly unaudited financial statements of the company for fiscal 2017;
- 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, 2017 for filing with the Securities and Exchange Commission.

#### AUDIT COMMITTEE

A. Russel Chandler, III (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 relatively low turnover of the current Board, there would be limited benefit to the company or its shareholders to do so. Currently, A. Russell Chandler, III, Parker H. Petit and Philip H. Moise, all of whom meet the applicable NYSE American independence requirements, participate in the consideration of director nominees. During 2017, Mr. Petit and Mr. Moise participated in the consideration of Mr. Chandler as the nominee to replace Ms. Fuzzell's unexpired term. 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 2018 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 2019 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 2017 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 2018 and beyond. The compensation of our Named Executive Officers and our compensation philosophies and practices are described in the Executive Compensation discussion and accompanying tables.

The Compensation Committee endeavors to provide compensation arrangements that are reasonable given the company's size, the nature of its business and the executive's duties and that align pay with creating shareholder value, minimize risky behavior, and reward the executive for his/her contribution to achieving our business goals. Given the nature of our business, the small number of our executives, and the significant ownership held by Mr. Strange, the Compensation Committee believes that a straight-forward compensation plan that is economical to administer and that consists of a reasonable base salary and 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, 2017, 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

Nichols, Cauley & Associates, LLC (“Nichols Cauley”) acted as our independent registered public accounting firm for the fiscal years ended December 31, 2017 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 2018 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 Nichols Cauley for services during 2017 and 2016:

**Audit Fees** - We were billed aggregate fees of \$84,000 and \$95,000 for review and audit services by Nichols Cauley in the years ended December 31, 2017 and 2016, respectively.

**All Other Fees** - We were billed fees of \$33,000 and \$28,000 in other fees by Nichols Cauley in the years ended December 31, 2017 and 2016, respectively. Such fees were for services provided to a subsidiary of the company related to SSAE-18 Type II reports for the subsidiary’s processing services.

It is the policy of the Audit Committee to approve in advance, either verbally or in writing, all audit services and permitted non-audit services provided to the company by the independent accountants. All such services were pre-approved by the Audit Committee in the two years ended December 31, 2017.

## 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 both years ended December 31, 2017 and 2016, we paid \$210,000 in rent to ISC Properties, LLC, which the company believes to be market rate.

## SHAREHOLDERS’ PROPOSALS FOR THE ANNUAL MEETING IN 2019

Shareholders who wish to submit a proposal for inclusion in our proxy statement for the 2019 Annual Meeting of Shareholders must submit such proposals so that they are received by the company no later than December 16, 2018. 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 2019 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, 2018. 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, 2018.



## **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 6, 2018 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, 2017, 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, 2017

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>
Common Stock, \$.01 par value	NYSE American

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicated by check mark whether the registrant has submitted electronically 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"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2017 was \$15,529,056 (computed using the closing price of the common stock on June 30, 2017 as reported by the NYSE MKT).

As of February 28, 2018, 8,777,988 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 24, 2018 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 and current shareholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. A number of the factors that we believe could impact our future operations are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K. ISC undertakes no obligation to update or revise its forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results except as required by law.*

### ITEM 1. BUSINESS

#### Overview

Intelligent Systems Corporation, a Georgia corporation, and its predecessor companies have operated since 1973 and its securities have been publicly traded since 1981. In this report, sometimes we use the terms "company", "us", "ours", "we", "Registrant" and similar words to refer to Intelligent Systems Corporation and subsidiaries. Our executive offices are located at 4355 Shackleford Road, Norcross, Georgia 30093 and our telephone number is (770) 381-2900. Our Internet address is [www.intelsys.com](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.

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 have not to date sold products or services directly to third parties. Accordingly, this discussion describes the CoreCard business involving the three entities as a single business unit. CoreCard designs, develops, and markets a comprehensive suite of software solutions to 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 uses the same basic software solutions that it licenses in its processing operations although licensees typically request a variety of customizations.

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

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

- Credit/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. 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 lower overall costs since the solution provides scalability by adding additional servers as card volume grows. The CoreCard product functionality includes embedded multi-lingual, multi-currency support, web-based interface, real-time processing, complex rules-based authorizations, account hierarchies, and robust fee libraries. These features support customer-defined pricing and payment terms and allow CoreCard's customers to create new and innovative card programs to differentiate themselves in the marketplace and improve customer retention.

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

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

We continue to add resources to expand upon our infrastructure investment to support CoreCard's Processing Services line of business. CoreCard processes prepaid cards and credit financing (private label and open loop/network) for a number of customers and anticipates steadily growing this business further in 2018. 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-18 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 2018.

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

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

CoreCard's principal target markets include accounts receivable businesses, prepaid card issuers, retail and private-label issuers (large and small), small third-party processors, and small and mid-size financial institutions in the United States. It has customers in international markets as well. CoreCard competes with third-party card processors that allow customers to outsource their account transaction processing rather than acquire software to manage their transactions in-house. CoreCard competes with several larger and more established software processors. Many of CoreCard's competitors, especially certain processors, have significantly more financial, marketing and development resources than does CoreCard and have large, established customer bases often tied to long-



term contracts. CoreCard believes it can compete successfully in its selected markets by providing to its licensed software customers and processing customers a robust technology platform, lower overall cost per account fees, greater system flexibility, and more customer-driven marketing options. Probably even more importantly, the size and flexibility of CoreCard makes it possible to get to market more quickly with customized, flexible programs. Under our Processing Services option, customers can contract with CoreCard to provide processing services for their accounts using CoreCard software configured to the customer's preferences, with an option to license the same software and bring it in-house when and if the customer decides to become its own processor in the future. We believe this transition path for customers is unique in the industry.

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

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

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

## **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**

We are primarily engaged in the FinTech industry through CoreCard's operations; however, from time to time, we have invested in entrepreneurial companies that we believe are bringing new applications or technologies to business markets and may continue to do so. Typically, these companies are privately held, early stage companies in technology-related fields. From time to time, we may increase our investment in a company or write down the value of an investment if we 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 write-down of two of our non-consolidated companies as well as a liquidation event in which we participated on one of our non-consolidated companies.

## **Research and Development**

We spent \$4.4 million and \$2.7 million in the years ended December 31, 2017 and 2016, 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 325 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, 2018, we had 350 full-time equivalent employees (including our subsidiaries in the United States and foreign countries). Of these, 345 are involved in CoreCard's software development, testing and operations, and 5 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 15 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 March 31, 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; we lease approximately 2,000 square feet of additional office space in an adjacent facility in Bhopal, India; and we lease approximately 5,500 square feet in Mumbai, India to house additional staff for our offshore software development activities. We 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 American ("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,	2017		2016	
	High	Low	High	Low
1st Quarter	\$ 4.75	\$ 3.85	\$ 3.60	\$ 2.75
2nd Quarter	4.72	3.50	3.88	3.25
3rd Quarter	4.45	3.58	4.05	3.50
4th Quarter	4.60	3.77	4.47	3.53

We had 209 shareholders of record as of February 15, 2018. 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 2017.

## 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.

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

Purchases of additional licenses for tier upgrades or additional modules are 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 an investee company, an early stage sensor technology company, 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 the investee company. In the second quarter of 2017, we recorded an impairment charge of \$90,000 to reduce the carrying value of an investee company, a privately-held technology company in the FinTech industry. The investee closed on a Series A preferred stock financing resulting in substantial dilution to our investment. Subsequently, in the fourth quarter of 2017, the investee sold its intellectual property and is in process of winding down its operations. As a result, we recorded an additional impairment charge of \$10,000 to fully write-down our minority ownership in the investee company. In the third quarter of 2017, we recorded a gain of \$372,000, as funds held in escrow from a prior investee company sale, were released. In the same quarter we sold shares in a tender offer for stock of one of our investee companies, a privately-held technology company in the Fintech industry, resulting in a gain of \$1,466,000. 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**

Our consolidated operations consist of our CoreCard Software subsidiary and its affiliate companies in Romania and India, as well as the corporate office which provides significant administrative, human resources and executive management support to CoreCard.

We provide technology solutions and processing services to the financial services market, commonly referred to as the FinTech industry. We derive our product revenue from licensing our comprehensive suite of financial transaction management software to accounts receivable businesses, financial institutions, retailers and processors to manage their credit and debit cards, prepaid cards, private label cards, fleet cards, loyalty programs, and accounts receivable and 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 may do so in the foreseeable future. Our results vary in part depending on the size and number of software licenses recognized as well the value and number of professional services contracts recognized in a particular period. As an example, for the quarter ended June 30, 2017, we reported consolidated operating income in part due to revenue associated with the recognition of a second license and customizations provided for such license, as well as customizations of our base product offering for a global license customer. As we continue to grow our Processing Services business, we continue to gain economies of scale on the investment we have made in the infrastructure, resources, processes and software features developed over the past number of years to support this growing side of our business. As such, we may, in the future, also report operating profits on a quarterly and annual basis. We are adding new processing customers at a faster pace than we are adding new license customers, resulting in steady growth in the processing revenue stream. The infrastructure of our multi customer environment is scalable for the future. A significant portion of our expense is related to personnel, including approximately 325 employees located in India and Romania. In the fourth quarter of 2017, we opened a second office in India, located near Mumbai, to enable us to attract the level of talent required for our software development and testing. 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 performed near breakeven from operations for the twelve months ended December 31, 2017.

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.

We continue to maintain a strong cash position. In the latter part of December, 2017, we purchased additional hardware and software for our processing environment in anticipation of a contract currently being negotiated with a potential customer that may result in increased revenue over the next few years. We anticipate additional equipment purchases in early 2018. While there is no assurance that the contemplated agreement will be finalized, management believes it will have a successful outcome and in the event the agreement is not finalized, the potential customer has agreed to take title to and reimburse us for the equipment purchases. We used \$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 for the year ended December 31, 2017 was \$9,302,000 which represents a 14 percent increase over 2016.

- Revenue from products, which includes software license fees (and, in some cases monthly support fees when the license and support fees are bundled) was \$849,000 in 2017, a 25 percent decrease from the \$1,137,000 reported in 2016. We anticipated this decrease as a significant component of the 2016 revenue related to a new global license customer whose initial software license was implemented and recognized in the quarter ended September 30, 2016.

- Revenue from services was \$8,453,000 in 2017, which represents a 20 percent increase over the \$7,041,000 reported in 2016. Revenue from transaction processing services and maintenance technical and software support services were higher in 2017 as compared to 2016. Processing services benefited from an increase in the number of customers and accounts on file while maintenance revenue increased due to additional revenue associated with an increase in our license customer base. Professional services revenue remained flat with the prior year as the number and value of professional services contracts completed was relatively consistent with 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 48 percent of total revenue for the twelve months ended December 31, 2017, compared to 49 percent for the twelve months ended December 31, 2016.

- Cost of product revenue was \$320,000 or 38 percent as a percent of product revenue in 2017 compared to \$626,000 or 55 percent as a percent of product revenue in 2016. The initial implementation of a new license customer tends to skew the cost of product revenue percentage upwards, since we deploy extra resources to support the implementation phase. The decrease in cost of product revenue percentage in 2017 from 2016 is indicative of the initial implementation of a new global license customer in 2016. We did not experience a license implementation of that magnitude in 2017.
- Cost of service revenue in 2017 was \$4,175,000 or 49 percent as a percentage of total service revenue compared to \$3,352,000 or 48 percent as a percentage of total service revenue in 2016. 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 2017, 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. However, in 2017, our cost of service revenue percentage is greater than the 2016 percentage, due to the utilization of third party contractors to supplement our own development team, as well as extra resources deployed to complete performance obligations related to certain customizations for a key license customer. In addition, we continue to devote the resources necessary to support our growing processing business, including direct costs for regulatory compliance, infrastructure, network certifications, and customer support. However, we are continuing to experience economies of scale in our processing environment, and did experience a decrease year over year for our cost of financial transaction processing services as a percentage of transaction processing services revenue. This may be subject to change in the future if new regulations or processing standards are implemented causing us to incur additional costs to comply.

**Operating Expenses** – For the twelve month period ended December 31, 2017, total operating expenses from consolidated operations were greater than in the corresponding period in 2016 primarily as the result of increased research and development expenses. Research and development expenses were 59 percent higher in 2017 as compared to 2016, mainly due to payroll and related expense for additional offshore technical personnel, as well as an increase in contractor fees for certain development efforts. In addition, we expanded our hiring capabilities of technical resources by opening a second office located near Mumbai, India. General and administrative expenses were lower in 2017 than in 2016, due to lower personnel-related expense at the corporate offices in 2017 as well as lower professional fees incurred for legal and consulting services. Marketing expenses decreased 27 percent year over year as we placed less focus on marketing initiatives for CoreCard in 2017. Our client base increased in 2017 with minimal marketing efforts as we continue to have prospects contact us via online searches; however, we will continue to re-evaluate our marketing expenditures as needed to competitively position the Processing Services business.

**Investment Income (Loss)** – In 2017, we recorded \$1,738,000 of investment income, which was comprised of a gain of \$1,466,000 on the sale of our investment in a privately-held technology company in the third quarter of 2017, and the gain of \$372,000 on a final payment after the escrow period on a prior minority investment sale, as described in more detail in Note 4 to the Consolidated Financial Statements. This was offset in part by an impairment charge of \$100,000 in 2017 to write down the carrying value of another investee company, as explained in more detail in Note 4 to the Consolidated Financial Statements. In 2016, we recorded an investment loss of \$713,000. The loss is attributable to the write-down of \$750,000 on an investment, offset in part by a gain of \$37,000 on a final payment, after the escrow period, on a prior minority investment sale.

**Other Income** – Other income remained relatively consistent year over year at \$166,000 in 2017 and \$148,000 in 2016. This primarily reflects income earned on our cash balances in both years.

### **Liquidity and Capital Resources**

Our cash balance at December 31, 2017 was \$14,024,000 compared to \$17,724,000 at December 31, 2016. The principal use of cash during the period, which occurred in the latter part of December 2017, was the prepayment of \$1,745,000 for processing equipment, software and related licenses. This prepayment was made on processing equipment scheduled to be installed in 2018 to enhance our processing environment in anticipation of a significant contract under negotiations. The prepayment is shown in “Other Current Assets” at December 31, 2017. We anticipate additional purchases to supplement the processing environment in early 2018. In addition, we advanced \$1,250,000 on a Loan Agreement, as described in more detail in Note 6 to the Consolidated Financial Statements, and we funded our investment of \$1,000,000 in a privately-held technology company, as explained in Note 4 to the Consolidated Financial Statements. The liability for the investment funding was included in “Other Current Liabilities” at December 31, 2016. In 2017, a principal source of cash was \$1,564,000 from the sale of our investment in a privately-held technology company, as described in Note 4 to the Consolidated Financial Statements. In addition, we received \$372,000 of cash held in escrow from the sale of one of our prior investee companies, as described in more detail in Note 4 to the Consolidated Financial Statements.

During the twelve months ended December 31, 2017, continuing operations used \$2,467,000 cash for operations of the FinTech business and corporate office. The most significant working capital changes since December 31, 2016 include an increase in other current assets of \$1,213,000 of which \$1,745,000 relates to the aforementioned equipment and software purchases on behalf of a potential new customer which is offset by a decrease in work-in-process as certain customizations for in-process contracts were recognized. In addition, total deferred revenue decreased by \$655,000 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 2017.

We used \$894,000 cash to acquire computer equipment and related software licenses primarily to upgrade our processing data centers, as we plan for future growth in our Processing Services business, and to add office equipment for new technical resources hired in 2017.

Subsequent to the 2017 year-end, we entered into a Loan Agreement with a private limited company in India in the FinTech industry. We advanced \$235,000 on the Loan Agreement during the quarter ended March 31, 2018, as described in more detail in Note 18 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, as exemplified in certain recent transactions described in Notes 6 and 18, 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.
- 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 our target markets within a reasonable time frame and at a price point that supports a profitable, sustainable business model.
- Our processing business is impacted, directly or indirectly, by more regulations than our licensed software business. If we fail to provide services that comply with (or allow our customers to comply with) applicable regulations or processing standards, we could be subject to financial or other penalties that could negatively impact our business.
- Software errors or poor quality control may delay product releases, increase our costs, result in non-acceptance of our software by customers or delay revenue recognition.
- We could fail to expand our base of customers as quickly as anticipated, resulting in lower revenue and profits (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** – We have considered all 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, 2017 and 2016  
 Consolidated Statements of Operations for the years ended December 31, 2017 and 2016  
 Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017 and 2016  
 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017 and 2016  
 Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016  
 Notes to Consolidated Financial Statements

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### (a) *Evaluation of disclosure controls and procedures*

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

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

### (b) *Changes in internal control over financial reporting*

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

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

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

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

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

The company's management evaluated the effectiveness of the company's internal control over financial reporting as of December 31, 2017. 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, 2017, 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 One Director – Nominee” and “Proposal 1 – The Election of One Director – Executive Officers” in our Proxy Statement for the 2018 Annual Meeting of Shareholders (the “Proxy Statement”) for information about the individual nominated as director and about the directors and executive officers of the company. This information is incorporated into this Item 10 by reference. Information regarding compliance by directors and executive officers of the company and owners of more than 10 percent of our common stock with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, is contained under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement. This information is incorporated into this Item 10 by reference. Information regarding the company’s Audit Committee and its composition is contained under the caption “Proposal 1 – The Election of One Director - Nominee” and “Proposal 1 – The Election of One Director – Meetings and Committees of the Board of Directors” in the Proxy Statement. This information is incorporated into this Item 10 by reference.

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

We have a Code of Ethics that applies to all directors, officers, and employees. The Code of Ethics is posted on our website at [www.intelsys.com](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 One Director – 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, 2017.

##### *Securities Authorized for Issuance Under Equity Compensation Plans*

<b>Plan category</b>	<b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>(b) Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders	215,500	\$ 2.19	817,000
Equity compensation plans not approved by security holders	28,000	\$ 1.95	--
Total	243,500	\$ 2.17	817,000

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, 2017 and 2016, 17,000 options and 12,000 options were granted in each year, respectively, under the 2011 Director Plan, and 12,000 options and zero options, respectively, expired unexercised. In 2017, under the Directors Plans, zero options were exercised and 6,000 options were canceled. The company instituted the 2003 Stock Incentive Plan (the “2003 Plan”) in March

2003 and the 2003 Plan expired in 2013. The 2003 Plan authorized the issuance of up to 450,000 options to purchase shares of common stock to officers and key employees. In 2017, 60,000 options were exercised under the 2003 Plan. 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. No grants were made in 2017 under the 2015 Plan. In the year ended December 31, 2016, 30,000 options were granted to a new officer of the company under the 2015 Plan. Stock options are granted under the company's equity compensation plans at fair market value on the date of grant and vest ratably over two or three year periods after the date of grant.

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

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

The lease on our headquarters and primary facility at 4355 Shackleford Road, Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by J. Leland Strange, our Chairman and Chief Executive Officer. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. We paid ISC Properties, LLC \$210,000 in both years ending December 31, 2017 and 2016.

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

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

We are filing the following exhibits with this report or incorporating them by reference to earlier filings. Shareholders may request a copy of any exhibit by contacting 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 Stock Incentive Plan
  - (b) 2011 Non-Employee Directors Stock Option Plan

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

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

## SIGNATURES

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

INTELLIGENT SYSTEMS CORPORATION  
Registrant

Date: March 15, 2018

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 15, 2018
<u>/s/ Karen J. Reynolds</u> Karen J. Reynolds	Chief Financial Officer (Principal Accounting and Financial Officer)	March 15, 2018
<u>/s/ A. Russell Chandler III</u> A. Russell Chandler III	Director	March 15, 2018
<u>/s/ Philip H. Moise</u> Philip H. Moise	Director	March 15, 2018
<u>/s/ Parker H. Petit</u> Parker H. Petit	Director	March 15, 2018

**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, 2017 and 2016.....	F-3
Consolidated Statements of Operations for the years ended December 31, 2017 and 2016 .....	F-4
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017 and 2016 .....	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017 and 2016.....	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016.....	F-6
Notes to Consolidated Financial Statements .....	F-7



## **NICHOLS, CAULEY & ASSOCIATES, LLC**

2800 Century Parkway, Suite 900  
Atlanta, Georgia 30345  
404-214-1301 FAX 404-214-1302  
atlanta@nicholscauley.com

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of Intelligent Systems Corporation

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Intelligent Systems Corporation and subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our 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, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Nichols, Cauley and Associates, LLC

We have served as the Company’s auditor since 2015.  
Atlanta, Georgia  
March 5, 2018



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

As of December 31,	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 14,024	\$ 17,724
Marketable securities	438	418
Accounts receivable, net	1,208	1,329
Notes and interest receivable, current portion	16	--
Other current assets	2,373	1,160
<b>Total current assets</b>	<b>18,059</b>	<b>20,631</b>
Investments	1,035	1,272
Notes and interest receivable, net of current portion	1,250	--
Property and equipment, at cost less accumulated depreciation	1,262	700
Other long-term assets	173	101
<b>Total assets</b>	<b>\$ 21,779</b>	<b>\$ 22,704</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 321	\$ 301
Deferred revenue, current portion	853	1,474
Accrued payroll	595	515
Accrued expenses	98	43
Other current liabilities	408	1,338
<b>Total current liabilities</b>	<b>2,275</b>	<b>3,671</b>
Deferred revenue, net of current portion	51	85
Other long-term liabilities	--	18
Commitments and contingencies (Note 9)		
Intelligent Systems Corporation stockholders' equity:		
Common stock, \$0.01 par value, 20,000,000 shares authorized, 8,777,988 and 8,743,299 issued and outstanding at December 31, 2017 and 2016, respectively		
	88	87
Additional paid-in capital	14,877	17,864
Accumulated other comprehensive loss	(143)	(163)
Accumulated income	4,631	4,158
<b>Total Intelligent Systems Corporation stockholders' equity</b>	<b>19,453</b>	<b>21,946</b>
Noncontrolling interest	--	(3,016)
<b>Total stockholders' equity</b>	<b>19,453</b>	<b>18,930</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 21,779</b>	<b>\$ 22,704</b>

*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,	2017	2016
Revenue		
Products	\$ 849	\$ 1,137
Services	8,453	7,041
Total net revenue	9,302	8,178
Cost of revenue		
Products	320	626
Services	4,175	3,352
Total cost of revenue	4,495	3,978
Expenses		
Marketing	255	350
General and administrative	1,588	1,797
Research and development	4,367	2,740
Loss from operations	(1,403)	(687)
Investment income (loss)	1,738	(713)
Other income	166	148
Income (loss) before income taxes	501	(1,252)
Income taxes	28	(3)
Net income (loss)	473	(1,249)
Net loss attributable to noncontrolling interest	--	137
Net income (loss) attributable to Intelligent Systems Corporation	\$ 473	\$ (1,112)
Earnings (loss) per share attributable to Intelligent Systems Corporation:		
Basic	\$ 0.05	\$ (0.13)
Diluted	\$ 0.05	\$ (0.13)
Basic weighted average common shares outstanding	8,766,425	8,736,299
Diluted weighted average common shares outstanding	8,881,814	8,736,299

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

*(in thousands)*

Year Ended December 31,	2017	2016
Net income (loss)	\$ 473	\$ (1,249)
Other comprehensive income:		
Foreign currency translation adjustments	(25)	(1)
Unrealized gain on available-for-sale marketable securities	23	22
Total comprehensive income (loss)	471	(1,228)
Comprehensive loss attributable to noncontrolling interest	--	137
Comprehensive income (loss) attributable to Intelligent Systems Corporation	\$ 471	\$ (1,091)

*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>2017</b>	<b>2016</b>
<b>Intelligent Systems Corporation stockholders' equity:</b>		
<b>Common stock, number of shares</b> , beginning of year	8,743,299	8,731,299
Stock option exercised	60,000	12,000
Stock repurchased during year	(25,311)	--
End of year	8,777,988	8,743,299
<b>Common stock, amount</b> , beginning of year	\$ 87	\$ 87
Stock option exercised	1	--
End of year	88	87
<b>Additional paid-in capital</b> , beginning of year	17,864	20,875
Dividends paid	--	(3,056)
Minority holdings acquired	(3,038)	--
Stock option exercised	(1)	14
Stock compensation expense	52	31
End of year	14,877	17,864
<b>Accumulated other comprehensive loss</b> , beginning of year	(163)	(184)
Minority holdings acquired	22	--
Foreign currency translation adjustment	(25)	(1)
Unrealized gain on available-for-sale marketable securities	23	22
End of year	(143)	(163)
<b>Accumulated earnings</b> , beginning of year	4,158	5,270
Net income (loss)	473	(1,112)
End of year	4,631	4,158
<b>Total Intelligent Systems Corporation stockholders' equity</b>	19,453	21,946
<b>Noncontrolling interest</b> , beginning of year	(3,016)	(2,879)
Minority holdings acquired	3,016	--
Net loss	--	(137)
End of year	--	(3,016)
<b>Total stockholders' equity</b>	\$ 19,453	\$ 18,930

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

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

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 473	\$ (1,249)
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depreciation and amortization	330	248
Stock-based compensation expense	52	31
Gain on sale of long-term investment	(1,838)	--
Non-cash investment expense	103	750
Non-cash interest income	(16)	--
Equity in loss of affiliate company	39	43
Loss on disposal of property and equipment	2	1
Changes in operating assets and liabilities:		
Accounts receivable, net	121	(367)
Other current assets	(1,213)	(562)
Other long term assets	(72)	(42)
Accounts payable	20	223
Accrued payroll	80	20
Deferred revenue, current portion	(621)	(356)
Accrued expenses	55	18
Other current liabilities	70	95
Deferred revenue, net of current portion	(34)	(110)
Other long-term liabilities	(18)	--
<b>Net cash used for operating activities</b>	<b>(2,467)</b>	<b>(1,257)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(894)	(313)
Advances on note and interest receivable	(1,250)	
Purchase of long-term investment	(1,000)	(50)
Proceeds from sale of long-term investments	1,936	4,448
<b>Net cash provided by (used for) investing activities</b>	<b>(1,208)</b>	<b>4,085</b>
<b>FINANCING ACTIVITIES:</b>		
Distribution of dividend to stockholders	--	(3,056)
Sale of capital stock pursuant to exercise of option	--	14
<b>Net cash used for financing activities</b>	<b>--</b>	<b>(3,042)</b>
<b>Net cash used for discontinued operations</b>	<b>--</b>	<b>(120)</b>
Effects of exchange rate changes on cash	(25)	(1)
<b>Net decrease in cash</b>	<b>(3,700)</b>	<b>(335)</b>
Cash at beginning of year	17,724	18,059
<b>Cash at end of year</b>	<b>\$ 14,024</b>	<b>\$ 17,724</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 28	\$ 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* – Our operations consist primarily of our CoreCard Software, Inc. (“CoreCard”) subsidiary and its affiliate companies in Romania and India, as well as the corporate office which provides significant administrative, human resources and executive management support to CoreCard. CoreCard provides technology solutions and processing services to the financial technology and services market, commonly referred to as the FinTech industry.

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

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

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

Senior management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. We include any accounts receivable balances that are estimated to be uncollectible in our overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to us, we believe our allowance for doubtful accounts as of December 31, 2017 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 \$438,000 at December 31, 2017; an unrealized gain of \$23,000 is included in other comprehensive income. The fair value of the marketable securities was \$418,000 at December 31, 2016; an unrealized gain of \$22,000 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. As a result of a comprehensive physical inventory at our India based operations in 2017 and 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 \$2,000 and \$1,000 was recognized, respectively, in the years ended December 31, 2017 and 2016.

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

The cost of each major class of property and equipment at December 31, 2017 and 2016 is as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Machinery and equipment	\$ 2,519	\$ 1,696
Furniture and fixtures	153	154
Building	308	308
Subtotal	2,980	2,158
Accumulated depreciation	(1,718)	(1,458)
Property and equipment, net	\$ 1,262	\$ 700

Depreciation expense for continuing operations was \$330,000 and \$248,000 in 2017 and 2016, respectively. These expenses are included in general and administrative expenses or, for assets associated with our processing data centers, are included in cost of services.

*Investments* – For entities in which we have a 20 to 50 percent ownership interest and over which we exercise significant influence, but do not have control, we account for investments in privately-held companies under the equity method, whereby we record our proportional share of the investee's net income or net loss as an adjustment to the carrying value of the investment. We account for investments of less than 20 percent in non-marketable equity securities of corporations at the lower of cost or market. Our policy with respect to investments is to record an impairment charge when we 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, 2017, we recognized \$1,738,000 of investment income, net, principally related to a gain of \$1,466,000 on the sale of shares in a tender offer for stock of one our investee companies, a privately-held technology company in the FinTech industry, and a gain of \$372,000 on a final payment after the escrow period on the sale of one of our prior investee companies. This was offset, to a lesser degree, by a \$100,000 write-down on a cost method investment. 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. At December 31, 2017 and 2016, the aggregate value of investments was \$1,035,000 and \$1,272,000, 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.

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

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

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

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

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

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

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

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

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

Our 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.

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

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

Services provided under standalone contracts that are optional to the customer and are outside of the scope of the initial contract are single element services contracts. These standalone services contracts are not essential to the functionality of the software contained in the initial contract and generally do not include acceptance clauses or refund rights as may be included in the initial software contracts, as described above. Revenues from these services contracts, which are generally performed within a relatively short period of time, are recognized when the services are complete.

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, network association and compliance costs for processing services. We also capitalize the initial implementation fees for processing services contracts and recognize the costs over the life of the contract, when the corresponding revenue is recognized.

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



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

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

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

*Stock Based Compensation* – We record compensation cost related to unvested stock-based awards by recognizing the unamortized grant date fair value on a straight line basis over the vesting periods of each award. We have estimated forfeiture rates based on our historical experience. Stock option compensation expense for the years ended December 31, 2017 and 2016 has been recognized as a component of general and administrative expenses in the accompanying Consolidated Financial Statements. We recorded \$52,000 and \$31,000 of stock-based compensation expense in the years ended December 31, 2017 and 2016, respectively.

A total of 17,000 options and 12,000 options were granted in the years ended December 31, 2017 and 2016, respectively, 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 “Plan”). The fair value of each option granted in 2017 and 2016 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>2017</b>	<b>2016</b>
Risk free interest rate	.98%	.28%
Expected life of option in years	10	10
Expected dividend yield rate	0%	0%
Expected volatility	52%	65%

Under these assumptions, the weighted average fair value of options granted in 2017 and 2016 was \$2.34 and \$2.63 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, 2017 related to unvested options amounted to \$77,000 and is expected to be recognized in 2018 and 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* – We have considered all 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

In the year ended December 31, 2016, we paid \$120,000 in income taxes related to an alternative minimum tax liability on a discontinued operation. The amount was included in liabilities of discontinued operations in the year ended December 31, 2015.

## 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") granting to CNB the option to acquire from ISC five percent of ISC's equity ownership in CoreCard at an exercise price of one million dollars. The option expired, unexercised, on December 31, 2017. 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 carried a long-term liability of \$18,000 to recognize the financial impact of the Option Agreement. Upon expiration of the option at December 31, 2017, the liability of \$18,000 was reversed as income in the marketing category and the liability recorded at December 31, 2017 and 2016, is \$0 and \$18,000, respectively.

## 4. INVESTMENTS

At December 31, 2017 and 2016, our ownership interest in NKD Enterprises, LLC was 25.5 percent. We account for our investment by the equity method of accounting. The carrying value of NKD Enterprises, LLC is included in long-term investments.

<b>At December 31, (in thousands)</b>	<b>Carrying Value</b>	
	<b>2017</b>	<b>2016</b>
NKD Enterprises, LLC	\$ 25	\$ 64

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>2017</b>	<b>2016</b>
Revenues	\$ 2,188	\$ 2,050
Operating loss	(152)	(168)
Net loss	(152)	(168)

<b>As of and for the year ended December 31, (in thousands)</b>	<b>2017</b>	<b>2016</b>
Current assets	\$ 115	\$ 107
Non-current assets	3,005	3,002
Current liabilities	563	400
Stockholders' equity	2,557	2,709

In 2015, one of our investee companies in which we held a small equity stake, was sold to Cisco, Inc. We recognized a gain of \$2,034,000 against our carrying value of \$214,000 in 2015. Cash from the sale of \$2,248,000 was received in early January 2016. A portion of the sale proceeds was held in escrow for eighteen months for claims that the buyer may assert against the investee company. In the third quarter of 2017, the remaining cash held in escrow was released. Since we had no reasonable way to estimate the amount of escrow, if any, to be released to us at the initial time of the sale, no provision was previously recorded in the financial statements. We received cash of \$372,000, which was recognized as a gain in the third quarter of 2017.

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 one of our investee companies, 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 the investee company to zero. Given that the investee has limited 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 in the FinTech industry, with \$500,000 of the investment held in escrow to pay future fees to CoreCard pursuant to a Processing Agreement entered into by the parties. The investment was funded on January 4, 2017; the liability for the investment funding is shown in "Other Current Liabilities" at December 31, 2016.

In the quarter ended June 30, 2017, we recorded an impairment charge of \$90,000 to reduce the carrying value of our minority equity ownership in an investee company, a privately-held technology company in the FinTech industry. During the quarter ended June 30, 2017, the investee closed on a Series A preferred stock financing with higher preference to our Series Seed preferred stock which resulted in substantial dilution to our investment. Subsequently, in the quarter ended December 31, 2017, the investee sold its intellectual property and is winding down its operations. As such, we recorded an additional impairment charge of \$10,000 to fully write-down our minority equity ownership in the investee company to zero. Given the operational and contractual wind-down costs of the investee coupled with the Series A preferred stock preference to our Series Seed preferred stock, we believe a full write-down was warranted. CoreCard remains in an ongoing contractual business relationship with the company through the wind-down period pursuant to a Processing Agreement and anticipates receiving liquidated damages as contractually allowed per the Processing Agreement. CoreCard has recognized processing services revenue from the investee company greater than our investment.

In the quarter ended September 30, 2017, we sold shares in a tender offer for stock of one of our investee companies, a privately-held technology company in the FinTech industry. We sold approximately ninety-one percent of our shares. We recognized a gain of \$1,466,000 over our carrying value of \$98,000. We retained a small equity stake in the investee and CoreCard remains in an ongoing business relationship with the company pursuant to a Processing Agreement previously entered into by the parties.

## 5. ACCOUNTS RECEIVABLE AND CUSTOMER CONCENTRATIONS

At December 31, 2017 and 2016, our allowance for doubtful accounts amounted to \$0 and \$15,000 respectively. Net charges against the allowance for doubtful accounts were \$15,000 and \$0 in 2017 and 2016, respectively.

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

	Revenue		Accounts Receivable	
	2017	2016	2017	2016
Customer A	9.3%	13.2%	15.2%	14.2%
Customer B	26.6%	28.5%	25.8%	52.2%
Customer C	11.9%	10.3%	9.0%	5.2%
Customer D	11.3%	6.4%	7.6%	5.9%

## 6. NOTES RECEIVABLE

On September 18, 2017, we entered into a Loan Agreement with a privately-held identity and professional services company with ties to the FinTech industry. We committed to lend up to \$1,500,000 with an initial advance of \$750,000. In the quarter ended December 31, 2017, we advanced an additional \$500,000 for a total advancement of \$1,250,000 as of December 31, 2017. A subsequent advance, in an increment of \$250,000, may occur in any fiscal quarter until December 31, 2018. The loan bears interest at the rate of 6.0 percent annually with the maturity date for each Promissory Note on the fourth anniversary of funding of such Promissory Note, extendable by one additional year at the borrower's election. We are entitled to purchase, at a nominal price, certain Warrant Units in conjunction with each advance.

## 7. SHORT-TERM BORROWINGS

We established a working capital credit facility with a bank in October 2003 and in the past, renewed the line periodically, 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.

## 8. INCOME TAXES

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

<b>Year ended December 31, (in thousands)</b>	<b>2017</b>	<b>2016</b>
Current	\$ 28	\$ --
Total	\$ 28	\$ --

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>2017</b>	<b>2016</b>
Statutory rate	35%	35%
Change in valuation allowance	(29%)	(35%)
Effective rate	6%	0%

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

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Deferred tax assets:		
Federal, state and foreign loss carryforwards	\$ 794	\$ 1,440
Deferred revenue	11	30
Federal and state tax credits	757	642
Other	402	823
Total deferred tax asset	1,964	2,935
Less valuation allowance	(1,964)	(2,935)
Net deferred tax asset	\$ --	\$ --

Federal and state tax credits of \$757,000 included in the above table expire at various dates between 2024 and 2035.

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act of 2017, which, among other provisions, decreases the maximum federal corporate income tax rate from 35% to 21% beginning January 1, 2018. ASC 740, Income Taxes, requires all deferred tax liabilities and assets to be adjusted for the effect of a change in tax rates by including such effect in income from continuing operations in the reporting period that includes the enactment date. In accordance with this guidance, the Company has included a charge to tax expense to decrease the deferred tax asset for the year ended December 31, 2017 of approximately \$805,000 related to the decrease in the federal corporate income tax rate for future periods. This charge was offset with a change in the valuation allowance recorded related to deferred taxes. This is a non-cash charge to expense in the current year, and does not affect the amount of taxes paid by the Company in the current period.

We had a deferred tax asset of approximately \$2.0 million and \$2.9 million at December 31, 2017 and December 31, 2016, respectively. The deferred tax asset has been offset by a valuation allowance in 2017 and 2016 of \$2.0 million and \$2.9 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>2017</b>	<b>2016</b>
2021	\$ 689	\$ 689
2022	849	849
2034	2,245	2,578
<b>Total</b>	<b>\$ 3,783</b>	<b>\$ 4,116</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, 2017 and 2016. 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.

## 9. COMMITMENTS AND CONTINGENCIES

*Leases* – We have noncancellable operating leases for offices and data centers expiring at various dates through May 2022. Future minimum lease payments are as follows:

<b>Year ended December 31, (in thousands)</b>	
2018	\$ 331
2019	268
2020	252
2021	178
2022	44
<b>Total minimum lease payments</b>	<b>\$ 1,073</b>

The above future minimum lease payments include a total of \$64,000 payable to a related party. See Note 12 for further discussion.

The above future minimum lease payments are inclusive of \$266,000 for operating leases for our offshore subsidiaries located in Bhopal, India and Mumbai, India. The rental expense for these facilities is classified as Research and Development expense as the facilities are utilized to house the software development and testing activities of our offshore subsidiaries, and as such, are not included in rental expense in general and administrative expenses.

Rental expense for leased facilities related to domestic operations amounted to \$383,000 and \$351,000 in the years ended December 31, 2017 and 2016, 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.

## 10. 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, 2017 and 2016, we have accrued \$50,000, 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.

## 11. 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 \$37,000 and \$38,000 in 2017 and 2016, respectively.

## 12. RELATED PARTY TRANSACTION

The lease on our headquarters and primary facility in Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by our Chairman and Chief Executive Officer, J. Leland Strange. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. We paid rent of \$210,000 to ISC Properties, LLC in both years ended December 31, 2017 and 2016. We have determined that ISC Properties, LLC is not a variable interest entity.

## 13. 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, par value \$0.10 per share, of which none is outstanding.

On December 30, 2016, Intelligent Systems and its wholly owned subsidiary CoreCard MergerSub, Inc. entered into an Agreement and Plan of Merger with CoreCard Software, Inc., our majority owned subsidiary, 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 January 1, 2017, we 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.

As a result of the recapitalization of CoreCard, we recorded the following adjustments to our shareholders' equity to eliminate the minority interest component. There was no impact on the statement of operations for the twelve months ended December 31, 2017.

<i>(in thousands)</i>	<b>As of December 31, 2016</b>	<b>Adjustments</b>	<b>As of January 1, 2017</b>
Intelligent Systems Corporation stockholders' equity:			
Common stock	\$ 87	\$ --	\$ 87
Additional paid-in capital	17,864	(3,038)	14,826
Accumulated other comprehensive loss	(163)	22	(141)
Accumulated income	4,158	--	4,158
Total Intelligent Systems Corporation stockholders' equity	21,946	(3,016)	18,930
Noncontrolling interest	(3,016)	3,016	--
Total stockholders' equity	\$ 18,930	\$ --	\$ 18,930

#### 14. STOCK OPTION PLANS

We instituted the 2003 Incentive Stock Plan (the "2003 Plan") in March 2003. The 2003 Plan authorized the issuance of up to 450,000 options to purchase shares of common stock to officers and key employees, with vesting of such options occurring equally over a 3-year time period. In 2013, the 2003 Plan expired with 197,500 options ungranted. In the year ended December 31, 2017, 60,000 options were exercised under the 2003 Plan. In June 2015, shareholders approved the 2015 Incentive Stock Plan (the "2015 Plan") which authorizes the issuance of up to 750,000 options to purchase shares of common stock to employees and key consultant and advisors. No grants were made in 2017 under the 2015 Plan. In the year ended December 31, 2016, 30,000 options were granted to a new officer of the company under the 2015 Plan. In August 2000, we instituted a Non-Employee Directors' Stock Option Plan (the "Directors Plan") that authorized the issuance of up to 200,000 shares of common stock to non-employee directors. Upon adoption of the Directors Plan, each non-employee director was granted an option to acquire 5,000 shares. At each Annual Meeting, each director receives a grant of 4,000 options, which vest in 50% increments on the first and second anniversary. The Directors Plan expired in 2011, with 60,000 options ungranted. The shareholders approved a new plan, the 2011 Non-Employee Directors Stock Plan (the "2011 Directors Plan"), in May 2011, with essentially the same terms and conditions as the Directors Plan. In the year ended December 31, 2017, 5,000 options were granted to a new non-employee member of our board of directors and an aggregate of 12,000 options were granted to other directors at the 2017 Annual Meeting pursuant to the 2011 Directors Plan. Stock options under all plans are granted at an exercise price equal to fair value on the date of grant and vest over 2-3 years. As of December 31, 2017, a total of 1,302,500 options under all plans have been granted, 800,320 have been exercised, 258,680 have been cancelled, 206,500 are fully vested and exercisable and 37,000 are not vested. All options expire ten years from their respective dates of grant.

As of December 31, 2017, there was \$77,000 unrecognized compensation cost related to stock options granted under the plans, which is expected to be a recognized over a weighted-average period of 1.8 years.

Stock option activity during the years ended December 31, 2017 and 2016 was as follows:

	<b>2017</b>	<b>2016</b>
Options outstanding at January 1	304,500	274,500
Options cancelled	(18,000)	0
Options exercised	(60,000)	(12,000)
Options granted	17,000	42,000
<b>Options outstanding at December 31</b>	<b>243,500</b>	<b>304,500</b>
<b>Options available for grant at December 31</b>	<b>817,000</b>	<b>834,000</b>
<b>Options exercisable at December 31</b>	<b>206,500</b>	<b>256,500</b>
Exercise price ranges per share:		
Granted	\$3.86	\$3.50 - \$3.89
Exercised	\$1.52 - \$1.72	\$0.69 - \$1.66
Outstanding	\$0.69 - \$3.89	\$0.69 - \$3.89
Weighted average exercise price per share:		
Granted	\$3.86	\$3.78
Exercised	\$1.63	\$1.18
Outstanding at December 31	\$2.17	\$2.06
Exercisable at December 31	\$1.87	\$1.76

The following tables summarize information about the stock options outstanding under the company's option plans as of December 31, 2017.

**Options Outstanding:**

<b>Range of Exercise Price</b>	<b>Number Outstanding</b>	<b>Wgt. Avg. Contractual Life Remaining</b>	<b>Wgt. Avg. Exercise Price</b>	<b>Aggregate Intrinsic Value</b>
\$0.69 - \$1.72	166,500	3.9 yrs	\$1.50	\$ 508,730
\$2.97 - \$3.89	77,000	7.3 yrs	\$3.60	\$ 74,000
<b>\$0.69 - \$3.89</b>	<b>243,500</b>	<b>5.0 yrs</b>	<b>\$2.17</b>	<b>\$ 582,730</b>

**Options Exercisable:**

<b>Range of Exercise Price</b>	<b>Number Exercisable</b>	<b>Wgt. Avg. Contractual Life Remaining</b>	<b>Wgt. Avg. Exercise Price</b>	<b>Aggregate Intrinsic Value</b>
\$0.69 - \$1.72	166,500	3.9 yrs	\$1.50	\$ 508,730
\$2.97 - \$3.89	40,000	5.8 yrs	\$3.38	\$ 47,260
<b>\$0.69 - \$3.89</b>	<b>206,500</b>	<b>4.3 yrs</b>	<b>\$1.87</b>	<b>\$ 555,990</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, 2017 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, 2017. The amount of aggregate intrinsic value will change based on the fair value of the company's common stock.

**15. FOREIGN REVENUES AND OPERATIONS**

Foreign revenues are based on the location of the customer. Revenues from customers by geographic areas for the years ended December 31, 2017 and 2016 are as follows:

<b>Year ended December 31, (in thousands)</b>	<b>2017</b>	<b>2016</b>
European Union	\$ 2,535	\$ 2,383
United States	6,767	5,795
<b>Total</b>	<b>\$ 9,302</b>	<b>\$ 8,178</b>

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 \$176,000 and \$183,000 at December 31, 2017 and 2016, respectively, substantially all long-lived assets are in the United States.

At December 31, 2017 and 2016, continuing operations of foreign subsidiaries had assets of \$589,000 and \$648,000, respectively, and total liabilities of \$675,000 and \$526,000, 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.



## 16. INDUSTRY SEGMENTS

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

## 17. 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>2017</b>	<b>2016</b>
<b>Basic</b>		
Net income (loss) attributable to Intelligent Systems Corporation	\$ 473	\$ (1,112)
Weighted average common shares outstanding	8,766	8,736
Net income (loss) per share	\$ 0.05	\$ (0.13)
<b>Diluted</b>		
Net income (loss) attributable to Intelligent Systems Corporation	\$ 473	\$ (1,112)
Weighted average common shares outstanding	8,766	8,736
Effect of dilutive potential common shares: stock options	116	--
Total	8,882	8,736
Net income (loss) per share	\$ 0.05	\$ (0.13)

At December 31, 2017 and 2016, respectively, there were 116,000 and zero dilutive stock options exercisable.

## 18. SUBSEQUENT EVENTS

On January 12, 2018, we entered into a Loan Agreement with a private limited company in India in the FinTech industry. We initially committed to advance \$235,000. A subsequent advance, of \$200,000, may be made at our sole discretion. The loan bears interest at the rate of 5.0 percent annually with the maturity date for each Promissory Note on the third anniversary of funding. We may elect, at our sole discretion, to convert the initial Promissory Note, for 10 percent equity ownership in the company. The note holder has the election to force conversion, after thirty days from execution of the Note, if they were to receive an additional \$1,000,000 in funding from an unrelated third party(s). The Second Promissory Note, if we elect to fund, may be converted for an additional 9.5 percent equity ownership in the company. On February 5, 2018, the private limited company entered into a three year Processing Agreement with 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.



## INVESTOR INFORMATION

### Directors and Officers

**J. Leland Strange\***

Chairman of the Board, President  
and Chief Executive Officer

**A. Russell Chandler, III\*<sup>1 & 2</sup>**

Retired, Chairman of Whitehall Group, Ltd.

**Philip H. Moise\*<sup>1 & 2</sup>**

Former Executive Vice President and General Counsel  
Immucor, Inc.

**Parker H. Petit\*<sup>1 & 2</sup>**

Chairman, President and Chief Executive Officer  
MiMedx Group

**Karen J. Reynolds**

Chief Financial Officer and Corporate Secretary

\* director

1. audit committee

2. compensation committee

### Auditors

Nichols, Cauley & Associates, LLC  
Atlanta, Georgia

### Legal Counsel

Ledbetter Wanamaker Glass LLP  
Atlanta, Georgia

### Transfer Agent and Registrar

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

### Annual Meeting

The Annual Meeting of Shareholders will be held  
May 24, 2018 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)