

Intelligent Systems

LETTER TO SHAREHOLDERS

**NOTICE OF MEETING AND PROXY STATEMENT
FOR THE 2021 ANNUAL MEETING OF SHAREHOLDERS**

2020 ANNUAL REPORT ON FORM 10-K

Intelligent Systems Corporation

To INS shareholders,

As I began thinking about composing the 2020 letter to shareholders this morning, I walked outside to gather some thoughts as to what is important and what can best be ignored. Immediately, I was struck by the large volume of traffic going both ways on Interstate 85. The Intelligent Systems/CoreCard building is immediately adjacent to I-85 north of Atlanta – just a fence separates us, no frontage road. The highway was full, and cars were zooming at a good rate of speed (I am sure some saw the “I-85” and assumed that meant 85 miles per hour speed limit – not!) But it said to me that life is getting back to “normal” although it may now be a modified or new normal as it will be hard in many ways to really go back to the old normal exactly like it was. And that might be a good outcome as we have had to re-examine what we do and why.

And then I looked the other way along the front of the building and observed the blooming dogwood trees, colorful azaleas, and magnificent magnolia trees (it is mid-April as I write this). It is nice to have just a small sampling of the beautiful landscaping elements that folks from all over the world see on television as they watch the Master’s Golf Tournament being played in Augusta in mid-April each year. These plants didn’t miss a beat and did not succumb to the Covid pandemic! (There is a storyline around that, but for another time!)

From all outward appearances and reported metrics, Covid had only a minor effect on your company’s 2020 performance. We said in early 2019 that 2020 would serve as a “catch our breath” year as we built up a trained staff to run faster in 2021. While growing revenues by double digit numbers in previous years, our experienced staffing capacity was reaching limits. We knew 2020 revenue growth would not be similar to the previous two years and thought it might just be breakeven. BUT we projected 2021 to be a big year taking advantage of the 2020 training year. What happened? Covid blew-up our ambitious training plans while we grew revenues about 5% in 2020 – roughly in line with expectations. And expected 2021 revenues between \$40 and \$50 million will give us double digit growth again in line with expectations communicated in 2019.

While the metrics worked out, Covid definitely threw our game plan a curve ball. CoreCard provides the marketplace a variety of payment and loan products including a premium revolving credit offering. It is more flexible and new features are faster to market than any competitive product. To deliver on a continually growing revenue plan, we must provide expert personnel at every stage of client interaction. Our clients are, for the most part, sophisticated and do not rely on the promises of a company’s marketing hype. They want to see staffing plans with numbers of years of experience by each name. They want to make sure you can support their business. They don’t fall for “bluff and fluff” and we don’t play that game. We need experienced, trained people to reliably grow our business and provide the value our customers expect and deserve. The Covid “curve ball” has impacted our ability to have the number of experienced team members available this year to take on large new clients in 2022. While we are working every angle to make up for the training gap, we have to acknowledge that we did not end 2020 with the staffing levels we had anticipated.

You cannot watch the increased “normal” interstate traffic and see the beauty of the surrounding nature and not be optimistic about getting back to “normal” soon. That is similarly true for your company. As stated earlier, 2021 will be a very good year if our clients grow as we think they will. The increase in license revenue will be substantial but hard to sustain each year. A number of smaller new clients will be going live this year and our processing revenues will continue to grow. This month we went live in our Asia Pacific division and expect good growth in that area over the next few years. Our first new customer in the region is Al Ansari Exchange, a UAE-based foreign exchange and worldwide money transfer company offering a Visa Platinum multi-currency travel card that can be loaded with any of seventeen different currencies. In our India operations we have a large new group of “freshers” getting trained – many remotely but hopefully the covid issues subside so we can get back to the office. New revenues from new sources, products and geographical regions will grow although they will continue to be dwarfed by the “lumpy” license and other revenue from our largest customer. (As an aside, while some are concerned with the typical “customer concentration flag”, I view this very differently as this customer also provides world class marketing that benefits CoreCard as they add clients that are large and desire receivable financing which CoreCard and most processors do not provide.) CoreCard now has software production instances in the two leading cloud environments – Azure and AWS (Amazon Web Services).

I usually end every day reflecting with thanks for all the many things I have personally to be thankful for (it’s a long list!). I’ll similarly close this letter by thanking our highly talented team members for their dependability, reliability, hard work, professionalism, and integrity. I thank our board of directors for their advice (and criticism!). And I thank our shareholders, many of which are new as of the last year, for their diligence in understanding the nuances of the company and for their bet on our future. We plan on delivering and look forward to an environment where we can run and exceed the posted speed limit!


J. Leland Strange
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 27, 2021 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 2024 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 5, 2021 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 2020 Annual Report to Shareholders is enclosed in the same document as the Proxy Statement.

By order of the Board of Directors,



MATTHEW A. WHITE
Secretary

April 9, 2021

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 27, 2021**

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 (the “Board”) to be voted at the 2021 Annual Meeting of Shareholders (the “Annual Meeting”) of Intelligent Systems Corporation and any adjournment thereof. The Annual Meeting will be held on May 27, 2021 at our principal executive offices located at 4355 Shackleford Road, Norcross, Georgia 30093 at 4:00 p.m. local time. We expect to mail this Proxy Statement and the accompanying proxy to shareholders on or about April 9, 2021.

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 5, 2021. On that date, we had outstanding and entitled to vote 8,882,350 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. Abstentions and broker non-votes are not counted as a vote cast and will have no effect on the vote on any proposal.

Required Vote

J. Leland Strange, the incumbent nominee for election as director, will be reelected if more votes are cast “For” than are cast “Against” him. If more votes are cast Against, the nominee is required to submit his resignation subject to acceptance by the Board. The other members of the Board will determine the action to be taken with respect to the resignation and will publicly announce their decision and the rationale therefor.

With respect to Proposal 2 – TO APPROVE, BY A NON-BINDING ADVISORY VOTE, THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, the proposal will be approved if more votes are cast “For” than are cast “Against” the proposal. The proposal is advisory and nonbinding. The Board will review the result of the vote and take it into account when making future compensation decisions.

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 Shackleford 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 15, 2021, and the ownership of our common stock as of that date by each director and director nominee, each executive officer named in the Summary Compensation Table and by all directors, director nominees and named executive officers as a group. There are no arrangements known to us which may result in change of control of the company.

Beneficial Owner	Address	Shares Beneficially Owned ^{a, b}	Percent of Class ^a
J. Leland Strange ^c <i>Chairman of the Board, President, CEO</i>	4355 Shackleford Road Norcross, GA 30093	1,548,188	17.4%
Clifford N. Burnstein ^d	729 7 th Avenue New York, NY 10019	835,445	9.4%
Wallace R. Weitz & Company ^e	1125 South 103rd St., Suite 200 Omaha, NE 68124	750,000	8.4%
Janus Henderson Group PLC ^f	201 Bishopsgate EC2m 3AE, United Kingdom	481,061	5.4%
BlackRock, Inc. ^g	55 East 52 nd Street New York, NY 1005	474,379	5.3%
A. Russell Chandler, III, <i>Director</i> ^h		37,460	*
Philip H. Moise, <i>Director</i>		18,910	*
Elizabeth W. Camp, <i>Director</i>		1,460	*
Matthew A. White <i>Chief Financial Officer and Corporate Secretary</i>		20,000	*
All Directors and Named Executive Officers as a Group (5 persons)		1,626,018	18.3%

- a. Except as otherwise noted, beneficial ownership is determined on the basis of 8,882,350 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, 2021. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or entity.
- b. Includes 45,000 shares reserved for issuance to officers and directors pursuant to stock options that were exercisable at March 15, 2021 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. White include 20,000 shares for shares underlying stock options exercisable at March 15, 2021 or within sixty days of such date. The amount reported for Mr. Moise includes 14,000 shares for shares underlying stock options exercisable at March 15, 2021, or within sixty days of such date. The amount reported for Mr. Chandler includes 11,000 shares for shares underlying stock options exercisable at March 15, 2021, or within sixty days of such date.
- c. Shares are jointly owned by J. Leland Strange and Jane H. Strange, Mr. Strange's wife.
- d. Based solely 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 solely on information set forth in a Schedule 13G filed on January 6, 2021, 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 750,000 shares of common stock, of which Wallace R. Weitz and Company has the sole power to vote and to dispose.
- f. Based solely on information set forth in a Schedule 13G filed on February 12, 2021, in which Janus Henderson Group PLC, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, reported beneficial ownership of 481,061 shares of common stock, of which Janus Henderson Group PLC has the sole power to vote and to dispose.
- g. Based solely on information set forth in a Schedule 13G filed on February 2, 2021, in which BlackRock, Inc., an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, reported beneficial ownership of 474,379 shares of common stock, of which BlackRock, Inc. has the sole power to vote and to dispose.
- h. Includes 8,000 shares owned by a not-for-profit trust controlled by Mr. Chandler.

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 2024 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.

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 15, 2021.

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

Name	Age	Position / Principal Occupation
<i>Nominee for election to serve until the 2024 Annual Meeting</i>		
J. Leland Strange	79	Director, Chairman of the Board, President and Chief Executive Officer
<i>Incumbent directors elected to serve until the 2023 Annual Meeting</i>		
Elizabeth W. Camp ^{1 & 2}	69	Director, President and Chief Executive Officer of DF Management, Inc.
A. Russell Chandler, III ^{1 & 2}	76	Director, Retired, Chairman of Whitehall Group, Ltd.
<i>Incumbent director elected to serve until the 2022 Annual Meeting</i>		
Philip H. Moise ^{1 & 2}	71	Director, Retired Executive Vice President and General Counsel of Immucor, Inc.

1. Audit Committee
2. Compensation Committee

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

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

Elizabeth W. Camp has served as a director since 2020. She is President and Chief Executive Officer of DF Management, Inc., a private investment and commercial real estate management company, a position she has held since 2000. Previously and for 16 years, Ms. Camp served in various capacities, including President and Chief Executive Officer, of Camp Oil Company. Before its sale in 2000, Camp Oil developed and operated convenience stores, truck stops and restaurants in nine states. Ms. Camp holds a bachelor's degree in accounting and a law degree from the University of Georgia, as well as a master's degree in taxation from Georgetown Law Center. Ms. Camp is a current director or trustee on the boards of several non-profit organizations, including the Woodruff Arts Foundation, University of Georgia Foundation, the Atlanta chapter of the NACD, and the Boy Scouts of America, Atlanta Area Council. She has received the designation of Board Leadership Fellow by the NACD and is an independent member of the board of directors of Genuine Parts Company, a public company engaged in the global distribution of automotive and industrial replacement parts, where she serves on its audit committee. Ms. Camp is the Lead Director and Chair of the Corporate Governance and Nominating Committee of Synovus Financial Corp and formerly served as Chair of its Audit and Compensation Committees. The Board considered Ms. Camp's background as an executive officer, her experience on public-company boards of directors, particularly in the banking industry, her experience in management and auditing and her expertise in accounting, tax and legal matters in determining that she should serve as a director of the company. The Board has determined that Ms. Camp qualifies as an independent director under the rules of NYSE American.

J. Leland Strange has served as our President since 1983 and our Chief Executive Officer and Chairman of the Board since 1985. He is being nominated for re-election to the Board for a three-year term ending in 2024. The Board considered Mr. Strange's many years of experience as the company's CEO, his familiarity with the industries and customers which our operating companies serve, and his past experience on several boards of directors and audit and compensation committees of other publicly traded companies in determining that he should serve as a director of the company.

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

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

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 size and 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 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 ten times during the year ended December 31, 2020. The Board has established an Audit Committee and a Compensation Committee but has no nominating committee. The Audit Committee of the Board met five times in 2020. During 2020, the Audit Committee consisted of Mr. Chandler (chair), Mr. Moise and Ms. Camp. In 2020, the Audit Committee appointed the company's independent auditor to review its report on the 2020 audit and the 2020 quarterly reviews, and carried out a number of other responsibilities, as outlined in the Audit Committee Charter.

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

The Board has a Compensation Committee consisting of three independent directors, Mr. Chandler, Mr. Moise (chair) and Ms. Camp. The Compensation Committee met once in 2020. The Compensation Committee reviews, makes recommendations and approves the appropriate compensation level for the officers of the company and any changes in the company's various benefit plans covering executive officers or directors as well as administering the company's option plans. The Compensation Committee does not have a charter. Neither the Compensation Committee nor management has engaged a compensation consultant to provide advice or recommendations on the form or amount of executive or director compensation. From time to time, the Compensation Committee has sought input from publicly available data compiled by executive officers of the company relating to compensation paid to executive officers and directors in similar size, publicly traded companies in the same geographic area as the company is located. The Compensation Committee has also solicited input from the CEO with respect to compensation of non-CEO executive officers.

The Compensation Committee considers compensation data based on a comparator group. Our comparator group is intended to be representative of the market in which we compete most directly for executive talent. The selection of companies comprising our comparator group is based on similarity in revenue size, lines of business, participation in global markets and market capitalization. The peer group is constructed to target Intelligent Systems near the median of the composite ranking of the financial and operating metrics of the companies in the comparator group. The comparator group used in 2019 to set 2020 compensation was:

PaySign	American Software	GreenSky	Usio
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In 2020, each director attended all meetings of the Board and Committees on which they served.

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

Executive Officers

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

Name	Age	Position / Principal Occupation
Matthew A. White	39	Chief Financial Officer and Secretary

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

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

Executive Compensation

Summary Compensation Table

Name and Principal Position	Year	Salary \$	Bonus \$	Option Awards \$	Other Annual Compensation \$	Total \$
J. Leland Strange <i>President & Chief Executive Officer</i>	2020	350,000	350,000	--	4,073	704,073
	2019	300,000	350,000	--	4,200	654,200
Matthew A. White <i>Chief Financial Officer & Secretary</i>	2020	200,000	60,000	--	1,949	261,949
	2019	180,000	20,000	380,400	1,955	582,355

The table above sets forth information regarding compensation awarded to, earned by or paid to the company's CEO and the company's most highly compensated person serving as an executive officer during the fiscal year other than the CEO (the "Named Executive Officers"). The Compensation Committee endeavors to provide compensation arrangements that are reasonable given the company's size, the nature of its business and the executive's duties; align pay with creating shareholder value; minimize risky behavior; and reward the executive for his/her contribution to achieving our business goals. Given the nature of our business, the small number of executives and the significant ownership held by Mr. Strange, the Compensation Committee believes that a straight-forward compensation plan that is economical to administer and that consists of a reasonable base salary and appropriate periodic bonuses is appropriate for the company. None of the Named Executive Officers has an employment agreement with the company and the company does not have any corporate non-equity incentive plans or nonqualified deferred compensation plans. From time to time, officers may be awarded bonuses to recognize achievement of corporate or subsidiary goals or other accomplishments. Mr. Strange and Mr. White were awarded bonuses in 2019 and 2020 in recognition of the growth of the company in 2019 and 2020. No options were re-priced in the two year period ended December 31, 2020. All Other Annual Compensation shown above includes matching contributions by the company to the respective accounts of the executive officers pursuant to the terms of our Tax-Deferred Savings and Protection Plan (the "401(k) Plan"). Such amounts are fully vested. It is our policy to provide executives with the same benefits provided to other employees with respect to medical, dental, life insurance and 401(k) plans.

Outstanding Equity Awards at Fiscal Year End

Option Awards

Name	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price	Option Expiration Date
	Exercisable	Unexercisable		
J. Leland Strange	22,500 ¹	--	\$1.72	02/28/2021
	45,000 ²	--	\$1.52	08/01/2021
Matthew A. White	10,000	30,000 ³	\$19.99	01/21/2029

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information as of December 31, 2020 about the company's common stock that may be issued under the 2011 Non-Employee Directors' Stock Option Plan, the 2003 Stock Incentive Plan, as amended in 2011, the 2015 Stock Incentive Plan and the 2020 Non-Employee Directors' Stock Incentive Plan. All plans were approved by shareholders.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders ¹	126,500	\$ 8.94	885,620
Equity compensation plans not approved by security holders	--	--	--
Total	126,500	\$ 8.94	885,620

1. Information pertains to the 2003 Stock Incentive Plan, the 2011 Non-Employee Directors' Stock Option Plan, the 2015 Stock Incentive Plan and the 2020 Non-Employee Directors' Stock Incentive Plan.

Director Compensation

The table below sets forth all compensation earned by non-executive directors in the year ended December 31, 2020. The company has a Non-Employee Directors' Stock Incentive Plan, which allows for an annual grant of \$50,000 of common stock with the number of shares determined by the closing price on the date of the Annual Meeting.

Name	Fees Earned or Paid in Cash \$	Stock Awards ¹ \$	Total \$
A. Russell Chandler, III	50,000	50,000	100,000
Philip H. Moise	50,000	50,000	100,000
Elizabeth W. Camp	20,833	50,000	70,833

1. Pursuant to the 2020 Non-Employee Directors' Stock Incentive Plan, in 2020 each director received 1,460 shares of common stock based on the closing price as of the date of the 2020 Annual Meeting for a total fair value of \$50,000 each.

In 2020, all non-employee directors had the same compensation plan. There was no additional compensation for serving on a committee of the Board of Directors. Total cash compensation for annual board service was \$50,000, earned quarterly. Effective August 7, 2020, the company adopted the 2020 Non-Employee Directors' Stock Incentive Plan, which allows for an annual grant of \$50,000 of common stock with the number of shares determined by the closing price on the date of the Annual Meeting.

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 2020 and through March 15, 2021, 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, 2020 and 2019 and for the years then ended;
- discussed with the independent auditors their reviews of the quarterly unaudited financial statements of the company for fiscal 2020;
- discussed with the independent auditors the matters required to be discussed by the applicable requirements of the PCAOB and the SEC; and
- received from the independent auditors the written disclosures and written affirmation of their independence required by PCAOB Rule 3526 and discussed with the auditors the firm's independence.

Based upon the reviews and discussions summarized above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2020 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE
A. Russell Chandler, III (Chair)
Philip H. Moise
Elizabeth W. Camp

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, Philip H. Moise and Elizabeth W. Camp, all of whom meet the applicable NYSE American independence requirements, participate in the consideration of director nominees. The same individuals also nominate the officers of the company for election by the Board.

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

Communication Between Security Holders and the Board of Directors

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

PROPOSAL 2 – 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 2021 and beyond. The compensation of our Named Executive Officers and our compensation philosophies and practices are described in the Executive Compensation discussion and accompanying tables.

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

Neither the approval nor the disapproval of this proposal will be binding on us or the Board or will be construed as overruling decisions by us or the Board. The company intends to provide shareholder advisory votes on its compensation of Named Executive Officers annually.

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. 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.

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, 2020 and 2019. We expect that representatives of Nichols Cauley will be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions. The Audit Committee has selected Nichols Cauley for the audit for the fiscal year 2021. The following is a summary of fees and expenses billed to the company by Nichols Cauley for services during 2020 and 2019:

Audit Fees - We were billed aggregate fees of \$105,000 and \$157,000 for review and audit services by Nichols Cauley in the years ended December 31, 2020 and 2019, respectively.

All Other Fees - We were billed fees of \$242,000 and \$72,000 in other fees by Nichols Cauley in the years ended December 31, 2020 and 2019, respectively. Such fees were for independent attestation services associated with service auditor SOC 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, 2020.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The lease on our headquarters and primary facility at 4355 Shackleford Road, Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by our Chairman and Chief Executive Officer, J. Leland Strange. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. In the years ended December 31, 2020 and 2019, we paid \$214,000 and \$210,000, respectively, in rent to ISC Properties, LLC, which the company believes to be market rate.

SHAREHOLDERS' PROPOSALS FOR THE ANNUAL MEETING IN 2022

Shareholders who wish to submit a proposal for inclusion in our proxy statement for the 2022 Annual Meeting of Shareholders must submit such proposals so that they are received by the company no later than December 13, 2021. 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 2022 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 15, 2021. 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 15, 2021.

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 5, 2021 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, 2020, including financial statements, schedules and exhibits. Shareholders may also view and download a free copy of our Annual Report on Form 10-K from our web site at www.intelsys.com. Any request for the Form 10-K should be in writing addressed to: Matthew A. White, Intelligent Systems Corporation, 4355 Shackleford Road, Norcross, Georgia 30093. We will provide copies of any exhibits to the Form 10-K upon request and upon the payment of our reasonable expenses in furnishing such exhibits.

IMPORTANT NOTICE CONCERNING THE AVAILABILITY OF PROXY MATERIALS

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

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, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-9330

INTELLIGENT SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Georgia

58-1964787

(State or other jurisdiction of incorporation or organization)

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

4355 Shackleford Road, Norcross, Georgia

30093

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2020 was \$208,401,926 (computed using the closing price of the common stock on June 30, 2020 as reported by the NYSE American).

As of February 28, 2021, 8,928,885 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 27, 2021 are incorporated by reference in Part III hereof.

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PART I

Forward-Looking Statements

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

ITEM 1. BUSINESS

Overview

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

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

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

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

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

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

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

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

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

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

We continue to add resources to expand upon our infrastructure investment to support CoreCard's Processing Services line of business. CoreCard processes prepaid cards and credit cards (private label and open loop/network) for a number of customers and anticipates steadily growing this business further in 2021. CoreCard has multiple secure processing data centers at third party locations, is certified as compliant with the Payment Card Industry (PCI) Data Security Standards and has an SSAE-18 SOC 1 and SOC 2 independent audit report that can be relied on by its prepaid and credit processing customers. It has obtained certification from Discover, MasterCard, Visa, Star and Pulse.

CoreCard added a significant new license customer in 2018, which represented 69% and 60% of our consolidated revenues for the twelve months ended December 31, 2020 and 2019, respectively. We expect future professional services, maintenance, and license revenue from this customer in 2021 and future years, however the amount and timing will be dependent on various factors not in our control such as the number of accounts on file and the level of customization needed by the customer.

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

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

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

configured to the customer's preferences, with an option to license the same software and bring it in-house when and if the customer decides to become its own processor in the future. We believe this transition path for customers is unique in the industry.

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

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

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

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

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

Research and Development

We spent \$5.2 million and \$5.5 million in the years ended December 31, 2020 and 2019, respectively, on Company sponsored research and development. All of our consolidated research and development expense is related to our FinTech business. We maintain a workforce of over 500 employees in our offshore operations in India and Romania for software development and testing, as well as operations support for processing services. We are continuously improving 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, 2021, we had approximately 570 full-time equivalent employees (including our subsidiaries in the United States and foreign countries). Of these, the majority are involved in CoreCard's software development, testing and operations, and 7 in corporate functions. Our employees are not represented by a labor union, we have not had any work stoppages or strikes, and we believe our employee relations are good.

Financial Information About Geographic Areas

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We have a lease covering approximately 17,000 square feet in Norcross, Georgia to house our product development, sales, service and administration operations for our domestic operations. Our Norcross lease was renewed March 31, 2018 for a three year term. We also lease a small office in Timisoara, Romania. We own a 6,350 square foot office facility in Bhopal, India, to house the software development and testing activities of our offshore subsidiaries; we lease approximately 4,700 square feet of additional office space in the same facility in Bhopal, India; and we lease approximately 5,500 square feet in Mumbai, India to house additional staff for our offshore software development activities. We plan to procure additional office space in India and North America to support our continual hiring efforts.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is listed and traded on the NYSE American ("NYSE") under the symbol "INS". We had 175 shareholders of record as of February 15, 2021. This number does not include beneficial owners of our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries. The Company has not paid regular dividends in the past and does not intend to pay dividends in the foreseeable future.

Repurchases of Securities

The following table sets forth information regarding our purchases of shares of our common stock during the three months ended December 31, 2020:

	Total Number of Shares Purchased	Average Price Paid per Share ¹	Total Number of Shares Purchased as Part of Publicly Announced Program ²	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ²
October 1, 2020 to October 31, 2020	-	-	-	\$ 5,000,000
November 1, 2020 to November 30, 2020	42,961	\$ 37.63	42,961	\$ 3,384,000
December 1, 2020 to December 31, 2020	610	\$ 38.47	610	\$ 3,361,000
Total	43,571	\$ 37.62	43,571	\$ 3,361,000

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.

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

Executive Summary

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

Our results vary in part depending on the size and number of software licenses recognized as well as the value and number of professional services contracts recognized in a particular period. As we continue to grow our Processing Services business, we continue to gain economies of scale on the investment we have made in the infrastructure, resources, processes and software features developed over the past number of years to support this growing side of our business. We are adding new processing customers at a faster pace than we are adding new license customers, resulting in steady growth in the processing revenue stream. However, we are also experiencing growth in revenue from license customers due to the addition of a large new customer in 2018, referred to as "Customer A" in the Notes to Consolidated Financial Statements. In total, this customer represented 69 percent and 60 percent of our consolidated revenues for 2020 and 2019, respectively. We expect future professional services, maintenance and license revenue from this customer in 2021 and future years; however, the amount and timing will be dependent on various factors not in our control such as the number of accounts on file and the level of customization needed by the customer. License revenue from this customer, similar to other license arrangements, is tiered based on the number of active accounts on the system. Once the customer achieves each tier level, they receive a perpetual license up to that number of accounts; inactive accounts do not count toward the license tier. The customer receives an unlimited perpetual license at a maximum tier level that allows them to utilize the

¹ This price includes per share commissions paid.

² Our stock repurchase program, which was initially announced in November 2018, allows for the repurchase of up to a total of \$5 million of our common stock, of which \$1.64 million has been utilized. Under this publicly announced program, we are authorized to repurchase shares through open market purchases, privately-negotiated transactions or otherwise in accordance with applicable federal securities laws, including through Rule 10b5-1 trading plans and under Rule 10b-18 of the Exchange Act. The repurchase program does not have an expiration date and may be suspended or discontinued at any time.

software for any number of active accounts. They currently use the software for a single institution and additional license fees apply if multiple institutions are added. Support and maintenance fees are charged based on the tier level achieved and increase at new tier levels.

During 2020, we experienced the loss of a large customer due to insolvency, referred to as "Customer B" in the Notes to Consolidated Financial Statements. We recognized revenue of \$845,000 and \$3,700,000 from this customer for the years ended 2020 and 2019, respectively, a decrease of approximately \$2,855,000 in 2020 as compared to 2019. We opened offices in Dubai and Chennai and hired some of the insolvent company's employees and are in the process of converting some of their customers to our processing platform. We expect revenue in 2021 and future years from servicing these customers and adding new customers in the region.

We typically receive revenue based on the number of active accounts on file rather than transaction volume and therefore the COVID-19 pandemic and related economic slowdown has had a muted impact on our results. Most of our employees in India have been working remotely throughout the pandemic which has impacted our ability to hire and train new employees. We have been able to maintain key functions and business continuity while delivering growth in our professional services revenue; however, the hiring and training constraints could impact future growth in our professional services revenue.

The infrastructure of our multi customer environment is scalable for the future. A significant portion of our expense is related to personnel, including more than 500 employees located in India and Romania. In 2017, we opened a second office in India, located near Mumbai, to enable us to attract the level of talent required for our software development and testing. In October 2020, we opened offices in Dubai, United Arab Emirates and Chennai, India to support CoreCard's expansion of processing services into new markets in the Asia Pacific, Middle East, Africa and European regions. The new offices include engineering, support and business professionals with significant payments industry experience and experience operating CoreCard's Processing platforms in the related regions. Our ability to hire and train employees on our processes and software impacts our ability to onboard new customers and deliver professional services for software customizations. In addition, we have certain corporate office expenses associated with being a public company that impact our operating results.

Our revenue fluctuates from period to period and our results are not necessarily indicative of the results to be expected in future periods. It is difficult to predict the level of consolidated revenue on a quarterly basis for various 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, that may affect the amount, timing and characterization of our deferred and/or recognized revenue.
- Customers typically require our professional services to modify or enhance their CoreCard software implementation based on their specific business strategy and operational requirements, which vary from customer to customer and period to period.
- The timing of new processing customer implementations is often dependent on third party approvals or processes which are typically not under our direct control.

We continue to maintain a strong cash position. We intend to use cash balances to support the domestic and international operations associated with our CoreCard business and to expand our operations in the FinTech industry through financing the growth of CoreCard and, if appropriate opportunities become available, through acquisitions of businesses in this industry. Additionally, in November 2018, our Board of Directors authorized a share repurchase program of \$5 million. We made \$1.6 million in share repurchases in 2020, and no share repurchases were made in 2019.

Results of Operations

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

Revenue – Total revenue for the year ended December 31, 2020 was \$35,873,000 which represents a 5 percent increase over 2019.

- Revenue from services was \$32,273,000 in 2020, which represents a 13 percent increase from 2019 revenue of \$28,578,000. Revenue from transaction processing services, software maintenance and support services, and professional services were greater in 2020 as compared to 2019 due to an increase in the number of customers and accounts on file and an increase in the number and value of professional services contracts completed in 2020. We expect that processing services will continue to grow as our customer base increases; however, the time required to implement new customer programs could be delayed due to third party integration and approval processes and other factors. It is difficult to predict with accuracy the number and value of professional services contracts that our

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.

- Revenue from products, which includes software license fees was \$3,600,000 in 2020, compared to \$5,725,000 in 2019. The decrease results from fewer customers achieving new license tiers in 2020 than in 2019.

Cost of Revenue – Total cost of revenue was 43 percent of total revenue for the twelve months ended December 31, 2020, compared to 34 percent for the twelve months ended December 31, 2019. The increase in cost of revenue as a percentage of revenue is primarily driven by investments made in our processing infrastructure including hardware and software purchases and additional space in our data centers. Cost of revenue includes costs to provide annual maintenance and support services to our installed base of licensed customers, costs to provide professional services and costs to provide our financial transaction processing services. The cost and gross margins on such revenues can vary considerably from period to period depending on the customer mix, customer requirements and project complexity as well as the mix of our U.S. and offshore employees working on the various aspects of services provided. In addition, we continue to devote the resources necessary to support our growing processing business, including direct costs for regulatory compliance, infrastructure, network certifications and customer support. We made significant investments in our processing infrastructure in 2020 in anticipation of adding new processing customers in 2021 and future years. These increased costs, primarily depreciation of new hardware and additional data center space, negatively impacted our margins in 2020 and will continue to do so until we add additional customers. However, we do expect future economies of scale in our processing environment. This may be subject to change in the future if new regulations or processing standards are implemented causing us to incur additional costs to comply.

Operating Expenses – For the twelve months ended December 31, 2020, total operating expenses from consolidated operations were slightly lower as compared to the corresponding period in 2019 primarily due to lower research and development expenses, partially offset by higher general and administrative expenses. Research and development expenses were lower mainly due to lower recognition-based bonus accruals, partially offset by higher payroll and related expense for additional offshore technical personnel. General and administrative expenses increased due to higher stock compensation and salaries expenses due to the new 2020 Non-Employee Directors' Stock Incentive Plan and an increase in headcount, respectively, partially offset by strategic initiatives of the Board in 2019 that did not recur in 2020. Marketing expenses decreased in 2020 as we continued to place less focus on marketing initiatives for CoreCard. Our client base increased in 2020 and 2019 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) – Investment Income (Loss) was a loss of \$1,044,000 in 2020 and income of \$34,000 in 2019. In 2020, we recorded an impairment charge of \$1,009,000 on investments resulting from the economic downturn caused by the recent pandemic.

Other Income, net – Other Income, net was \$378,000 in 2020 and \$99,000 in 2019. The increase is primarily due to higher interest income resulting from higher cash and note receivable balances, partially offset by lower interest rates.

Income Taxes – We recorded \$2,468,000 in 2020 for income tax expense, an effective tax rate of 23.2%, compared to tax expense of \$2,546,000 in 2019, an effective tax rate of 18.8%. The 2019 period benefited from an excess tax benefit related to the exercise of stock options. We expect our future effective tax rate to be within the range of 22-24%.

Liquidity and Capital Resources

Our cash balance at December 31, 2020 was \$37,956,000 compared to \$26,415,000 at December 31, 2019. During the year ended December 31, 2020, cash provided by operations was \$20,966,000 compared to cash provided by operations of \$10,585,000 for the year ended December 31, 2019. The increase is primarily due to lower accounts receivable, an increase in cash held for program management funding, higher depreciation and non-cash investment losses. These increases were partially offset by lower net income and lower accrued payroll.

We used \$6,875,000 of cash to acquire computer equipment and related software primarily to enhance our existing processing environment in the U.S. as well for computer equipment for the technical resources added in our India office during 2020.

We do not expect to pay any regular or special dividends in the foreseeable future. We expect to have sufficient liquidity from cash on hand as well as projected customer payments to support our operations and capital equipment purchases in the foreseeable future. Currently we expect to use cash in excess of what is required for our current operations for opportunities we believe will expand our FinTech business, as exemplified in transactions described in Notes 3 and 5, although there can be no assurance that appropriate opportunities will arise. Additionally, in November 2018, our Board of Directors authorized a share repurchase program of \$5 million. We made share repurchases of \$1.6 million in 2020, and we did not make any share repurchases in 2019.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue is recorded net of applicable sales tax.

Deferred revenue 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 not readily determinable and are based on management’s estimate of realizability of the value of the investment. Future adverse changes in market conditions, poor operating results, lack of progress of the investee company or its inability to raise capital to support its business plan could result in investment losses or an inability to recover the current carrying value of the investment. Our policy with respect to minority interests is to record an impairment charge when we conclude an investment has experienced a decline in value that is other than temporary. At least quarterly, we review our investments to determine any impairment in their carrying value and we write-down any impaired asset at quarter-end to our best estimate of its current realizable value.

We have an equity investment and various loans with a privately held identity and professional services company with ties to the FinTech industry. A portion of the company’s business has been negatively impacted by the pandemic while other portions of its business have improved. We evaluate on a continuing basis whether any impairment indicators are present that would require additional analysis or write-downs of the investment. While we have not recorded an impairment related to this investment or determined that an impairment trigger existed at December 31, 2020, significant variations from current expectations could impact future assessments resulting in future impairment charges.

We also have an investment with a privately held technology company and program manager in the FinTech industry. In the first quarter of 2020, due to the economic downturn resulting from the recent pandemic, we recorded an impairment charge of \$750,000 to reduce the carrying value of the investee company to \$0.

Off-Balance Sheet Arrangements

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

Factors That May Affect Future Operations

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

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

- Weakness or instability in the global financial markets could have a negative impact due to potential customers (most of whom perform some type of financial services) delaying decisions to purchase software or initiate processing services.
- Increased federal and state regulations and reluctance by financial institutions to act as sponsor banks for prospective customers could result in losses and additional cash requirements.
- Our largest customer represented 69% of our consolidated revenues for the twelve months ended December 31, 2020. Failure to meet our responsibilities under the related contract could result in breach of contract and loss of the customer and related future revenues.
- Delays in software development projects could cause our customers to postpone implementations or delay payments, which would increase our costs and reduce our revenue and cash.
- We could fail to deliver software products which meet the business and technology requirements of our target markets within a reasonable time frame and at a price point that supports a profitable, sustainable business model.
- Our processing business is impacted, directly or indirectly, by more regulations than our licensed software business. If we fail to provide services that comply with (or allow our customers to comply with) applicable regulations or processing standards, we could be subject to financial or other penalties that could negatively impact our business.
- Software errors or poor quality control may delay product releases, increase our costs, result in non-acceptance of our software by customers or delay revenue recognition.
- We could fail to expand our base of customers as quickly as anticipated, resulting in lower revenue and profits and increased cash needs.
- We could fail to retain key software developers and managers who have accumulated years of know-how in our target markets and company products or fail to attract and train a sufficient number of new software developers and testers to support our product development plans and customer requirements at projected cost levels.
- Increasing and changing government regulations in the United States and foreign countries related to such issues as data privacy, financial and credit transactions could require changes to our products and services which could increase our costs and could affect our existing customer relationships or prevent us from getting new customers.
- Delays in anticipated customer payments for any reason would increase our cash requirements and could adversely impact our profits.
- Competitive pressures (including pricing, changes in customer requirements and preferences, and competitor product offerings) may cause prospective customers to choose an alternative product solution, resulting in lower revenue and profits (or losses).
- Our future capital needs are uncertain and depend on a number of factors; additional capital may not be available on acceptable terms, if at all.
- Volatility in the markets, including as a result of political instability, civil unrest, war or terrorism, or pandemics or other natural disasters, such as the recent outbreak of coronavirus, could adversely affect future results of operations and could negatively impact the valuation of our investments.
- Other general economic and political conditions could cause customers to delay or cancel purchases.

Recent Accounting Pronouncements – Refer to Note 1 of the Notes to 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, 2020 and 2019
Consolidated Statements of Operations for the years ended December 31, 2020 and 2019
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020 and 2019
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2020 and 2019
Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019
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, 2020. 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 (2013)*. Based on our evaluation management believes that, as of December 31, 2020, the Company's internal control over financial reporting is effective based on those criteria.

ITEM 9B. OTHER INFORMATION

On March 2, 2021, the Board of Directors of the Company adopted and approved, effective immediately, the Amended and Restated Bylaws of the Company (the "Bylaws"). The amendment included, among other things, a new Article Three, Section 3.4 (Election of Directors) of the Bylaws to provide for majority voting in uncontested director elections (as well as conforming changes to certain other sections of the Bylaws). A copy of the Company's Bylaws, including the amendment referenced above, is included as Exhibit 3.2 to this Current Report on Form 10-K and incorporated herein by reference.

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 2021 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. 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 number of securities authorized for issuance under our equity compensation plans as of December 31, 2020.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	126,500	\$ 8.94	885,620
Equity compensation plans not approved by security holders	--	--	--
Total	126,500	\$ 8.94	885,620

We instituted the 2003 Incentive Stock Plan (the “2003 Plan”) in March 2003. The 2003 Plan authorized the issuance of up to 450,000 options to purchase shares of common stock to officers and key employees, with vesting of such options occurring equally over a 3-year time period. In 2013, the 2003 Plan expired with 197,500 options ungranted. In the years ended December 31, 2020 and 2019, no options and 25,000 options, respectively, were exercised under the 2003 Plan. In June 2015, shareholders approved the 2015 Incentive Stock Plan (the “2015 Plan”) which authorizes the issuance of up to 750,000 options to purchase shares of common stock to employees and key consultants and advisors. In 2020 and 2019, no options were exercised under the 2015 Plan. In 2020, no options were granted and in 2019 30,000 options were granted under the 2015 Plan. In 2020, no options were cancelled and in 2019, 10,000 options were cancelled 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 options to purchase shares of common stock to non-employee directors. Upon adoption of the Directors Plan, each non-employee director was granted an option to acquire 5,000 shares. At each Annual Meeting, each director receives a grant of 4,000 options, which vest in 50% increments on the first and second anniversary. The Directors Plan expired in 2011, with 60,000 options ungranted. The shareholders approved a new plan, the 2011 Non-Employee Directors Stock Plan (the “2011 Directors Plan”), in May 2011, with essentially the same terms and conditions as the Directors Plan. In the years ended December 31, 2020 and 2019, no options and 12,000 options were granted to non-employee members of our board of directors at the 2020 and 2019 Annual Meetings, respectively, pursuant to the 2011 Directors Plan. Additionally, in 2020 and 2019, no options and 8,000 options, respectively, were exercised under the Directors Plan. In 2020 and 2019, no options and 74,000 options, respectively, were exercised under the 2011 Directors Plan. In 2019, under the 2011 Directors Plan, 6,000 options were cancelled.

In August 2020, shareholders approved the 2020 Non-Employee Directors’ Stock Incentive Plan (the “2020 Plan”), which replaces the 2011 Director Plan and authorizes the issuance of 200,000 shares of common stock to non-employee directors. During 2020, an aggregate of 4,380 shares totaling \$150,000 were granted to the three independent members of our board of directors pursuant to the 2020 Plan. Pursuant to the terms of the 2020 Plan, the shares were granted at fair market value on the date of the Annual Meeting of Shareholders and vested upon issuance. We expect to grant each independent director \$50,000 of stock on the date of each subsequent Annual Meeting.

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 \$214,000 and \$210,000 in the years ended December 31, 2020 and 2019, respectively.

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 Matthew A. White, Secretary, Intelligent Systems Corporation, 4355 Shackleford Road, Norcross, Georgia 30093; telephone (770) 381-2900. There is a charge of \$.50 per page to cover expenses of copying and mailing.

- 3.1 Amended and Restated Articles of Incorporation of the Registrant dated May 4, 2011. (Incorporated by reference to Exhibit 3(i) of the Registrant's Form 10-Q for the period ended March 31, 2011.)
 - 3.2 Amended and Restated Bylaws of the Registrant dated March 2, 2021.
 - 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
 - (c) 2020 Non-Employee Directors' Stock Incentive 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 4, 2021

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

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

Signature	Capacity	Date
<u>/s/ J. Leland Strange</u> J. Leland Strange	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 4, 2021
<u>/s/ Matthew A. White</u> Matthew A. White	Chief Financial Officer (Principal Accounting and Financial Officer)	March 4, 2021
<u>/s/ A. Russell Chandler III</u> A. Russell Chandler III	Director	March 4, 2021
<u>/s/ Philip H. Moise</u> Philip H. Moise	Director	March 4, 2021
<u>/s/ Elizabeth W. Camp</u> Elizabeth W. Camp	Director	March 4, 2021

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
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NICHOLS, CAULEY & ASSOCIATES, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Intelligent Systems Corporation

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, 2020 and 2019, 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, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, 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 these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 its 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 financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Critical Audit Matter – Revenue Recognition – Refer to Note 1 of the Financial Statements.

Critical Audit Matter Description

The Company recognizes revenue when or as the Company satisfies a customer agreement performance obligation by transferring control of a product or service to a customer, in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

In determining revenue recognition for these customer agreements, judgment may need to be exercised by the Company, and will include the following:

- An assessment of the products and services promised in contracts or customer agreements, and the identification of a performance obligation for each promise to transfer to the customer a product or service that is distinct.
- Determination of relative standalone selling price for distinct performance obligations.
- The timing of product or service delivery for performance obligations.

Given these factors, the related audit effort in evaluating management's judgments in determining revenue recognition for these customer agreements was extensive.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company's revenue recognition for these customer agreements included the following:

- We evaluated the internal controls related to the identification of distinct performance obligations and the determination of the timing of revenue recognition.
- We evaluated management's significant accounting policies related to these customer agreements.
- We selected customer agreements and performed the following procedures:
 - o Obtained and read customer agreements or contracts for each selected agreement.
 - o Evaluated and tested management's identification of significant terms for completeness, including the identification of distinct performance obligations.
 - o From the terms in the customer agreement, evaluated the appropriateness of management's application of their accounting principles, in their determination of revenue recognition conclusions.
- We tested the mathematical accuracy of management's calculations of revenue and the associated timing of revenue recognized in the financial statements.

Critical Audit Matter – Valuation of Investments - Refer to Note 1 and Note 3 to the Financial statements

Critical Audit Matter Description:

The Company evaluates equity method investments for impairment when events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. Should the evaluation indicate impairment of the investment, and the circumstances indicate that the impairment is other than temporary impairment, the impairment is recognized through a reduction of the carrying amount of the investment.

Concluding on identifying events or circumstances regarding the recoverability of an investment carrying amount, measuring impairment, and determining if impairment is other than temporary, involve significant and complex management judgment, specific to a particular investment.

How the Critical Audit Matter Was Addressed in the Audit:

Our principal audit procedures related to the Company's process for equity method investment other than temporary impairment evaluation included:

- We evaluated the internal controls related to the identification of events of changes in circumstances indicating that the carrying amount of an investment might not be recoverable.
- We obtained and read management's equity method investment assessment documentation for evaluating events or changes that may indicate that the carrying amount of an investment might not be recoverable.
- We reviewed management's assessment of events or changes in circumstances for reasonableness.
- We evaluated management's significant accounting policies related to the identification of other than temporary impairment.

/s/ Nichols, Cauley and Associates, LLC

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

Atlanta, Georgia

March 4, 2021

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

As of December 31,	2020	2019
ASSETS		
Current assets:		
Cash	\$ 37,956	\$ 26,415
Accounts receivable, net	3,270	8,759
Other current assets	1,263	905
Total current assets	42,489	36,079
Investments	1,921	3,081
Notes and interest receivable	2,681	1,795
Property and equipment, at cost less accumulated depreciation	6,914	2,177
Other long-term assets	3,020	1,108
Total assets	\$ 57,025	\$ 44,240
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 714	\$ 403
Deferred revenue, current portion	1,322	689
Accrued payroll	1,901	2,503
Accrued expenses	321	153
Income tax payable	954	1,100
Other current liabilities	4,850	1,345
Total current liabilities	10,062	6,193
Deferred revenue, net of current portion	--	23
Deferred tax liability	818	275
Long-term lease obligation	1,994	460
Total noncurrent liabilities	2,812	758
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.01 par value: Authorized shares - 20,000,000;		
Issued shares - 8,929,368 and 8,924,988 at December 31, 2020 and 2019, respectively;		
Outstanding shares - 8,885,797 and 8,924,988 at December 31, 2020 and 2019, respectively	89	89
Additional paid-in capital	15,836	15,450
Treasury stock, 43,571 and 0 shares as of December 31, 2020 and 2019, respectively, at cost	(1,639)	--
Accumulated other comprehensive loss	(140)	(94)
Accumulated income	30,005	21,844
Total stockholders' equity	44,151	37,289
Total liabilities and stockholders' equity	\$ 57,025	\$ 44,240

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,	2020	2019
Revenue		
Services	\$ 32,273	\$ 28,578
Products	3,600	5,725
Total net revenue	35,873	34,303
Cost of revenue		
Services	15,427	11,759
Products	--	--
Total cost of revenue	15,427	11,759
Expenses		
Marketing	132	151
General and administrative	3,866	3,495
Research and development	5,153	5,516
Income from operations	11,295	13,382
Investment income (loss)	(1,044)	34
Other income	378	99
Income before income taxes	10,629	13,515
Income taxes	2,468	2,546
Net income	\$ 8,161	\$ 10,969
Earnings per share:		
Basic	\$0.91	\$1.24
Diluted	\$0.91	\$1.22
Basic weighted average common shares outstanding	8,919,602	8,873,071
Diluted weighted average common shares outstanding	9,014,985	8,967,901

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

Year Ended December 31,	2020	2019
Net income	\$ 8,161	\$ 10,969
Other comprehensive income (loss):		
Foreign currency translation adjustments	(46)	(2)
Comprehensive income	\$ 8,115	\$ 10,967

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

<i>(in thousands, except share amounts)</i>	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Earnings	Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2018	8,817,988	\$ 88	\$ 15,050	\$ --	\$ (92)	\$ 10,875	\$ 25,921
Stock options exercised	107,000	1	209				210
Net income						10,969	10,969
Stock compensation expense			191				191
Foreign currency translation adjustment					(2)		(2)
Balance at December 31, 2019	8,924,988	\$ 89	\$ 15,450	\$ --	\$ (94)	\$ 21,844	\$ 37,289
Common stock repurchased*	(43,571)			(1,639)			(1,639)
Net income						8,161	8,161
Stock compensation expense	4,380		386				386
Foreign currency translation adjustment					(46)		(46)
Balance at December 31, 2020	8,885,797	\$ 89	\$ 15,836	\$ (1,639)	\$ (140)	\$ 30,005	\$ 44,151

*At December 31, 2020, approximately \$3,361,000 was authorized for future repurchases of our common stock.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

CASH PROVIDED BY (USED IN):	Year Ended December 31,	
	2020	2019
OPERATING ACTIVITIES:		
Net income	\$ 8,161	\$ 10,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,138	1,012
Stock-based compensation expense	386	191
Gain on sale of investment	(125)	(34)
Provision for deferred income taxes	543	555
Non-cash investment loss	1,009	--
Non-cash interest income	(131)	(49)
Equity in loss of affiliate company	400	332
Changes in operating assets and liabilities:		
Accounts receivable, net	5,489	(5,028)
Other current assets	(358)	224
Other long-term assets	22	61
Accounts payable	311	131
Accrued payroll	(602)	1,358
Deferred revenue, current portion	633	(92)
Accrued expenses	168	82
Other current liabilities	2,945	961
Deferred revenue, net of current portion	(23)	(88)
Net cash provided by operating activities	20,966	10,585
INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,875)	(1,676)
Advances on note and interest receivable	(1,000)	(2,000)
Proceeds from sale of investments	135	379
Net cash used in investing activities	(7,740)	(3,297)
FINANCING ACTIVITIES:		
Sale of capital stock pursuant to exercise of option	--	210
Repurchases of common stock	(1,639)	--
Net cash (used in) provided by financing activities	(1,639)	210
Effects of exchange rate changes on cash	(46)	(2)
Net increase in cash	11,541	7,496
Cash at beginning of year	26,415	18,919
Cash at end of year	\$ 37,956	\$ 26,415
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 1,826	\$ 1,159

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Nature of Operations – Our operations consist primarily of our CoreCard Software, Inc. (“CoreCard”) subsidiary and its affiliate companies in Romania, India and Dubai, as well as the corporate office in Atlanta, Georgia 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, 2020 is adequate. However, actual write-offs might exceed the recorded allowance. Refer to Note 4 for additional information.

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.

The cost of each major class of property and equipment at December 31, 2020 and 2019 is as follows:

<i>(in thousands)</i>	Useful life in years	2020	2019
Machinery and equipment	3-5	\$ 11,793	\$ 4,995
Furniture and fixtures	5-7	210	203
Building	39	306	301
		12,309	5,499
Accumulated depreciation		(5,395)	(3,322)
Property and equipment, net		\$ 6,914	\$ 2,177

Depreciation expense was \$2,138,000 and \$1,012,000 in 2020 and 2019, respectively. These expenses are included in general and administrative expenses or, for assets associated with our processing data centers, are included in cost of services.

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

At December 31, 2020 and 2019, the aggregate value of investments was \$1,921,000 and \$3,081,000, respectively.

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

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

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

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

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

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

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

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

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

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

The fair value of equity method 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. The fair value of our cost method investments was determined using Level 3 inputs.

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

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

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

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

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

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

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

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

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

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

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

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

Revenue is recorded net of applicable sales tax.

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

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

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

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

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

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

Stock Based Compensation – We record compensation cost related to unvested stock-based awards by recognizing the unamortized grant date fair value on a straight line basis over the vesting periods of each award. We have estimated forfeiture rates based on our historical experience. Stock option compensation expense for the years ended December 31, 2020 and 2019 has been recognized as a component of general and administrative expenses in the accompanying Consolidated Financial Statements. We recorded \$386,000 and \$191,000 of stock-based compensation expense for the years ended December 31, 2020 and 2019, respectively.

There were 4,380 shares granted in the year ended December 31, 2020, pursuant to the 2020 Non-employee Directors' Stock Incentive Plan, and a total of 12,000 options were granted in the year ended December 31, 2019, pursuant to the 2011 Non-employee Directors Stock Option Plan. No options were granted in 2020. The fair value of each option granted in 2019 has been estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Year ended December 31,	2020	2019
Risk free interest rate	N/A	2.58%
Expected life of option in years	N/A	10
Expected dividend yield rate	N/A	0%
Expected volatility	N/A	51%

Under these assumptions, the weighted average fair value of options granted in 2019 was \$16.15 per share. 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 and stock grants. The total remaining unrecognized compensation cost at December 31, 2020 related to unvested options was \$235,000 and is expected to be recognized by the first quarter of 2022.

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

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

Comprehensive Income (Loss) – Comprehensive income (loss) represents net income adjusted for the results of certain stockholders' equity changes not reflected in the Consolidated Statements of Operations. These items are accumulated over time as "accumulated other comprehensive loss" on the Consolidated Balance Sheets 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.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, to require financial assets carried at amortized cost to be presented at the net amount expected to be collected based on historical experience, current conditions and forecasts. Subsequently, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, to clarify that receivables arising from operating leases are within the scope of lease accounting standards. Further, the FASB issued ASU No. 2019-04, ASU No. 2019-05, ASU 2019-10 and ASU 2019-11 to provide additional guidance on the credit losses standard. The ASUs are effective for interim and annual periods beginning after December 15, 2022, with early adoption permitted. Adoption of the ASUs is on a modified retrospective basis. We plan to adopt the ASUs on January 1, 2023. The ASUs are currently not expected to have a material impact on our Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating consolidated income taxes to separate financial statements of entities not subject to income tax. This standard is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. We plan to adopt this standard in the first quarter of 2021 and the adoption is not expected to have a material impact on the Consolidated Financial Statements.

In January 2020, the FASB issued ASU 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (“ASU 2020-01”), which clarifies certain interactions between the guidance to account for certain equity securities, investments under the equity method of accounting and forward contracts or purchased options to purchase securities under Topic 321, Topic 323 and Topic 815. For public entities, ASU 2020-01 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2020. We plan to adopt this standard in the first quarter of 2021 and the adoption is not expected to have a material impact on the Consolidated Financial Statements.

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

REVENUE

Disaggregation of Revenue

In the following table, revenue is disaggregated by type of revenue for the years ended December 31, 2020 and 2019:

Year ended December 31, (in thousands)	2020	2019
License	\$ 3,600	\$ 5,725
Professional services	20,610	19,203
Processing and maintenance	10,228	7,650
Third party	1,435	1,725
Total	\$ 35,873	\$ 34,303

Foreign revenues are based on the location of the customer. Revenues from customers by geographic areas for the years ended December 31, 2020 and 2019 are as follows:

Year ended December 31, (in thousands)	2020	2019
European Union	\$ 1,009	\$ 3,834
United States	34,864	30,469
Total	\$ 35,873	\$ 34,303

2. INVESTMENTS

Beginning in 2017, and in subsequent periods we entered into a Loan Agreement and various Promissory Notes with a privately held identity and professional services company with ties to the FinTech industry. In June 2019, we converted the Loan Agreement and all Promissory Notes into equity resulting in ownership of 40 percent of the company. We account for our investment using the equity method of accounting which resulted in losses of \$400,000 and \$332,000 for the twelve months ended December 31, 2020 and 2019, respectively, included in investment loss on the Consolidated Statement of Operations. The carrying value of \$1,921,000 is included in long-term investments. A portion of the company's business has been negatively impacted by the pandemic while other portions of its business have improved. We evaluate on a continuing basis whether any impairment indicators are present that would require additional analysis or write-downs of the investment. While we have not recorded an impairment related to this investment or determined that an impairment trigger existed at December 31, 2020, significant variations from current expectations could impact future assessments resulting in future impairment charges.

On December 30, 2016 we signed an agreement to invest \$1,000,000 in a privately held technology company and program manager in the FinTech industry, with \$500,000 of the investment held in escrow to pay future fees to CoreCard pursuant to a Processing Agreement entered into by the parties. The investment was funded on January 4, 2017. In the quarter ended June 30, 2018, we recorded an impairment charge of \$250,000 to reduce the carrying value due to the investee's limited funding to support its operation and sales and marketing efforts. In the quarter ended March 31, 2020, due to the uncertainty from the economic downturn resulting from the recent pandemic, we determined that the fair value of our investment was \$0 and therefore we recorded an impairment charge of \$750,000, included in investment loss on the Consolidated Statement of Operations for the quarter ended March 31, 2020. CoreCard remains in an ongoing business relationship with the company pursuant to a Processing Agreement and a Program Management Services Agreement. CoreCard is positioned to assume the program management aspects of the investee company if the need should arise to ensure their program(s) ongoing viability and the completion of the Processing Agreement with CoreCard. As program manager for this company, we receive cash periodically to fund the customer's various programs. At December 31, 2020, we held \$3,335,000 in cash on behalf of this customer which is included in other current liabilities on the Consolidated Balance Sheet.

As of December 31, 2019, we owned 25.5% of NKD Enterprises, LLC and accounted for our investment under the equity method of accounting. We recorded our portion of the company's losses until the value of the investment reached zero. In 2020, our ownership of the entity was diluted to 10%. As a result, our accounting method for this investment changed from equity method to cost method. We received a \$230,000 distribution from the company in the fourth quarter of 2020, included in investment income on the Consolidated Statement of Operations.

ACCOUNTS RECEIVABLE AND CUSTOMER CONCENTRATIONS

At December 31, 2020 and 2019, our allowance for doubtful accounts was \$0. There were no charges against the allowance for doubtful accounts in 2020 or 2019.

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	
	2020	2019	2020	2019
Customer A	69%	60%	59%	80%
Customer B	2%	11%	10%	11%
Customer C	10%	6%	6%	2%

3. NOTES RECEIVABLE

During the quarter ended September 30, 2017, we entered into a Loan Agreement with a privately-held identity and professional services company with ties to the FinTech industry. We committed to lend up to \$1,500,000 all of which has been advanced as of December 31, 2019. During 2018, we advanced \$550,000 on three separate simple Promissory Note(s). As discussed in Note 3, we converted the Loan Agreement and all outstanding Promissory Notes to an equity ownership of 40 percent of the company. At the same time, we entered into and advanced a \$1,000,000 Loan Agreement that bears interest at the rate of 6.0 percent annually with a maturity date of June 2021. In October 2019 and January 2020, we entered into Loan Agreements and advanced an additional \$500,000 and \$1,000,000, respectively, that bears interest at the rate of 6.0 percent annually with maturity dates of October 2021 and January 2022, respectively. We have deferred payment of these Loans to December 2023 and have therefore classified the Loans as long-term.

In the quarter ended March 31, 2018, we entered into a Convertible Loan Agreement with a private limited India based company in the FinTech industry. We committed to lend up to \$435,000 with an initial advance of \$235,000. The loan bears interest at the rate of 5.0 percent annually with the maturity date on the third anniversary of funding of such Promissory Note. We are entitled to convert the principal on the initial note for up to ten percent ownership of shares of the company. Due to the economic downturn resulting from the Indian government's response to COVID-19 and the impact of the economic downturn on the private limited India based company, we have determined that the principal and interest is likely not collectible and therefore recorded a valuation allowance for the quarter ended March 31, 2020 of \$259,000, included in investment loss on the Consolidated Statement of Operations.

4. INCOME TAXES

The income tax provision from operations consists of the following:

Year ended December 31, (in thousands)	2020	2019
Current	\$ 1,925	\$ 1,991
Deferred	543	555
Total	\$ 2,468	\$ 2,546

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

Year ended December 31,	2020	2019
Statutory rate	21 %	21 %
State and local taxes, net of federal benefit	4.7	3.7
Equity compensation	0.3	(5.7)
Foreign tax credit	(2.7)	--
Other	(0.1)	(0.2)
Effective rate	23.2%	18.8%

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

<i>(in thousands)</i>	2020	2019
Deferred tax (liabilities) assets:		
Unrealized loss on investments	\$ 788	\$ 582
Foreign Tax Credit	124	--
Fixed assets	(1,347)	(370)
Other	134	95
Total deferred tax (liability) asset	(301)	307
Less valuation allowance	(517)	(582)
Net deferred tax liability	\$ (818)	\$ (275)

We had net deferred tax liabilities of approximately \$0.8 million and \$0.3 million at December 31, 2020 and December 31, 2019, respectively. The gross deferred tax asset/liability has been offset by a valuation allowance in 2020 and 2019 of \$0.5 million and \$0.6 million, respectively, because the Company believes that it is more likely than not that the amount will not be realized. We have maintained a valuation allowance on deferred tax assets resulting from unrealized capital losses as we are not able to conclude that it is more likely than not that these will be realized due to the unpredictability of future capital gains. No deferred taxes have been provided on temporary differences related to investments in foreign subsidiaries because these investments are considered to be permanent.

We have recognized tax benefits from all tax positions we have taken, and there has been no adjustment to any carry forwards (net operating loss or research and development credits) in the past two years. There were no unrecognized tax benefits as of December 31, 2020 and 2019. 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. With few exceptions we are no longer subject to U.S. federal, state and local or foreign income tax examinations by taxing authorities for returns filed more than three years ago.

5. COMMITMENTS AND CONTINGENCIES

Leases

We have noncancelable operating leases for offices and data centers expiring at various dates through March 2025. These operating leases are included in other long-term assets on the Company's Consolidated Balance Sheets and represent the Company's right to use the underlying asset for the lease term. The Company's obligation to make lease payments are included in other current liabilities and long-term lease obligation on the Company's Consolidated Balance Sheets. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

Supplemental Information—Leases

Supplemental information related to our right-of-use assets and related lease liabilities is as follows:

Year Ended December 31,	2020	2019
Right-of-use asset, net and lease liabilities (in thousands)	\$ 2,889	\$ 945
Cash paid for operating lease liabilities (in thousands)	\$ 1,033	\$ 563
Weighted average remaining lease term (years)	3.5	1.1
Weighted average discount rate	3.8%	5.5%

Maturities of our operating lease liabilities as of December 31, 2020 is as follows:

	Operating Leases (In thousands)	
2021		\$ 983
2022		795
2023		718
2024		495
Thereafter		108
Total lease liabilities		\$ 3,099

Lease expense for the years ended December 31, 2020 and 2019 consisted of the following:

Year Ended December 31, (in thousands)	2020	2019
Cost of revenue	\$ 725	\$ 230
General and administrative	214	210
Research and development	113	123
Total	\$ 1,052	\$ 563

Legal Matters

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

On or about February 14, 2020, two purported shareholders, derivatively and on behalf of the Company, filed substantially similar shareholder derivative actions in the Eastern District of New York against certain current and former directors and officers (the “Individual Defendants”), and the Company as a nominal defendant (together with the Individual Defendants, the “Defendants”). The complaints assert a claim against Messrs. Strange, Moise, Petit, Fuzzell and Chandler for a violation of Section 14(a) of the Securities Exchange Act by issuing purportedly misleading statements in the Company’s 2017 and 2018 Proxies. The complaints also assert claims against the Individual Defendants for breaches of fiduciary duty, waste of corporate assets, and unjust enrichment arising out of, among other things, purportedly undisclosed related party transactions, other relationships, and certain allegations against former director Parker H. Petit in connection with his former position with MiMedx, Inc. and other companies. The relief sought in the complaints includes changes to the Company’s corporate governance procedures, unspecified damages, equitable relief, restitution, and attorney’s fees and costs. On April 20, 2020, the two derivative actions were consolidated and captioned, *In re Intelligent Systems Corporation Stockholder Derivative Litigation*, Lead Case No. 1:20-cv-00832, in the Eastern District of New York (the “Derivative Matter”). On June 19, 2020, Defendants filed their motion to dismiss, and briefing was subsequently completed.

After a conference held on August 24, 2020, the parties agreed that Defendants' motion to dismiss would be temporarily withdrawn without prejudice to refile after the conclusion of any discovery permitted by further Court order. On September 8, 2020, Plaintiffs moved for leave to conduct limited discovery ("Plaintiffs' Motion for Discovery"). On December 23, 2020, the Court entered a stipulation among the parties whereby Plaintiffs' Motion for Discovery shall be withdrawn, the Company will engage in limited discovery, and the parties agree that the Derivative Matter shall be stayed pending resolution of the motion to dismiss in the related above-mentioned securities litigation matter, among other things.

6. 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 \$46,000 and \$41,000 in 2020 and 2019, respectively.

7. 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 \$214,000 and \$210,000 to ISC Properties, LLC in the years ended December 31, 2020 and 2019, respectively. We have determined that ISC Properties, LLC is not a variable interest entity.

8. STOCK COMPENSATION PLANS

We instituted the 2003 Incentive Stock Plan (the "2003 Plan") in March 2003. The 2003 Plan authorized the issuance of up to 450,000 options to purchase shares of common stock to officers and key employees, with vesting of such options occurring equally over a 3-year time period. In 2013, the 2003 Plan expired with 197,500 options ungranted. In the years ended December 31, 2020 and 2019, no options and 25,000 options, respectively, were exercised under the 2003 Plan. In June 2015, shareholders approved the 2015 Incentive Stock Plan (the "2015 Plan") which authorizes the issuance of up to 750,000 options to purchase shares of common stock to employees and key consultants and advisors. In 2020 and 2019, no options were exercised under the 2015 Plan. In 2020, no options were granted and in 2019 30,000 options were granted under the 2015 Plan. In 2019, 10,000 options were cancelled 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 options to purchase shares of common stock to non-employee directors. Upon adoption of the Directors Plan, each non-employee director was granted an option to acquire 5,000 shares. At each Annual Meeting, each director receives a grant of 4,000 options, which vest in 50% increments on the first and second anniversary. The Directors Plan expired in 2011, with 60,000 options ungranted. The shareholders approved a new plan, the 2011 Non-Employee Directors Stock Plan (the "2011 Directors Plan"), in May 2011, with essentially the same terms and conditions as the Directors Plan. In the years ended December 31, 2020 and 2019, no options and 12,000 options were granted to non-employee members of our board of directors at the 2020 and 2019 Annual Meetings, respectively, pursuant to the 2011 Directors Plan. Additionally, in 2020 and 2019, no options and 8,000 options, respectively, were exercised under the Directors Plan. In 2020 and 2019, no options and 74,000 options, respectively, were exercised under the 2011 Directors Plan. In 2020, no options were cancelled and in 2019, under the 2011 Directors Plan, 6,000 options were cancelled.

In August 2020, shareholders approved the 2020 Non-Employee Directors' Stock Incentive Plan (the "2020 Plan"), which replaces the 2011 Director Plan and authorizes the issuance of 200,000 shares of common stock to non-employee directors. During 2020, an aggregate of 4,380 shares totaling \$150,000 were granted to the three independent members of our board of directors pursuant to the 2020 Plan. Pursuant to the terms of the 2020 Plan, the shares were granted at fair market value on the date of the Annual Meeting of Shareholders and vested upon issuance. We expect to grant each independent director \$50,000 of stock on the date of each subsequent Annual Meeting.

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, 2020, a total of 1,356,500 options under all plans have been granted, 947,320 have been exercised, 282,680 have been cancelled, 102,500 are fully vested and exercisable and 24,000 are not vested. All options expire ten years from their respective dates of grant.

As of December 31, 2020, there was \$235,000 of unrecognized compensation cost related to stock options granted under the plans, which is expected to be recognized by the first quarter of 2022.

Stock option activity during the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
Options outstanding at January 1	126,500	207,500
Options cancelled	-	(16,000)
Options exercised	-	(107,000)
Options granted	-	42,000
Options outstanding at December 31	126,500	126,500
Options available for grant at December 31	885,620	763,000
Options exercisable at December 31	102,500	84,500
Exercise price ranges per share:		
Granted	N/A	\$19.99 - \$39.11
Exercised	N/A	\$ 0.69 - \$ 7.80
Outstanding	\$ 1.52 - \$ 39.11	\$ 1.52 - \$ 39.11
Weighted average exercise price per share:		
Granted	-	\$ 25.45
Exercised	-	\$ 1.97
Outstanding at December 31	\$ 8.94	\$ 8.94
Exercisable at December 31	\$ 5.61	\$ 2.21

The following tables summarize information about the stock options outstanding under the Company's option plans as of December 31, 2020.

Options Outstanding:

Range of Exercise Price	Number Outstanding	Wgt. Avg. Contractual Life Remaining (in years)	Wgt. Avg. Exercise Price	Aggregate Intrinsic Value
\$1.52 - \$1.72	67,500	0.5	\$ 1.59	\$ 2,600,325
\$3.50 - \$39.11	59,000	7.6	\$ 17.35	\$ 1,342,770
\$1.52 - \$39.11	126,500	3.8	\$ 8.94	\$ 3,943,095

Options Exercisable:

Range of Exercise Price	Number Exercisable	Wgt. Avg. Contractual Life Remaining (in years)	Wgt. Avg. Exercise Price	Aggregate Intrinsic Value
\$1.52 - \$1.72	67,500	0.5	\$ 1.59	\$ 2,600,325
\$3.50 - \$39.11	35,000	7.3	\$ 13.36	\$ 936,370
\$1.52 - \$39.11	102,500	2.8	\$ 5.61	\$ 3,536,695

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, 2020 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, 2020. The amount of aggregate intrinsic value will change based on the fair value of the Company's common stock.

9. FOREIGN OPERATIONS

In 2003, we established a subsidiary of CoreCard Software in Romania for software development and testing activities. In 2006, we established a subsidiary in India for additional software development and testing activities as well as support for processing operations. In October 2020, we opened offices in Dubai, United Arab Emirates and Chennai, India to support CoreCard's expansion of processing services into new markets in the Asia Pacific, Middle East, Africa and European regions. The new offices include engineering, support, and business professionals with significant payments industry experience and experience operating CoreCard's Processing platforms in the related regions. 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 \$156,000 and \$153,000 at December 31, 2020 and 2019, respectively, substantially all long-lived assets are in the United States.

At December 31, 2020 and 2019, continuing operations of foreign subsidiaries had assets of \$1,958,000 and \$1,226,000, respectively, and total liabilities of \$1,754,000 and \$1,267,000, 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.

10. 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.

11. EARNINGS PER SHARE

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

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

Year ended December 31, (in thousands, except per share data)	2020	2019
Basic		
Net income	\$ 8,161	\$ 10,969
Weighted average common shares outstanding	8,920	8,873
Earnings per share	\$ 0.91	\$ 1.24
Diluted		
Net income	\$ 8,161	\$ 10,969
Weighted average common shares outstanding	8,920	8,873
Effect of dilutive potential common shares: stock options	95	95
Total	9,015	8,968
Earnings per share	\$ 0.91	\$ 1.22

At both December 31, 2020 and 2019, there were 95,000 dilutive stock options exercisable.

INVESTOR INFORMATION

Directors and Officers

J. Leland Strange*

Chairman of the Board, President
and Chief Executive Officer

A. Russell Chandler, III^{*1&2}

Retired, Chairman of Whitehall Group, Ltd.

Philip H. Moise^{*1&2}

Former Executive Vice President and General Counsel
Immucor, Inc.

Elizabeth W. Camp^{*1&2}

Chief Executive Officer of DF Management, Inc.

Matthew A. White

Chief Financial Officer and Corporate Secretary

* director

¹ audit committee

² compensation committee

Auditors

Nichols, Cauley & Associates, LLC
Atlanta, Georgia

Legal Counsel

Ledbetter Wanamaker Glass LLP
Atlanta, Georgia

Transfer Agent and Registrar

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

Annual Meeting

The Annual Meeting of Shareholders will be held
May 27, 2021 at 4:00 p.m. at our principle executive offices at
4355 Shackleford Road, Norcross, GA 30093.

Communication from the Company

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

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

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

Intelligent Systems

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