

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](http://www.intelsys.com). We publish our Securities and Exchange Commission (“SEC”) reports on our website as soon as reasonably practicable after we file them with or furnish them to the SEC, and shareholders may access and download these reports free of charge.

We are primarily engaged in the business of providing technology solutions and processing services to the financial technology and services market, commonly referred to as the FinTech industry. Our FinTech operations are conducted through our 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 <sup>1</sup>	Total Number of Shares Purchased as Part of Publicly Announced Program <sup>2</sup>	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program <sup>2</sup>
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.

<sup>1</sup> This price includes per share commissions paid.

<sup>2</sup> 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.

## 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 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-elapsing 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](http://www.intelsys.com). We also disclose on our website, within the time required by the rules of the SEC, any waivers of, or amendments to, the Code of Ethics for the benefit of an executive officer.

### ITEM 11. EXECUTIVE COMPENSATION

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

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

The following table sets forth the 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	--	--	--
<b>Total</b>	<b>126,500</b>	<b>\$ 8.94</b>	<b>885,620</b>

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 Shackelford Road, Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by J. Leland Strange, our Chairman and Chief Executive Officer. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. We paid ISC Properties, LLC \$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:

<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
<u>/s/ J. Leland Strange</u> J. Leland Strange	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 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:

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Consolidated Balance Sheets at December 31, 2020 and 2019	F-4
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**NICHOLS, CAULEY & ASSOCIATES, LLC**

3550 Engineering Drive, Suite 250  
Peachtree Corners, Georgia 30092  
404-214-1301 FAX 404-214-1302  
atlanta@nicholscauley.com

**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 the 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
<b>ASSETS</b>		
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
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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
<b>Revenue</b>		
Services	\$ 32,273	\$ 28,578
Products	3,600	5,725
Total net revenue	35,873	34,303
<b>Cost of revenue</b>		
Services	15,427	11,759
Products	--	--
Total cost of revenue	15,427	11,759
<b>Expenses</b>		
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
<b>Earnings per share:</b>		
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
<b>Other comprehensive income (loss):</b>		
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>	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>		<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Loss</b>		<b>Accumulated Earnings</b>	<b>Stockholders' Equity</b>
	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)*

<b>CASH PROVIDED BY (USED IN):</b>	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES:</b>		
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)
<b>Net cash provided by operating activities</b>	<b>20,966</b>	<b>10,585</b>
<b>INVESTING ACTIVITIES:</b>		
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
<b>Net cash used in investing activities</b>	<b>(7,740)</b>	<b>(3,297)</b>
<b>FINANCING ACTIVITIES:</b>		
Sale of capital stock pursuant to exercise of option	--	210
Repurchases of common stock	(1,639)	--
<b>Net cash (used in) provided by financing activities</b>	<b>(1,639)</b>	<b>210</b>
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
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
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>	<b>Useful life in years</b>	<b>2020</b>	<b>2019</b>
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:

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
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.

## 2. REVENUE

### *Disaggregation of Revenue*

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

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

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:

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

## 3. 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.

#### 4. 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%

#### 5. NOTES RECEIVABLE

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

## 6. INCOME TAXES

The income tax provision from operations consists of the following:

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

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

<b>Year ended December 31,</b>	<b>2020</b>		<b>2019</b>	
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)
<b>Effective rate</b>		<b>23.2%</b>		<b>18.8%</b>

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

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

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.

## 7. 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

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.

## 8. DEFINED CONTRIBUTION PLANS

We maintain a 401(k) defined contribution plan covering all U.S. employees. Our matching contributions, net of forfeitures, under the plan, which are optional and based on the level of individual participant's contributions, amounted to \$46,000 and \$41,000 in 2020 and 2019, respectively.

## 9. RELATED PARTY TRANSACTION

The lease on our headquarters and primary facility in Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by our Chairman and Chief Executive Officer, J. Leland Strange. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. We paid rent of \$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.

## 10. 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:

	<b>2020</b>	<b>2019</b>
Options outstanding at January 1	126,500	207,500
Options cancelled	-	(16,000)
Options exercised	-	(107,000)
Options granted	-	42,000
<b>Options outstanding at December 31</b>	<b>126,500</b>	<b>126,500</b>
<b>Options available for grant at December 31</b>	<b>885,620</b>	<b>763,000</b>
<b>Options exercisable at December 31</b>	<b>102,500</b>	<b>84,500</b>
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.

**11. FOREIGN OPERATIONS**

In 2003, we established a subsidiary of CoreCard Software in Romania for software development and testing activities. In 2006, we established a subsidiary in India for additional software development and testing activities as well as support for processing operations. 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.

**12. INDUSTRY SEGMENTS**

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

**13. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income (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:

<b>Year ended December 31, (in thousands, except per share data)</b>	<b>2020</b>		<b>2019</b>	
<b>Basic</b>				
Net income	\$	8,161	\$	10,969
Weighted average common shares outstanding		8,920		8,873
Earnings per share	\$	0.91	\$	1.24
<b>Diluted</b>				
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.

**AMENDED AND RESTATED BYLAWS**  
**OF**  
**INTELLIGENT SYSTEMS CORPORATION**  
(as amended and restated March 2, 2021)

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**AMENDED AND RESTATED BYLAWS  
OF  
INTELLIGENT SYSTEMS CORPORATION**

(as amended and restated March 2, 2021)

References in these Amended and Restated Bylaws (the "Bylaws") to "Articles of Incorporation" are to the Articles of Incorporation of Intelligent Systems Corporation, a Georgia corporation (the "Corporation"), as amended and restated from time to time.

All of these Bylaws are subject to contrary provisions, if any, of the Articles of Incorporation (including provisions designating the preferences, limitations, and relative rights of any class or series of shares), the Georgia Business Corporation Code (the "Code"), and other applicable law, as in effect on and after the effective date of these Bylaws. References in these Bylaws to "Sections" shall refer to sections of the Bylaws, unless otherwise indicated.

**ARTICLE ONE  
Office**

**1.1 Registered Office and Agent.** The Corporation shall maintain a registered office and shall have a registered agent whose business office is the same as the registered office.

**1.2 Principal Office.** The principal office of the Corporation shall be at the place designated in the Corporation's annual registration with the Georgia Secretary of State.

**1.3 Other Offices.** In addition to its registered office and principal office, the Corporation may have offices at other locations either in or outside the State of Georgia.

**ARTICLE TWO  
Shareholders' Meetings**

**2.1 Place of Meetings.** Meetings of the Corporation's shareholders may be held at any location inside or outside the State of Georgia designated by the Board of Directors or any other person or persons who properly call the meeting, or if the Board of Directors or such other person or persons do not specify a location, at the Corporation's principal office.

**2.2 Annual Meetings.** The Corporation shall hold an annual meeting of shareholders, at a time determined by the Board of Directors, to elect directors and to transact any business that properly may come before the meeting. The annual meeting may be combined with any other meeting of shareholders, whether annual or special.

**2.3 Special Meetings.** Special meetings of the shareholders of one or more classes of the series of the Corporation's shares may be called at any time by the Board of Directors, the Chairman of the Board, the President, or the Chief Executive Officer, and shall be called by the Corporation upon the written request (in compliance with applicable requirements of the Code) of the holders of shares representing *fifty percent (50%)* or more of the votes entitled to be cast on each issue proposed to be considered at the special meeting. The business that may be transacted at any special meeting of the shareholders shall be limited to that proposed in the notice of the special meeting given in accordance with Section 2.4 (including related or incidental matters that may be necessary or appropriate to effectuate the proposed business). *Special meetings of shareholders that are called by the shareholders in accordance with the above requirements will be held at least fifty (50) days after receipt by the Corporation's Secretary of the notice meeting such requirements.*

**2.4 Notice of Meetings.** In accordance with Section 9.5 and subject to waiver by a shareholder pursuant to Section 2.5, the Corporation shall give written notice of the date, time, and place of each annual and special shareholders' meeting no fewer than 10 days nor more than 60 days before the meeting date to each shareholder of record entitled to vote at the meeting. The notice of an annual meeting need not state the purpose of the meeting unless these Bylaws require otherwise. The notice of a special meeting shall state the purpose for which the meeting is called. If an annual or special shareholders' meeting is adjourned to a different date, time, or location, the Corporation shall give shareholders notice of the new date, time, or location of the adjourned meeting, unless a quorum of shareholders was present at the meeting and information regarding the adjournment was announced before the meeting was adjourned; provided, however, that if a new record date is or must be fixed in accordance with Section 7.6, the Corporation must give notice of the adjourned meeting to all shareholders of record as of the new record date who are entitled to vote at the adjourned meeting.

**2.5 Waiver of Notice.** A shareholder may waive any notice required by the Code, the Articles of Incorporation, or these Bylaws, before or after the date and time of the matter to which the notice relates, by delivering to the Corporation a written waiver of notice signed by the shareholder entitled to the notice. In addition, a shareholder's attendance at a meeting shall be (a) a waiver of objection to lack of notice or defective notice of the meeting unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (b) a waiver of objection to consideration of a particular matter at the meeting that is not within the purpose stated in the meeting notice, unless the shareholder objects to considering the matter when it is presented. Except as otherwise required by the Code, neither the purpose of nor the business transacted at the meeting need be specified in any waiver.

**2.6 Voting Group: Quorum: Vote Required to Act.** (a) Unless otherwise required by the Code or the Articles of Incorporation, all classes or series of the Corporation's shares entitled to vote generally on a matter shall for that purpose be considered a single voting group (a "Voting Group"). If either the Articles of Incorporation or the Code requires separate voting by two or more Voting Groups on a matter, action on that matter is taken only when voted upon by each such Voting Group separately. At all meetings of shareholders, any Voting Group entitled to vote on a matter may take action on the matter only if a quorum of that Voting Group exists at the meeting, and if a quorum exists, the Voting Group may take action on the matter notwithstanding the absence of a quorum of any other Voting Group that may be entitled to vote separately on the matter. Unless the Articles of Incorporation, these Bylaws, or the Code provides otherwise, the presence (in person or by proxy) of shares representing a majority of votes entitled to be cast on a matter by a Voting Group shall constitute a quorum of that Voting Group with regard to that matter. Once a share is present at any meeting other than solely to object to holding the meeting or transacting business at the meeting, the share shall be deemed present for quorum purposes for the remainder of the meeting and for any adjournments of that meeting, unless a new record date for the adjourned meeting is or must be set pursuant to Section 7.6 of these Bylaws.

(b) Except as provided in Section 3.4, if a quorum exists, action on a matter by a Voting Group is approved by that Voting Group if the votes cast within the Voting Group favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation, a provision of these Bylaws that has been adopted pursuant to Section 14-2-1021 of the Code (or any successor provision), or the Code requires a greater number of affirmative votes.

**2.7 Voting of Shares.** Unless otherwise required by the Code or the Articles of Incorporation, each outstanding share of any class or series having voting rights shall be entitled to one vote on each matter that is submitted to a vote of shareholders.

**2.8 Proxies.** A shareholder entitled to vote on a matter may vote in person or by proxy pursuant to an appointment executed in writing by the shareholder or by his or her attorney-in-fact. An appointment of a proxy shall be valid for 11 months from the date of its execution, unless a longer or shorter period is expressly stated in the proxy.

**2.9 Presiding Officer.** Except as otherwise provided in this Section 2.9, the Chairman of the Board, and in his or her absence or disability the President, and in his or her absence or disability the Chief Executive Officer, shall preside at every shareholders' meeting (and any adjournment thereof) as its chairman, if either of them is present and willing to serve. If neither the Chairman of the Board nor the President nor the Chief Executive Officer is present and willing to serve as chairman of the meeting, and if the Chairman of the Board has not designated another person who is present and willing to serve, then a majority of the Corporation's directors present at the meeting shall be entitled to designate a person to serve as chairman. If no director of the Corporation is present at the meeting or if a majority of the directors who are present cannot be established, then a chairman of the meeting shall be selected by a majority vote of (a) the shares present at the meeting that would be entitled to vote in an election of directors, or (b) if no such shares are present at the meeting, then the shares present at the meeting comprising the Voting Group with the largest number of shares present at the meeting and entitled to vote on a matter properly proposed to be considered at the meeting. The chairman of the meeting may designate other persons to assist with the meeting.

**2.10 Adjournments.** At any meeting of shareholders (including an adjourned meeting), a majority of shares of any Voting Group present and entitled to vote at the meeting (whether or not those shares constitute a quorum) may adjourn the meeting, but only with respect to that Voting Group, to reconvene at a specific time and place. If more than one Voting Group is present and entitled to vote on a matter at the meeting, then the meeting may be continued with respect to any such Voting Group that does not vote to adjourn as provided above, and such Voting Group may proceed to vote on any matter to which it is otherwise entitled to do so; *provided, however,* that if (a) more than one Voting Group is required to take action on a matter at the meeting and (b) any one of those Voting Groups votes to adjourn the meeting (in accordance with the preceding sentence), then the action shall not be deemed to have been taken until the requisite vote of any adjourned Voting Group is obtained at its reconvened meeting. The only business that may be transacted at any reconvened meeting is business that could have been transacted at the meeting that was adjourned, unless further notice of the adjourned meeting has been given in compliance with the requirements for a special meeting that specifies the additional purpose or purposes for which the meeting is called. Nothing contained in this Section 2.10 shall be deemed or otherwise construed to limit any lawful authority of the chairman of a meeting to adjourn the meeting.

**2.11 Conduct of the Meeting.** At any meeting of shareholders, the chairman of the meeting shall be entitled to establish the rules of order governing the conduct of business at the meeting.

**2.12 Action of Shareholders Without a Meeting.** Action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if the action is taken by all shareholders entitled to vote on the action. The action must be evidenced by one or more written consents describing the action taken, signed by all the shareholders entitled to take action without a meeting, and delivered to the Corporation for inclusion in the minutes or filing with the corporate records.

**2.13 Matters Considered at Annual Meetings.** Notwithstanding anything to the contrary in these Bylaws, the only business that may be conducted at an annual meeting of shareholders shall be business brought before the meeting (a) by or at the direction of the Board of Directors prior to the meeting, (b) by or at the direction of the Chairman of the Board, the President, or the Chief Executive Officer or by a shareholder of the Corporation who is entitled to vote with respect to the business and who complies with the notice procedures set forth in this Section 2.13. For business to be brought properly before an annual meeting by a shareholder, the shareholder must have given timely notice of the business in writing to the Secretary of the Corporation. *To be timely a shareholder's notice must be delivered or mailed to and received at the principal offices of the Corporation at least 120 days before the anniversary of the date of the proxy statement for the immediately preceding annual meeting of the Corporation.* A shareholder's notice to the Secretary shall set forth a brief description of each matter of business the shareholder proposes to bring before the meeting and the reasons for conducting that business at the meeting; the name, as it appears on the Corporation's books and address of the shareholder proposing the business; the series or class and number of shares of the Corporation's stock that are beneficially owned by the shareholder; and any material interest of the shareholder in the proposed business. The Chairman of the meeting shall have the discretion to declare to the meeting that any business proposed by a shareholder to be considered at the meeting is out of order and that such business shall not be transacted at the meeting if (i) the Chairman concludes that the matter has been proposed in a manner inconsistent with this Section 2.13 or (ii) the Chairman concludes that the subject matter of the proposed business is inappropriate for consideration by the shareholders at the meeting.

**ARTICLE THREE**  
**Board of Directors**

**3.1 General Powers.** All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed by, the Board of Directors, subject to any limitation set forth in the Articles of Incorporation, in bylaws approved by the shareholders, or in agreements among all the shareholders that are otherwise lawful.

**3.2 Number, Election and Term of Office.** The number of directors of the Corporation shall be fixed by resolution of the Board of Directors or of the shareholders from time to time; provided, however, that no decrease in the number of directors shall have the effect of shortening the term of an incumbent director. The Board of Directors shall be divided into three classes, Class I, Class II and Class III, as nearly equal in number as possible. The term of office of the Directors in Class I shall expire at the 1998 Annual Meeting of Shareholders. The term of office of the Directors in Class II shall expire at the 1999 Annual Meeting of Shareholders. The term of office of the Directors in Class III shall expire at the 2000 Annual Meeting of Shareholders. At each Annual Meeting of the Shareholders, Directors chosen to succeed those whose terms then expire shall be elected for a term of office expiring at the third succeeding Annual Meeting of Shareholders after the election. When the number of Directors is changed, subject to any requirements of the Code, any newly-created directorships or any decrease in directorships shall be apportioned among the classes by the Board of Directors as to make all classes as nearly equal in number as possible. A director shall hold office until the Annual Meeting of Shareholders for the year in which his or her term expires and until his or her successor shall be elected.

**3.3 Removal of Directors.** The entire Board of Directors or any individual director may be removed *only for cause* by the shareholders, provided that directors elected by a particular Voting Group may be removed only by the shareholders in that Voting Group. Removal action may be taken only at a shareholders' meeting for which notice of the removal action has been given. A removed director's successor, if any, may be elected at the same meeting to serve the unexpired term.

**3.4 Election of Directors.** Except as provided in Section 3.5 of these Bylaws or by applicable law, each Director shall be elected by the affirmative vote of the holders of a majority of the votes cast by the holders of all then outstanding shares of Voting Stock voting together as a single class with respect to the Director at any meeting for the election of Directors at which a quorum is present, *provided that*, if as of a date that is ten (10) days in advance of the date the Company files its definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission the number of nominees exceeds the number of Directors to be elected in such election (a "contested election"), the Directors shall be elected by the vote of a plurality of the votes cast by the shares represented in person or by proxy at any such meeting and entitled to vote on the election of Directors. For purposes of this Section, a majority of the votes cast means that the number of shares voted "for" a Director must exceed the number of votes cast "against" that Director. If Directors are to be elected by a plurality of the votes cast in a contested election, shareholders shall not be permitted to vote against a nominee. The Board of Directors shall establish policies pursuant to which any incumbent Director who is not re-elected by a majority of the votes cast in an election in which such majority is required shall offer his or her resignation to the Board. The Board of Directors will decide on whether or not to accept or reject the resignation, or whether other action should be taken. The Board will disclose its decision and the rationale behind it within 90 days from the date of certification of the election results.

**3.5 Vacancies.** A vacancy occurring in the Board of Directors may be filled for the unexpired term, unless the shareholders have elected a successor, by the affirmative vote of a majority of the remaining directors, whether or not the remaining directors constitute a quorum; provided, however, that if the vacant office was held by a director elected by a particular Voting Group, only the holders of shares of that Voting Group or the remaining directors elected by that Voting Group shall be entitled to fill the vacancy; provided further, however, that if the vacant office was held by a director elected by a particular Voting Group and there is no remaining director elected by that Voting Group, the other remaining directors or director (elected by another Voting Group or Groups) may fill the vacancy during an interim period before the shareholders of the vacated director's Voting Group act to fill the vacancy. A vacancy or vacancies in the Board of Directors may result from the death, resignation, disqualification, or removal of any director, or from an increase in the number of directors.

**3.6 Compensation.** Directors may receive such compensation for their services as directors as may be fixed by the Board of Directors from time to time. A director may also serve the Corporation in one or more capacities other than that of director and receive compensation for services rendered in those other capacities.

**3.7 Committees of the Board of Directors.** The Board of Directors may designate from among its members an executive committee or one or more other standing or ad hoc committees, each consisting of one or more directors, who serve at the pleasure of the Board of Directors. Subject to the limitations imposed by the Code, each committee shall have the authority set forth in the resolution establishing the committee or in any other resolution of the Board of Directors specifying, enlarging, or limiting the authority of the committee.

**3.8 Qualification of Directors.** No person elected to serve as a director of the Corporation shall assume office and begin serving unless and until duly qualified to serve, as determined by reference to the Code, the Articles of Incorporation, and any further eligibility requirements established in these Bylaws.

**3.9 Certain Nomination Requirements.** No person may be nominated for election as a director at any annual or special meeting of shareholders unless (a) the nomination has been or is being made pursuant to a recommendation or approval of the Board of Directors of the Corporation or a properly constituted committee of the Board of Directors previously delegated authority to recommend or approve nominees for director; (b) the person is nominated by a shareholder of the Corporation who is entitled to vote for the election of the nominee at the subject meeting, and the nominating shareholder has furnished written notice to the Secretary of the Corporation, at the Corporation's principal office, not later than 14 days before the date of the meeting or 5 days after notice is given pursuant to Section 2.4, whichever is later, and the notice (i) sets forth with respect to the person to be nominated his or her name, age, business and residence addresses, principal business or occupation during the past five years, any affiliation with or material interest in the Corporation or any transaction involving the Corporation, and any affiliation with or material interest in any person or entity having an interest materially adverse to the Corporation, and (ii) is accompanied by the sworn or certified statement of the shareholder that the nominee has consented to being nominated and that the shareholder believes the nominee will stand for election and will serve if elected; or (c) (i) the person is nominated to replace a person previously identified as a proposed nominee (in accordance with the provisions of subpart (b) of this Section 3.9) who has since become unable or unwilling to be nominated or to serve if elected, (ii) the shareholder who furnished such previous identification makes the replacement nomination and delivers to the Secretary of the Corporation (at the time of or prior to making the replacement nomination) an affidavit or other sworn statement affirming that the shareholder had no reason to believe the original nominee would be so unable or unwilling, and (iii) such shareholder also furnishes in writing to the Secretary of the Corporation (at the time of or prior to making the replacement nomination) the same type of information about the replacement nominee as required by subpart (b) of this Section 3.9 to have been furnished about the original nominee. The chairman of any meeting of shareholders at which one or more directors are to be elected, for good cause shown and with proper regard for the orderly conduct of business at the meeting, may waive in whole or in part the operation of this Section 3.9.

#### **ARTICLE FOUR** **Meetings of the Board of Directors**

**4.1 Regular Meetings.** A regular meeting of the Board of Directors shall be held in conjunction with each annual meeting of shareholders. In addition, the Board of Directors may, by prior resolution, hold regular meetings at other times.

**4.2 Special Meetings.** Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the President, the Chief Executive Officer, or any two directors in office at that time.

**4.3 Place of Meetings.** Directors may hold their meetings at any place in or outside the State of Georgia that the Board of Directors may establish from time to time.



**4.4 Notice of Meetings.** Directors need not be provided with notice of any regular meeting of the Board of Directors. Unless waived in accordance with Section 4.10, the Corporation shall give at least two days' notice to each director of the date, time, and place of each special meeting. Notice of a meeting shall be deemed to have been given to any director in attendance at any prior meeting at which the date, time, and place of the subsequent meeting was announced.

**4.5 Quorum.** At meetings of the Board of Directors, the majority of the directors then in office shall constitute a quorum for the transaction of business.

**4.6 Vote Required for Action.** If a quorum is present when a vote is taken, the vote of a majority of the directors present at the time of the vote will be the act of the Board of Directors, unless the vote of a greater number is required by the Code, the Articles of Incorporation, or these Bylaws. A director who is present at a meeting of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless (a) he or she objects at the beginning of the meeting (or promptly upon his or her arrival) to holding the meeting or transacting business at it; (b) his or her dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) he or she delivers written notice of dissent or abstention to the presiding officer of the meeting before its adjournment or to the Corporation immediately after adjournment of the meeting. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

**4.7 Participation by Conference Telephone.** Members of the Board of Directors may participate in a meeting of the Board by means of conference telephone or similar communications equipment through which all persons participating may hear and speak to each other. Participation in a meeting pursuant to this Section 4.7 shall constitute presence in person at the meeting.

**4.8 Action by Directors Without a Meeting.** Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if a written consent, describing the action taken, is signed by each director and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. The consent may be executed in counterpart, and shall have the same force and effect as a unanimous vote of the Board of Directors at a duly convened meeting.

**4.9 Adjournments.** A meeting of the Board of Directors, whether or not a quorum is present, may be adjourned by a majority of the directors present to reconvene at a specific time and place. It shall not be necessary to give notice to the directors of the reconvened meeting or of the business to be transacted, other than by announcement at the meeting that was adjourned, unless a quorum was not present at the meeting that was adjourned, in which case notice shall be given to directors in the same manner as for a special meeting. At any such reconvened meeting at which a quorum is present, any business may be transacted that could have been transacted at the meeting that was adjourned.

**4.10 Waiver of Notice.** A director may waive any notice required by the Code, the Articles of Incorporation, or these Bylaws before or after the date and time of the matter to which the notice relates, by a written waiver signed by the director and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. Attendance by a director at a meeting shall constitute waiver of notice of the meeting, except where a director at the beginning of the meeting (or promptly upon his or her arrival) objects to holding the meeting or to transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

**ARTICLE FIVE**  
**Officers**

**5.1 Offices.** The officers of the Corporation shall consist of a President, a Secretary, and a Treasurer, and may include a Chief Executive Officer separate from the President, each of whom shall be elected or appointed by the Board of Directors. The Board of Directors may also elect a Chairman of the Board from among its members. The Board of Directors from time to time may, or may authorize the Chief Executive Officer to, create and establish the duties of other offices and may, or may authorize the Chief Executive Officer to, elect or appoint, or authorize specific senior officers to appoint, the persons who shall hold such other offices, including one or more Vice Presidents (including Executive Vice Presidents, Senior Vice Presidents, Assistant Vice Presidents, and the like), one or more Assistant Secretaries, and one or more Assistant Treasurers. Whether or not so provided by the Board of Directors, the Chairman of the Board or the Chief Executive Officer may appoint one or more Assistant Secretaries, and one or more Assistant Treasurers. Any two or more offices may be held by the same person.

**5.2 Term.** Each officer shall serve at the pleasure of the Board of Directors (or, if appointed by the Chief Executive Officer or a senior officer pursuant to this Article Five, at the pleasure of the Board of Directors, the Chief Executive Officer, or the senior officer authorized to have appointed the officer) until his or her death, resignation, or removal, or until his or her replacement is elected or appointed in accordance with this Article Five.

**5.3 Compensation.** The compensation of all officers of the Corporation shall be fixed by the Board of Directors or by a committee or officer appointed by the Board of Directors. Officers may serve without compensation.

**5.4 Removal.** All officers (regardless of how elected or appointed) may be removed, with or without cause, by the Board of Directors, and any officer appointed by the Chief Executive Officer or another senior officer may also be removed, with or without cause, by the Chief Executive Officer or by any senior officer authorized to have appointed the officer to be removed. Removal will be without prejudice to the contract rights, if any, of the person removed, but shall be effective notwithstanding any damage claim that may result from infringement of such contract rights.

**5.5 Chairman of the Board.** The Chairman of the Board (if there be one) shall preside at and serve as chairman of meetings of the shareholders and of the Board of Directors (unless another person is selected under Section 2.9 to act as chairman). The Chairman of the Board shall perform other duties and have other authority as may from time to time be delegated by the Board of Directors.

**5.6 Chief Executive Officer.** The Chief Executive Officer shall be charged with the general and active management of the Corporation, shall see that all orders and resolutions of the Board of Directors are carried into effect, shall have the authority to select and appoint employees and agents of the Corporation, and shall, in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board. The Chief Executive Officer shall perform any other duties and have any other authority as may be delegated from time to time by the Board of Directors, and shall be subject to the limitations fixed from time to time by the Board of Directors.

**5.7 President.** If there shall be no separate Chief Executive Officer of the Corporation, then the President shall be the chief executive officer of the Corporation and shall have all the duties and authority given under these Bylaws to the Chief Executive Officer. The President shall otherwise be the chief operating officer of the Corporation and shall, subject to the authority of the Chief Executive Officer, have responsibility for the conduct and general supervision of the business operations of the Corporation. The President shall perform such other duties and have such other authority as may from time to time be delegated by the Board of Directors or the Chief Executive Officer. In the absence or disability of the Chief Executive Officer, the President shall perform the duties and exercise the powers of the Chief Executive Officer.

**5.8 Vice Presidents.** The Vice President (if there be one) shall, in the absence or disability of the President, perform the duties and exercise the powers of the President, whether the duties and powers are specified in these Bylaws or otherwise. If the Corporation has more than one Vice President, the one designated by the Board of Directors or the Chief Executive Officer (in that order of precedence) shall act in the event of the absence or disability of the President. Vice Presidents shall perform any other duties and have any other authority as from time to time may be delegated by the Board of Directors, the Chief Executive Officer, or the President.

**5.9 Secretary.** The Secretary shall be responsible for preparing minutes of the meetings of shareholders, directors, and committees of directors and for authenticating records of the Corporation. The Secretary or any Assistant Secretary shall have authority to give all notices required by law or these Bylaws. The Secretary shall be responsible for the custody of the corporate books, records, contracts, and other documents. The Secretary or any Assistant Secretary may affix the corporate seal to any lawfully executed documents requiring it, may attest to the signature of any officer of the Corporation, and shall sign any instrument that requires the Secretary's signature. The Secretary or any Assistant Secretary shall perform any other duties and have any other authority as from time to time may be delegated by the Board of Directors, the Chief Executive Officer, or the President.

**5.10 Treasurer.** Unless otherwise provided by the Board of Directors, the Treasurer shall be responsible for the custody of all funds and securities belonging to the Corporation and for the receipt, deposit, or disbursement of these funds and securities under the direction of the Board of Directors. The Treasurer shall cause full and true accounts of all receipts and disbursements to be maintained and shall make reports of these receipts and disbursements to the Board of Directors, the Chief Executive Officer and President upon request. The Treasurer or Assistant Treasurer shall perform any other duties and have any other authority as from time to time may be delegated by the Board of Directors, the Chief Executive Officer, or the President.

**ARTICLE SIX**  
**Distributions and Dividends**

Unless the Articles of Incorporation provide otherwise, the Board of Directors, from time to time in its discretion, may authorize or declare distributions or share dividends in accordance with the Code.

## ARTICLE SEVEN

### Shares

**7.1 Shares.** The Corporation may issue shares of the Corporation with or without certificates. All certificates representing shares of the Corporation shall be in such form as the Board of Directors from time to time may adopt in accordance with the Code. Share certificates, if any, shall be in registered form and shall indicate the date of issue, the name of the Corporation, that the Corporation is organized under the laws of the State of Georgia, the name of the shareholder, and the number and class of shares and designation of the series, if any, represented by the certificate. Each certificate shall be signed by the President or a Vice President (or in lieu thereof, by the Chairman of the Board or Chief Executive Officer, if there be one) and may be signed by the Secretary or an Assistant Secretary; provided, however, that where the certificate is signed (either manually or by facsimile) by a transfer agent, or registered by a registrar, the signatures of those officers may be facsimiles. Within a reasonable time after the issue or transfer of shares without certificates, the Corporation shall send the holder of such shares a written statement as prescribed by the Code.

**7.2 Rights of Corporation with Respect to Registered Owners.** Prior to due presentation for transfer of registration of its shares, the Corporation may treat the registered owner of the shares (or the beneficial owner of the shares to the extent of any rights granted by a nominee certificate on file with the Corporation pursuant to any procedure that may be established by the Corporation in accordance with the Code) as the person exclusively entitled to vote the shares, to receive any dividend or other distribution with respect to the shares, and for all other purposes; and the Corporation shall not be bound to recognize any equitable or other claim to or interest in the shares on the part of any other person, whether or not it has express or other notice of such a claim or interest, except as otherwise provided by law.

**7.3 Transfers of Shares.** Transfers of shares shall be made upon the books of the Corporation kept by the Corporation or by the transfer agent designated to transfer the shares, only upon direction of the person named in the certificate, or, with respect to uncertificated shares, the registered owner of such shares, or by an attorney lawfully constituted in writing, and, if such shares are represented by a certificate or certificates, on surrender of the certificate or certificates for such shares properly endorsed, or for uncertificated shares, upon the presentation of proper evidence of authority to transfer by the record holder. Before any new certificate is issued or before any transfer of uncertificated shares is registered, any old certificate shall be surrendered for cancellation or, in the case of a certificate alleged to have been lost, stolen, or destroyed, the provisions of Section 7.5 of these Bylaws shall have been complied with.

**7.4 Duty of Corporation to Register Transfer.** Notwithstanding any of the provisions of Section 7.3 of these Bylaws, the Corporation is under a duty to register the transfer of its shares only if: (a) the share certificate, if any, is endorsed by the appropriate person or persons; (b) reasonable assurance is given that each required endorsement or other instruction is genuine and effective; (c) the Corporation has no duty to inquire into adverse claims or has discharged any such duty; (d) any applicable law relating to the collection of taxes has been complied with; (e) the transfer is in fact rightful or is to a bona fide purchaser; and (f) the transfer is in compliance with applicable provisions of any transfer restrictions of which the Corporation shall have notice.

**7.5 Lost, Stolen, or Destroyed Certificates.** Any person claiming a share certificate to be lost, stolen, or destroyed shall make an affidavit or affirmation of this claim in such a manner as the Corporation may require and shall, if the Corporation requires, give the Corporation a bond of indemnity in form and amount, and with one or more sureties satisfactory to the Corporation, as the Corporation may require, whereupon an appropriate new certificate (or uncertificated shares in lieu of a new certificate) may be issued in lieu of the one alleged to have been lost, stolen or destroyed.

**7.6 Fixing of Record Date.** For the purpose of determining shareholders (a) entitled to notice of or to vote at any meeting of shareholders or, if necessary, any adjournment thereof, (b) entitled to receive payment of any distribution or dividend, or (c) for any other proper purpose, the Board of Directors may fix in advance a date as the record date. The record date may not be more than 70 days (and, in the case of a notice to shareholders of a shareholders' meeting, not less than 10 days) prior to the date on which the particular action, requiring the determination of shareholders, is to be taken. A separate record date may be established for each Voting Group entitled to vote separately on a matter at a meeting. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting, unless the Board of Directors shall fix a new record date for the reconvened meeting, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

**7.7 Record Date if None Fixed.** If no record date is fixed as provided in Section 7.6, then the record date for any determination of shareholders that may be proper or required by law shall be, as appropriate, the date on which notice of a shareholders' meeting is mailed, the date on which the Board of Directors adopts a resolution declaring a dividend or authorizing a distribution, or the date on which any other action is taken that requires a determination of shareholders.

## **ARTICLE EIGHT**

### **Indemnification**

**8.1 Indemnification of Directors.** The Corporation shall indemnify and hold harmless any director of the Corporation (an "Indemnified Person") who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, whether formal or informal, including any action or suit by or in the right of the Corporation (for purposes of this Article Eight, collectively, a "Proceeding") because he or she is or was a director, officer, employee, or agent of the Corporation, against any judgment, settlement, penalty, fine, or reasonable expenses (including, but not limited to, attorneys' fees and disbursements, court costs, and expert witness fees) incurred with respect to the Proceeding (for purposes of this Article Eight, a "Liability"), provided, however, that no indemnification shall be made for: (a) any appropriation by a director, in violation of the director's duties, of any business opportunity of the corporation; (b) any acts or omissions of a director that involve intentional misconduct or a knowing violation of law; (c) the types of liability set forth in Code Section 14-2-832; or (d) any transaction from which the director received an improper personal benefit.

**8.2 Indemnification of Others.** The Board of Directors shall have the power to cause the Corporation to provide to officers, employees, and agents of the Corporation all or any part of the right to indemnification permitted for such persons by appropriate provisions of the Code. Persons to be indemnified may be identified by position or name, and the right of indemnification may be different for each of the persons identified. Each officer, employee, or agent of the Corporation so identified shall be an "Indemnified Person" for purposes of the provisions of this Article Eight.

**8.3 Other Organizations.** The Corporation shall provide to each director, and the Board of Directors shall have the power to cause the Corporation to provide to any officer, employee, or agent, of the Corporation who is or was serving as a director, officer, partner, trustee, employee, or agent of

(a) Intelligent Systems Master, L.P., INTS Management Company or any of their current or former affiliates, or

(b) another corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise at the Corporation's request

all or any part of the right to indemnification and other rights of the type provided under Sections 8.1, 8.2, 8.4, and 8.10 of this Article Eight (subject to the conditions, limitations, and obligations specified in those Sections) permitted for such persons by appropriate provisions of the Code. Persons to be indemnified may be identified by position or name, and the right of indemnification may be different for each of the persons identified. Each person so identified shall be an "Indemnified Person" for purposes of the provisions of this Article Eight.

**8.4 Advances.** Expenses (including, but not limited to, attorneys' fees and disbursements, court costs, and expert witness fees) incurred by an Indemnified Person in defending any Proceeding of the kind described in Sections 8.1 or 8.3, as to an Indemnified Person who is a director of the Corporation, or in Sections 8.2 or 8.3 as to other Indemnified Persons, if the Board of Directors has specified that advancement of expenses be made available to any such Indemnified Person, shall be paid by the Corporation in advance of the final disposition of such Proceeding as set forth herein. The Corporation shall promptly pay the amount of such expenses to the Indemnified Person, but in no event later than 10 days following the Indemnified Person's delivery to the Corporation of a written request for an advance pursuant to this Section 8.4, together with a reasonable accounting of such expenses; provided, however, that the Indemnified Person shall furnish the Corporation a written affirmation of his or her good faith belief that he or she has met the applicable standard of conduct and a written undertaking and agreement to repay to the Corporation any advances made pursuant to this Section 8.4 if it shall be determined that the Indemnified Person is not entitled to be indemnified by the Corporation for such amounts. The Corporation may make the advances contemplated by this Section 8.4 regardless of the Indemnified Person's financial ability to make repayment. Any advances and undertakings to repay pursuant to this Section 8.4 may be unsecured and interest-free.

**8.5 Non-Exclusivity.** Subject to any applicable limitation imposed by the Code or the Articles of Incorporation, the indemnification and advancement of expenses provided by or granted pursuant to this Article Eight shall not be exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any provision of the Articles of Incorporation, or any Bylaw, resolution, or agreement specifically or in general terms approved or ratified by the affirmative vote of holders of a majority of the shares entitled to be voted thereon.

**8.6 Insurance.** The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or who, while serving in such a capacity, is also or was also serving at the request of the Corporation as a director, officer, trustee, partner, employee, or agent of any corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against any Liability that may be asserted against or incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Article Eight.

**8.7 Notice.** If the Corporation indemnifies or advances expenses to a director under any of Sections 14-2-851 through 14-2-854 of the Code in connection with a Proceeding by or in the right of the Corporation, the Corporation shall, to the extent required by Section 14-2-1621 or any other applicable provision of the Code, report the indemnification or advance in writing to the shareholders with or before the notice of the next shareholders' meeting.

**8.8 Security.** The Corporation may designate certain of its assets as collateral, provide self-insurance, establish one or more indemnification trusts, or otherwise secure or facilitate its ability to meet its obligations under this Article Eight, or under any indemnification agreement or plan of indemnification adopted and entered into in accordance with the provisions of this Article Eight, as the Board of Directors deems appropriate.

**8.9 Amendment.** Any amendment to this Article Eight that limits or otherwise adversely affects the right of indemnification, advancement of expenses, or other rights of any Indemnified Person hereunder shall, as to such Indemnified Person, apply only to Proceedings based on actions, events, or omissions (collectively, "Post Amendment Events") occurring after such amendment and after delivery of notice of such amendment to the Indemnified Person so affected. Any Indemnified Person shall, as to any Proceeding based on actions, events, or omissions occurring prior to the date of receipt of such notice, be entitled to the right of indemnification, advancement of expenses, and other rights under this Article Eight to the same extent as if such provisions had continued as part of the Bylaws of the Corporation without such amendment. This Section 8.9 cannot be altered, amended, or repealed in a manner effective as to any Indemnified Person (except as to Post Amendment Events) without the prior written consent of such Indemnified Person.



**8.10 Agreements.** The provisions of this Article Eight shall be deemed to constitute an agreement between the Corporation and each Indemnified Person hereunder. In addition to the rights provided in this Article Eight, the Corporation shall have the power, upon authorization by the Board of Directors, to enter into an agreement or agreements providing to any Indemnified Person indemnification rights substantially similar to those provided in this Article Eight.

**8.11 Continuing Benefits.** The rights of indemnification and advancement of expenses permitted or authorized by this Article Eight shall, unless otherwise provided when such rights are granted or conferred, continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such person.

**8.12 Successors.** For purposes of this Article Eight, the term "Corporation" shall include any corporation, joint venture, trust, partnership, or unincorporated business association that is the successor to all or substantially all of the business or assets of this Corporation, as a result of merger, consolidation, sale, liquidation, or otherwise, and any such successor shall be liable to the persons indemnified under this Article Eight on the same terms and conditions and to the same extent as this Corporation.

**8.13 Severability.** Each of the Sections of this Article Eight, and each of the clauses set forth herein, shall be deemed separate and independent, and should any part of any such Section or clause be declared invalid or unenforceable by any court of competent jurisdiction, such invalidity or unenforceability shall in no way render invalid or unenforceable any other part thereof or any separate Section or clause of this Article Eight that is not declared invalid or unenforceable.

**8.14 Additional Indemnification.** In addition to the specific indemnification rights set forth herein, the Corporation shall indemnify each of its directors and such of its officers as have been designated by the Board of Directors to the full extent permitted by action of the Board of Directors without shareholder approval under the Code or other laws of the State of Georgia as in effect from time to time.

## **ARTICLE NINE**

### **Miscellaneous**

**9.1 Inspection of Books and Records.** The Board of Directors shall have the power to determine which accounts, books, and records of the Corporation shall be available for shareholders to inspect or copy, except for those books and records required by the Code to be made available upon compliance by a shareholder with applicable requirements, and shall have the power to fix reasonable rules and regulations (including confidentiality restrictions and procedures) not in conflict with applicable law for the inspection and copying of accounts, books, and records that by law or by determination of the Board of Directors are made available. Unless required by the Code or otherwise provided by the Board of Directors, a shareholder of the Corporation holding less than two percent of the total shares of the Corporation then outstanding shall have no right to inspect the books and records of the Corporation.

**9.2 Fiscal Year.** The Board of Directors is authorized to fix the fiscal year of the Corporation and to change the fiscal year from time to time as it deems appropriate.

**9.3 Corporate Seal.** The corporate seal will be in such form as the Board of Directors may from time to time determine. The Board of Directors may authorize the use of one or more facsimile forms of the corporate seal. The corporate seal need not be used unless its use is required by law, by these Bylaws, or by the Articles of Incorporation.

**9.4 Annual Statements.** Not later than four months after the close of each fiscal year, and in any case prior to the next annual meeting of shareholders, the Corporation shall prepare (a) a balance sheet showing in reasonable detail the financial condition of the Corporation as of the close of its fiscal year, and (b) a profit and loss statement showing the results of its operations during its fiscal year. Upon receipt of written request, the Corporation promptly shall mail to any shareholder of record a copy of the most recent such balance sheet and profit and loss statement, in such form and with such information as the Code may require.

**9.5 Notice.** (a) Whenever these Bylaws require notice to be given to any shareholder or to any director, the notice may be given by mail, in person, by courier delivery, by telephone, or by telecopier, telegraph, or similar electronic means. Whenever notice is given to a shareholder or director by mail, the notice shall be sent by depositing the notice in a post office or letter box in a postage-prepaid, sealed envelope addressed to the shareholder or director at his or her address as it appears on the books of the Corporation. Any such written notice given by mail shall be effective: (i) if given to shareholders, at the time the same is deposited in the United States mail, and (ii) in all other cases, at the earliest of (x) when received or when delivered, properly addressed, to the addressee's last known principal place of business or residence, (y) five days after its deposit in the mail, as evidenced by the postmark, if mailed with first-class postage prepaid and correctly addressed, or (z) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee. Whenever notice is given to a shareholder or director by any means other than mail, the notice shall be deemed given when received.

(b) In calculating time periods for notice, when a period of time measured in days, weeks, months, years, or other measurement of time is prescribed for the exercise of any privilege or the discharge of any duty, the first day shall not be counted but the last day shall be counted.

**ARTICLE TEN**  
**Amendments**

Except as otherwise provided under the Code, the Board of Directors shall have the power to alter, amend, or repeal these Bylaws or adopt new Bylaws. Any Bylaws adopted by the Board of Directors may be altered, amended, or repealed, and new Bylaws adopted, by the shareholders. The shareholders may prescribe in adopting any Bylaw or Bylaws that the Bylaw or Bylaws so adopted shall not be altered, amended, or repealed by the Board of Directors.

## INTELLIGENT SYSTEMS CORPORATION

## LIST OF PRINCIPAL SUBSIDIARY COMPANIES AS OF MARCH 1, 2021

<u>Subsidiary Name</u>	<u>State / Country of Organization</u>
CoreCard Software, Inc.	Delaware
CoreCard SRL	Romania
ISC Software Pvt. Ltd.	India
CoreCard Software DMCC	United Arab Emirates

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Intelligent Systems Corporation  
Norcross, GA

We hereby consent to the incorporation by reference in the registration statements Form S-8 No. 333-242084 and No. 333-211304 of our report dated March 4, 2021, relating to the consolidated financial statements of Intelligent Systems Corporation and Subsidiaries (the "Company") appearing in the Company's annual report on Form 10-K for the year ended December 31, 2020.

/s/ Nichols, Cauley & Associates, LLC

Nichols, Cauley & Associates, LLC  
Atlanta, Georgia  
March 4, 2021

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Leland Strange, certify that:

1. I have reviewed this Annual Report on Form 10-K of Intelligent Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2021

/s/ J. Leland Strange

J. Leland Strange  
Chief Executive Officer and President

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew A. White, certify that:

1. I have reviewed this Annual Report on Form 10-K of Intelligent Systems Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2021

*/s/ Matthew A. White*

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Matthew A. White  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned officers of Intelligent Systems Corporation (the “Company”) hereby certifies to his or her knowledge that the Company’s Annual Report on Form 10-K for the period ended December 31, 2020 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2021

*/s/ J. Leland Strange*

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J. Leland Strange  
Chief Executive Officer

*/s/ Matthew A. White*

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Matthew A. White  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Intelligent Systems Corporation and will be retained by Intelligent Systems Corporation and furnished to the Securities and Exchange Commission or its staff upon request.