

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020 OR

TRANSITION REPORT UNDER 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, including area code: **(770) 381-2900**

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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.01 par value for the class	INS	NYSE American

As of September 30, 2020, 8,929,368 shares of Common Stock of the issuer were outstanding.

Intelligent Systems Corporation

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Part I Financial Information**Item 1. Financial Statements**

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

As of	September 30, 2020 (unaudited)	December 31, 2019 (audited)
ASSETS		
Current assets:		
Cash	\$ 34,391	\$ 26,415
Accounts receivable, net	4,045	8,759
Other current assets	1,217	905
Total current assets	39,653	36,079
Investments	2,063	3,081
Notes and interest receivable	2,643	1,795
Property and equipment, at cost less accumulated depreciation	6,890	2,177
Other long-term assets	3,304	1,108
Total assets	\$ 54,553	\$ 44,240
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 465	\$ 403
Deferred revenue, current portion	3,475	689
Accrued payroll	2,016	2,503
Accrued expenses	107	153
Income tax payable	792	1,100
Other current liabilities	1,582	1,345
Total current liabilities	8,437	6,193
Noncurrent liabilities:		
Deferred revenue, net of current portion	3	23
Deferred tax liability	279	275
Long-term lease obligation	2,208	460
Total noncurrent liabilities	2,490	758
Intelligent Systems Corporation stockholders' equity:		
Common stock, \$0.01 par value, 20,000,000 shares authorized, 8,929,368 and 8,924,988 issued and outstanding at September 30, 2020 and December 31, 2019, respectively	89	89
Additional paid-in capital	15,780	15,450
Accumulated other comprehensive loss	(129)	(94)
Accumulated income	27,886	21,844
Total Intelligent Systems Corporation stockholders' equity	43,626	37,289
Total liabilities and stockholders' equity	\$ 54,553	\$ 44,240

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue				
Services	\$ 8,704	\$ 7,297	\$ 24,650	\$ 20,275
Products	1,600	2,225	1,600	3,725
Total net revenue	10,304	9,522	26,250	24,000
Cost of revenue				
Services	4,217	3,012	11,418	8,445
Products	-	-	-	-
Total cost of revenue	4,217	3,012	11,418	8,445
Expenses				
Marketing	31	35	94	124
General and administrative	936	700	2,698	2,394
Research and development	1,639	1,575	3,477	3,634
Income from operations	3,481	4,200	8,563	9,403
Investment income (loss)	(92)	(109)	(1,237)	(105)
Other income (loss)	59	104	312	353
Income before Income taxes	3,448	4,195	7,638	9,651
Income taxes	653	1,103	1,596	2,379
Net income	\$ 2,795	\$ 3,092	\$ 6,042	\$ 7,272
Earnings per share attributable to Intelligent Systems Corporation:				
Basic	\$ 0.31	\$ 0.35	\$ 0.68	\$ 0.82
Diluted	\$ 0.31	\$ 0.34	\$ 0.67	\$ 0.81
Basic weighted average common shares outstanding	8,927,908	8,886,321	8,925,961	8,859,544
Diluted weighted average common shares outstanding	9,022,996	9,013,459	9,021,314	8,977,501

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 2,795	\$ 3,092	\$ 6,042	\$ 7,272
Other comprehensive income (loss):				
Foreign currency translation adjustments	11	4	(35)	(32)
Total comprehensive income	\$ 2,806	\$ 3,096	\$ 6,007	\$ 7,240

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

Intelligent Systems Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited, in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Earnings	Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2018	8,817,988	\$ 88	\$ 15,050	\$ (92)	\$ 10,875	\$ 25,921
Stock options exercised	33,000	1	58			59
Net income					2,072	2,072
Stock compensation expense			25			25
Foreign currency translation adjustment				(1)		(1)
Balance at March 31, 2019	8,850,988	\$ 89	\$ 15,133	\$ (93)	\$ 12,947	\$ 28,076
Net income					2,108	2,108
Stock compensation expense			55			55
Foreign currency translation adjustment				(35)		(35)
Balance at June 30, 2019	8,850,988	\$ 89	\$ 15,188	\$ (128)	\$ 15,055	\$ 30,204
Stock options exercised	47,000		104			104
Net income					3,092	3,092
Stock compensation expense			49			49
Foreign currency translation adjustment				4		4
Balance at September 30, 2019	8,897,988	\$ 89	\$ 15,341	\$ (124)	\$ 18,147	\$ 33,453
Balance at December 31, 2019	8,924,988	\$ 89	\$ 15,450	\$ (94)	\$ 21,844	\$ 37,289
Net income					1,047	1,047
Stock compensation expense			62			62
Foreign currency translation adjustment				(31)		(31)
Balance at March 31, 2020	8,924,988	\$ 89	\$ 15,512	\$ (125)	\$ 22,891	\$ 38,367
Net income					2,200	2,200
Stock compensation expense			61			61
Foreign currency translation adjustment				(15)		(15)
Balance at June 30, 2020	8,924,988	\$ 89	\$ 15,573	\$ (140)	\$ 25,091	\$ 40,613
Net income					2,795	2,795
Stock compensation expense	4,380		207			207
Foreign currency translation adjustment				11		11
Balance at September 30, 2020	8,929,368	\$ 89	\$ 15,780	\$ (129)	\$ 27,886	\$ 43,626

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

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

CASH PROVIDED BY (USED FOR):	Nine Months Ended September 30,	
	2020	2019
OPERATING ACTIVITIES:		
Net income	\$ 6,042	\$ 7,272
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,460	730
Stock-based compensation expense	330	129
Non-cash investment expense	1,009	–
Non-cash interest income	(93)	(23)
Equity in loss of affiliate company	268	104
Changes in operating assets and liabilities:		
Accounts receivable	4,714	(2,328)
Other current assets	(312)	163
Other long-term assets	185	(65)
Accounts payable	62	8
Accrued payroll	(487)	904
Deferred revenue, current portion	2,786	(339)
Accrued expenses	(46)	27
Other current liabilities	(993)	1,167
Deferred revenue, net of current portion	259	(70)
Net cash provided by operating activities	15,184	7,679
INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,173)	(1,553)
Advances of notes receivable	(1,000)	(1,500)
Net cash used for investing activities	(7,173)	(3,053)
FINANCING ACTIVITIES:		
Sale of capital stock pursuant to exercise of option	–	163
Net cash provided by financing activities	–	163
Effects of exchange rate changes on cash	(35)	(32)
Net increase in cash	7,976	4,757
Cash at beginning of period	26,415	18,919
Cash at end of period	\$ 34,391	\$ 23,676
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	\$ 1,826	\$ 875

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

Intelligent Systems Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Throughout this report, the terms “we”, “us”, “ours”, “ISC” and “Company” refer to Intelligent Systems Corporation, including its wholly-owned and majority-owned subsidiaries. The unaudited Consolidated Financial Statements presented in this Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of ISC management, these Consolidated Financial Statements contain all adjustments (which comprise only normal and recurring accruals) necessary to present fairly the financial position and results of operations as of and for the three and nine month periods ended September 30, 2020 and 2019. The interim results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with our Consolidated Financial Statements and notes thereto for the fiscal year ended December 31, 2019, as filed in our Annual Report on Form 10-K.

There have been no material changes in the Company’s significant accounting policies as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

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 are currently assessing the impact that the adoption of ASU 2020-01 will have on our Consolidated Financial Statements.

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

2. REVENUE

Disaggregation of Revenue

In the following table, revenue is disaggregated by type of revenue for the three and nine months ended September 30, 2020 and 2019:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
License	\$ 1,600	\$ 2,225	\$ 1,600	\$ 3,725
Professional services	5,392	4,579	15,827	13,206
Processing and maintenance	2,950	2,235	7,817	5,770
Third party	362	483	1,006	1,299
Total	\$ 10,304	\$ 9,522	\$ 26,250	\$ 24,000

Foreign revenues are based on the location of the customer. Revenues from customers by geographic area for the three and nine months ended September 30, 2020 and 2019 are as follows:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
European Union	\$ 364	\$ 448	\$ 948	\$ 2,899
United States	9,940	9,074	25,302	21,101
Total	\$ 10,304	\$ 9,522	\$ 26,250	\$ 24,000

Concentration of Revenue

The following table indicates the percentage of consolidated revenue represented by each customer that represented more than 10 percent of consolidated revenue in the three and nine month periods ended September 30, 2020 and 2019. Most of our customers have multi-year contracts with recurring revenue as well as professional services fees that vary by period depending on their business needs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Customer A	68%	70%	67%	58%
Customer B	3%	4%	3%	12%
Customer C	11%	6%	11%	6%

3. NOTES RECEIVABLE

During the quarter ended September 30, 2017, we entered into a Loan Agreement with a privately-held identity and professional services company with ties to the FinTech industry. We committed to lend up to \$1,500,000 all of which has been advanced as of December 31, 2019. During 2018 and 2019, we advanced \$1,050,000 on four separate simple Promissory Notes. During 2019, as discussed in Note 4, 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. We expect to defer payment of the June 2021 Loan and have therefore classified the Loan as long-term. In October 2019 and January 2020, we entered into Loan Agreements and advanced an additional \$500,000 and \$1,000,000, respectively, that bear interest at the rate of 6.0 percent annually with a maturity date of October 2021 and January 2022, respectively. A portion of the company's business has been negatively impacted by the pandemic while other portions of its business have improved. We evaluate the carrying values of our notes receivable on a continuing basis to determine whether there are any indications that the carrying amount of the note receivable may not be recoverable. We have not recorded any impairments related to this investment as of September 30, 2020, however, significant variations from current expectations could impact future assessments resulting in future impairment charges.

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

4. INVESTMENTS

Beginning in 2017, and in subsequent periods we entered into a Loan Agreement and various Promissory Notes, as discussed in more detail in Note 3, 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 \$92,000 and \$268,000 for the three and nine months ended September 30, 2020, respectively, included in investment loss on the Consolidated Statement of Operations. The carrying value of \$2,053,000 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 September 30, 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.

5. STOCK-BASED COMPENSATION

At September 30, 2020, we have three stock-based compensation plans in effect. In August 2020, shareholders approved the 2020 Non-Employee Directors' Stock Incentive Plan (the "2020 Plan"), which authorizes the issuance of 200,000 shares of common stock to non-employee directors. We record compensation cost related to unvested stock 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 three and nine month periods ended September 30, 2020 and 2019 has been recognized as a component of general and administrative expenses in the accompanying Consolidated Financial Statements. We recorded \$207,000 and \$49,000 of stock-based compensation expense for the three months ended September 30, 2020 and 2019, respectively, and \$330,000 and \$129,000 for the nine months ended September 30, 2020 and 2019, respectively.

As of September 30, 2020, there is \$235,000 of unrecognized compensation cost related to stock options. There were no options exercised during the three and nine months ended September 30, 2020. During the quarter ended September 30, 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. No options expired unexercised during the quarter. The following table summarizes options as of September 30, 2020:

	# of Shares	Wgt Avg Exercise Price	Wgt Avg Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at September 30, 2020	126,500	\$ 8.94	4.1	\$ 3,801,190
Vested and exercisable at September 30, 2020	102,500	\$ 5.61	2.8	\$ 3,421,390

The estimated fair value of options granted is calculated using the Black-Scholes option pricing model with assumptions as previously disclosed in our 2019 Form 10-K.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of 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 September 30, 2020. The amount of aggregate intrinsic value will change based on the market value of the Company's stock.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, marketable securities, accounts receivable, notes receivable, accounts payable and certain other financial instruments (such as accrued expenses, and other current 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, marketable securities and 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.

7. FAIR VALUE MEASUREMENTS

In determining fair value, the Company uses quoted market prices in active markets. 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 we have 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.

The fair value of equity method and cost method investments has not been determined as it was 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.

8. 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 September 30, 2020 and December 31, 2019 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 September 30, 2020 and December 31, 2019 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:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Right-of-use asset, net and lease liabilities (in thousands)	\$ 3,170	\$ 945
Cash paid for operating lease liabilities (in thousands)	\$ 754	\$ 563
Weighted average remaining lease term (years)	3.6	1.1
Weighted average discount rate	3.9%	5.5%

Maturities of our operating lease liabilities as of September 30, 2020 is as follows:

	<u>Operating Leases</u>
	<u>(In thousands)</u>
2020	\$ 293
2021	977
2022	795
2023	718
2024	495
Thereafter	108
Total lease liabilities	<u>\$ 3,386</u>

Lease expense for the three months ended September 30, 2020 and 2019 consisted of the following:

<i>(in thousands)</i>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of Revenue	\$ 218	\$ 78	\$ 508	\$ 201
General and Administrative	52	52	157	157
Research and Development	30	18	89	55
Total	<u>\$ 300</u>	<u>\$ 148</u>	<u>\$ 754</u>	<u>\$ 413</u>

Legal Matters

On or about July 9, 2019, a securities class action complaint was filed in the United States District Court for the Eastern District of New York (Case No. 1:19-cv-03949) by Michael Skrzeczkoski, individually and on behalf of all others similarly situated, against the company, and certain current and former directors and officers. The complaint alleges, among other things, that certain of our press releases and SEC filings were misleading as a result of the failure to disclose alleged related party transactions affecting revenue recognition and the absence of disclosure regarding certain allegations against former director Parker H. Petit in connection with his former position with MiMedx, Inc. The complaint seeks to recover attorney's fees and costs and unspecified damages on behalf of purchasers who acquired our stock during the period from January 23, 2019, through May 29, 2019, and purportedly suffered financial harm as a result of the alleged misleading statements. On September 26, 2019, the Court appointed Edgardo Canez as lead plaintiff ("Lead Plaintiff") on behalf of the putative class. On November 18, 2019, Lead Plaintiff, individually and on behalf of a putative class of persons or entities who purchased or otherwise acquired publicly traded Company securities from May 23, 2014 through May 29, 2019, filed an amended class action complaint against the Company, and certain current and former directors and officers (the "Amended Complaint"). The Amended Complaint alleges similar allegations in violation of Sections 10(b) and 20(a) of the Securities Exchange Act as the previously filed complaint. The Amended Complaint seeks to recover attorney's fees and costs and unspecified damages. On January 2, 2020, Defendants submitted a motion to dismiss, and on March 3, 2020, briefing on the motion to dismiss was completed. The motion to dismiss is currently pending. We dispute these claims and intend to defend the matter vigorously. We have not determined the likelihood of loss to be probable nor is any potential loss estimable at this time, therefore we have not recorded any related liability as of September 30, 2020.

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. 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 to which Defendants' response is due no later than December 7, 2020.

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

9. INCOME TAXES

We recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized, net of a valuation allowance, for the estimated future tax effects of deductible temporary differences and tax credit carry-forwards. A valuation allowance against deferred tax assets is recorded when, and if, based upon available evidence, it is more likely than not that some or all deferred tax assets will not be realized.

There were no unrecognized tax benefits at September 30, 2020 and December 31, 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 percent, 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this Form 10-Q may contain forward-looking statements relating to ISC. All statements, trend analyses and other information relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties including those factors described below under "Factors That May Affect Future Operations", and that actual results may differ materially from those contemplated by such forward-looking statements. ISC undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results.

For purposes of this discussion and analysis, we are assuming and relying upon the reader's familiarity with the information contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission.

Overview

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

We provide technology solutions and processing services to the financial services market, commonly referred to as the FinTech industry. We derive our product revenue from licensing our comprehensive suite of financial transaction management software to accounts receivable businesses, financial institutions, retailers and processors to manage their credit and debit cards, prepaid cards, private label cards, fleet cards, loyalty programs and accounts receivable and loan transactions. Our service revenue consists of fees for software maintenance and support for licensed software products, fees for processing services that we provide to companies that outsource their financial transaction processing functions to us, and professional services primarily for software customizations provided to both license and processing customers.

Our results vary in part depending on the size and number of software licenses recognized as well as the value and number of professional services contracts recognized in a particular period. As we continue to grow our Processing Services business, we continue to gain economies of scale on the investment we have made in the infrastructure, resources, processes and software features developed over the past number of years to support this growing side of our business. We are adding new processing customers at a faster pace than we are adding new license customers, resulting in steady growth in the processing revenue stream. However, we are also experiencing growth in our professional services revenue due to the addition of a large new customer in 2018. In total, this customer represented 67% and 58% of our consolidated revenues in the first nine months of 2020 and 2019, respectively. We expect future professional services, maintenance and license revenue from this customer in 2020 and future years; however, the amount and timing will be dependent on various factors not in our control such as the number of accounts on file and the level of customization needed by the customer. License revenue from this customer, similar to other license arrangements, is tiered based on the number of active accounts on the system. Once the customer achieves each tier level, they receive a perpetual license up to that number of accounts; inactive accounts do not count toward the license tier. The customer receives an unlimited perpetual license at a maximum tier level that allows them to utilize the software for any number of active accounts. They currently use the software for a single institution and additional license fees apply if multiple institutions are added. Support and maintenance fees are charged based on the tier level achieved and increase at new tier levels.

While we typically receive revenue based on the number of active accounts on file rather than transaction volume, the pandemic related to the coronavirus could adversely impact our future results if the ability of our customers to continue to add new accounts is negatively impacted by the decrease in economic activity caused by the virus. As noted above, we receive license revenue when our customers achieve new active account tiers. The impact of slower growth or declines in active accounts would result in lower than expected license revenue which would then result in lower than expected maintenance revenue. Similarly, we typically receive processing revenue based on the number of active accounts our customers have on our system. If our customers fail to add new accounts or experience declines in active accounts due to inactivity, we could experience lower than expected growth in processing revenue or lower processing revenue. We could also experience delays or declines in professional services revenue and new customer sign-ups and implementations if customers or potential customers delay or cancel their plans due to the virus related economic slowdown. Thus far, we have experienced some slowdowns in customer account growth and some customers have stopped adding new accounts resulting in flat or declining active accounts. The impact on results to date was limited and, for the second and third quarter, was mitigated primarily by new program offerings by a large customer related to government stimulus efforts. These programs are limited in duration and will likely start to decline in the fourth quarter. We could therefore experience more significant negative impacts on full year results which we are not currently able to quantify.

Additionally, our operations could be impacted, and we could experience higher costs if, despite our mitigation and prevention efforts, the virus spread prevents affected employees from performing key duties. Our employees in India have been required to work remotely since mid-March. We have maintained key functions; however, the continuance of remote work will likely negatively impact productivity which could impact operations and revenues.

The infrastructure of our multi customer environment is scalable for the future. A significant portion of our expense is related to personnel, including approximately 530 employees located in India and Romania. In October 2020, we added new locations in Dubai, United Arab Emirates and Chennai, India to expand our international capabilities. 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 or annual basis for a number of reasons, including the following:

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

We continue to maintain a strong cash position. 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. In November 2018, our Board of Directors authorized a share repurchase program of \$5 million. We did not make any share repurchases in 2020 or 2019.

Results of Operations

The following discussion should be read in conjunction with the unaudited Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented in this quarterly report.

Revenue – Total revenue in the three and nine month periods ended September 30, 2020 was \$10,304,000 and \$26,250,000, respectively, which represents increases of 8 percent and 9 percent compared to the respective periods in 2019.

- Revenue from services was \$8,704,000 and \$24,650,000 in the three and nine month periods ended September 30, 2020, respectively, which represents increases of 19 percent and 22 percent compared to the respective periods in 2019. Revenue from transaction processing services, software maintenance and support services, and professional services were greater in the third quarter and first nine months of 2020 as compared to the third quarter and first nine months of 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 during the third quarter of 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 is primarily software license fees, was \$1,600,000 in both the three and nine month periods ended September 30, 2020, compared to \$2,225,000 and \$3,725,000 in the respective comparable periods of 2019. The decrease results from fewer customers achieving new license tiers in the third quarter and first nine months of 2020.

Cost of Revenue – Total cost of revenue was 41 percent and 43 percent of total revenue in the three and nine month periods ended September 30, 2020, respectively, compared to 32 percent and 35 percent of total revenue in the corresponding periods of 2019. The increase in cost of revenue as a percentage of revenue is primarily driven by decreased product sales with low associated costs. Cost of revenue includes costs to provide annual maintenance and support services to our installed base of licensed customers, costs to provide professional services, and costs to provide our financial transaction processing services. The cost and gross margins on such revenues can vary considerably from period to period depending on the customer mix, customer requirements and project complexity as well as the mix of our U.S. and offshore employees working on the various aspects of services provided. In addition, we continue to devote the resources necessary to support our growing processing business, including direct costs for regulatory compliance, infrastructure, network certifications and customer support. Investments in our infrastructure in 2020 are in anticipation of adding customers in future periods. As such, we will not experience economies of scale unless we add additional customers, as anticipated. 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 – In the three month period ended September 30, 2020, total operating expenses from consolidated operations were higher than in the corresponding period in 2019 primarily due to higher general and administrative expenses. In the nine month period ended September 30, 2020, total operating expenses from consolidated operations were slightly higher than in the corresponding period in 2019 primarily due to higher general and administrative expenses, partially offset by lower research and development and marketing expenses. Research and development expenses were 4 percent higher and 4 percent lower in three and nine month periods in 2020, respectively, as compared to the same periods in 2019. In the three month period ended September 30, 2020, research and development expenses were higher mainly due to payroll and related expense for additional offshore technical personnel. In the nine month period ended September 30, 2020, 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 were 34 percent higher in the three month period ended September 30, 2020 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. Additionally, General and administrative expenses were 13 percent higher in the nine month period ended September 30, 2020 due to higher legal and advisory expenses related to ongoing securities litigation as discussed below partially offset by strategic initiatives of the Board that did not recur in the comparable 2020 period. Marketing expenses decreased 11 percent and 24 percent for the three and nine month periods in 2020, respectively, as compared to the same periods in 2019 as we continued to place less focus on marketing initiatives for CoreCard. Our client base continues to increase with minimal marketing efforts as we continue to have prospects contact us via online searches; however, we will continue to re-evaluate our marketing expenditures as needed to competitively position the Processing Services business.

Investment Income (Loss) – In the three and nine months ended September 30, 2020, we recorded \$92,000 and \$1,237,000 of investment losses, respectively, compared to investment losses of \$109,000 and \$105,000 for the three and nine months ended September 30, 2019, respectively. The investment losses for the nine months ended September 30, 2020 primarily relate to impairment charges on investments resulting from the economic downturn caused by the recent pandemic and losses on equity method investments.

Other Income (Loss) – In the three and nine months ended September 30, 2020, we recorded income of \$59,000 and \$312,000, respectively, compared to income of \$104,000 and \$353,000 for the comparable 2019 periods. The decrease for the three and nine month periods is primarily due to lower interest rates in the 2020 period.

Income Taxes – Our effective tax rates for the three and nine months ended September 30, 2020 were 18.9 percent and 20.9 percent compared to effective tax rates of 26.3 percent and 24.7 percent for the respective periods in 2019. In the three and nine month periods ended September 30, 2020, our effective tax rates were lower primarily due to research and development tax credits recognized in the third quarter.

Liquidity and Capital Resources

Our cash balance at September 30, 2020 was \$34,391,000 compared to \$26,415,000 at December 31, 2019. During the nine months ended September 30, 2020, cash provided by operations was \$15,184,000 compared to cash provided by operations of \$7,679,000 for the nine months ended September 30, 2019. The increase is primarily due to higher deferred revenue and lower accounts receivable balances and a non-cash impairment charge, partially offset by lower accrued income taxes, net income and accrued payroll. In addition, we advanced \$1,000,000 on a Promissory Note which is described in more detail in Note 3 to the Consolidated Financial Statements. We used \$6,173,000 of cash to acquire computer equipment primarily for the technical resources added in our India office and to upgrade our existing processing environment in the U.S.

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 CoreCard and FinTech business, although there can be no assurance that appropriate opportunities will arise.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. We consider certain accounting policies related to revenue recognition and valuation of investments to be critical policies due to the estimation processes involved in each. Management discusses its estimates and judgments with the Audit Committee of the Board of Directors. For a detailed description on the application of these and other accounting policies, see Note 1 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Reference is also made to the discussion of the application of these critical accounting policies and estimates contained in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for 2019. During the nine month period ended September 30, 2020, there were no significant or material changes in the application of critical accounting policies.

Factors That May Affect Future Operations

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

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

- Weakness or instability in the global financial markets could have a negative impact due to potential customers (most of whom perform some type of financial services) delaying decisions to purchase software or initiate processing services.
- Increased federal and state regulations and reluctance by financial institutions to act as sponsor banks for prospective customers could result in losses and additional cash requirements.
- In 2018, we added a large new license customer that represented 60% of our consolidated revenues for the twelve months ended December 31, 2019. Failure to meet our responsibilities under the related contract could result in breach of contract and loss of the customer and related future revenues.
- Delays in software development projects could cause our customers to postpone implementations or delay payments, which would increase our costs and reduce our revenue and cash.
- We could fail to deliver software products which meet the business and technology requirements of our target markets within a reasonable time frame and at a price point that supports a profitable, sustainable business model.
- Our processing business is impacted, directly or indirectly, by more regulations than our licensed software business. If we fail to provide services that comply with (or allow our customers to comply with) applicable regulations or processing standards, we could be subject to financial or other penalties that could negatively impact our business.
- Software errors or poor quality control may delay product releases, increase our costs, result in non-acceptance of our software by customers or delay revenue recognition.
- We could fail to expand our base of customers as quickly as anticipated, resulting in lower revenue and profits and increased cash needs.
- We could fail to retain key software developers and managers who have accumulated years of know-how in our target markets and company products or fail to attract and train a sufficient number of new software developers and testers to support our product development plans and customer requirements at projected cost levels.

- Increasing and changing government regulations in the United States and foreign countries related to such issues as data privacy, financial and credit transactions could require changes to our products and services which could increase our costs and could affect our existing customer relationships or prevent us from getting new customers.
- Delays in anticipated customer payments for any reason would increase our cash requirements and could adversely impact our profits.
- Competitive pressures (including pricing, changes in customer requirements and preferences, and competitor product offerings) may cause prospective customers to choose an alternative product solution, resulting in lower revenue and profits (or losses).
- Our future capital needs are uncertain and depend on a number of factors; additional capital may not be available on acceptable terms, if at all.
- Volatility in the markets, including as a result of political instability, civil unrest, war or terrorism, or pandemics or other natural disasters, such as the recent outbreak of coronavirus, could adversely affect future results of operations and could negatively impact the valuation of our investments.
- Other general economic and political conditions could cause customers to delay or cancel purchases.

Item 3. Legal Proceedings

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

On or about February 14, 2020, two purported shareholders, derivatively and on behalf of the Company, filed substantially similar shareholder derivative actions in the Eastern District of New York against certain current and former directors and officers (the “Individual Defendants”), and the Company as a nominal defendant (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. 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 to which Defendants’ response is due no later than December 7, 2020.

For information regarding our accounting for legal contingencies, see Note 8 of the Notes to Consolidated Financial Statements in this Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Control Over Financial Reporting

As of the end of the period covered by this report, the Company 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.

Changes in Internal Control Over Financial Reporting

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 have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 6. Exhibits

The following exhibits are filed or furnished with this report:

- 3.1 [Amended and Restated Articles of Incorporation of the Registrant dated May 4, 2011 \(Incorporated by reference to Exhibit 3.1\) to the Registrant's Form 10-Q for the period ended March 31, 2011.](#)
- 3.2 [Bylaws of the Registrant dated December 7, 2007. \(Incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-Q dated May 3, 2019\).](#)
- 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 of Chief Executive Officer and Chief Financial Officer furnished as required by Section 906 of the Sarbanes-Oxley Act of 2002.](#)

- 101.INS** XBRL Instance
- 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 the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

INTELLIGENT SYSTEMS CORPORATION
Registrant

Date: November 3, 2020

By: /s/ J. Leland Strange
J. Leland Strange
Chief Executive Officer, President

Date: November 3, 2020

By: /s/ Matthew A. White
Matthew A. White
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Descriptions
3.1	Amended and Restated Articles of Incorporation of the Registrant dated May 4, 2011 (Incorporated by reference to Exhibit 3.(1) to the Registrant's Form 10-Q for the period ended March 31, 2011)
3.2	Bylaws of the Registrant dated December 7, 2007 (Incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-Q dated May 3, 2019).
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 of Chief Executive Officer and Chief Financial Officer furnished as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculations
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.

**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 report on Form 10-Q 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 15d-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;
 - 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;
 - 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; and
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 the 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: November 3, 2020

/s/ J. Leland Strange
J. Leland Strange
Chief Executive Officer, 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 report on Form 10-Q 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 15d-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;
 - 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;
 - 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; and
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 the 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: November 3, 2020

/s/ Matthew A. White
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 report on Form 10-Q for the period ended September 30, 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: November 3, 2020

/s/ J. Leland Strange
J. Leland Strange
Chief Executive Officer

/s/ Matthew A. White
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.