

INTELLIGENT SYSTEMS CORP  
Form DEF 14A  
April 05, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  S

Filed by a Party other than the Registrant  ..

Check the appropriate box:

- o Preliminary Proxy Statement  
.. Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 S Definitive Proxy Statement  
.. Definitive Additional Materials  
.. Soliciting Materials Pursuant to §240.14a-12

INTELLIGENT SYSTEMS CORPORATION

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant))

Payment of Filing Fee (Check the appropriate box):

- S No fee required.  
.. Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.  
.. (1) Title of each class of securities to which transaction applies:  
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(1) Amount previously paid:

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4355 Shackleford Road  
Norcross, Georgia 30093

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

YOU ARE INVITED TO attend the Annual Meeting of Shareholders of Intelligent Systems Corporation on Thursday, May 24, 2012 at 4:00 p.m., local time, at our principal executive offices located at 4355 Shackleford Road, Norcross, Georgia 30093. At the Annual Meeting, shareholders will consider and vote on:

1. The election of two directors to the Board of Directors to serve until the 2015 Annual Meeting;
2. The election of one director to the Board of Directors to serve until the 2014 Annual Meeting; and
3. Other matters that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on Friday, April 9, 2012 will receive notice of and be entitled to vote at the meeting or any adjournment thereof.

A Proxy Statement and a proxy solicited by the Board of Directors are enclosed with this mailing. To ensure a quorum for the meeting and that your vote may be recorded, please sign, date and return the proxy promptly in the enclosed business reply envelope. If you attend the meeting, you may revoke your proxy and vote in person. Our 2011 Annual Report to Shareholders is enclosed in the same document as the Proxy Statement.

By order of the Board of Directors,  
Bonnie L. Herron  
Secretary

April 9, 2012

Please complete and return the enclosed proxy promptly so that your vote may be recorded.

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PROXY STATEMENT  
FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 24, 2012

We are sending this Proxy Statement to the shareholders of Intelligent Systems Corporation (the “company”) in connection with the solicitation of proxies by the Board of Directors to be voted at the 2012 Annual Meeting of Shareholders (the “Annual Meeting”) of Intelligent Systems Corporation and any adjournment thereof. The Annual Meeting will be held on May 24, 2012 at our principal executive offices located at 4355 Shackleford Road, Norcross, Georgia 30093 at 4:00 p.m. local time. We expect to first mail this Proxy Statement and the accompanying proxy to shareholders on or about April 13, 2012.

VOTING

General

The securities that can be voted at the Annual Meeting consist of common stock of Intelligent Systems Corporation, \$.01 par value per share. Each share entitles its owner to one vote on each matter submitted to the shareholders. There are no cumulative voting rights. The record of shareholders entitled to vote at the Annual Meeting was taken as of the close of business on April 9, 2012. On that date, we had outstanding and entitled to vote 8,958,025 shares of common stock with each share entitled to one vote.

Quorum

A majority of the outstanding shares of our common stock must be present, in person or by proxy, to constitute a quorum at the Annual Meeting. We will treat shares that are withheld or abstain from voting as present at the Annual Meeting for purposes of determining a quorum. If your shares are held by a broker, bank, custodian, nominee or other record holder of our common stock and you fail to instruct such record holder how to vote your shares with respect to the director election, your shares will not be counted as present in determining whether we have a quorum.

Proxies

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

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

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

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

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

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

#### Dissenters' Rights of Appraisal

There are no dissenter's rights of appraisal with respect to the matters being acted upon at the Annual Meeting.

#### Security Ownership of Certain Beneficial Owners and Management

The following table contains information concerning the persons who are known to us to be beneficial owners of more than 5 percent of our common stock as of February 29, 2012, and the ownership of our common stock as of that date by each director, nominee, each executive officer named in the Summary Compensation Table and by all directors and officers as a group. There are no arrangements known to us which may result in change of control of the company.

| Beneficial Owner  | Address  | Shares<br>Beneficially Owned<br>a, e | Percent<br>of Class a |
|---|--|--------------------------------------|-----------------------|
| J. Leland Strange b<br>Chairman of the Board, President,<br>CEO | 4355 Shackleford Road<br>Norcross, GA 30093        | 2,050,300                            | 22.75%                |
| Wallace R. Weitz & Company c                                    | 1125 South 103rd St., Suite 200<br>Omaha, NE 68124 | 2,270,000                            | 25.34%                |
| Clifford N. Burnstein d   | 729 7th Avenue<br>New York, NY 10019               | 835,445                              | 9.33%                 |
| James V. Napier, Director                                       |  | 63,300                               | *                     |
| John B. Peatman, Director                                       |  | 31,280                               | *                     |
| Parker H. Petit, Director                                       |  | 77,315                               | *                     |
| Cherie M. Fuzzell, Nominee                                      |  | --                                   | N/A                   |
| Francis A. Marks, Vice President                                |  | 193,227                              | 2.16%                 |
| Bonnie L. Herron<br>Vice President, Chief Financial<br>Officer  |  | 137,658                              | 1.53%                 |

## and Corporate Secretary

|  |           |        |
|--|-----------|--------|
| All Directors and Executive Officers<br>as a Group (7 persons) | 2,697,572 | 29.49% |
|--|-----------|--------|

- a. Except as otherwise noted, beneficial ownership is determined on the basis of 8,958,028 shares of common stock issued and outstanding plus securities deemed outstanding pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934, as amended. Pursuant to the rules of the Securities and Exchange Commission (the "SEC"), a person is deemed to beneficially own shares of the company's common stock if that person has or shares "voting power", which includes the power to vote or to direct the voting of a security, or "investment power", which includes the power to dispose of or to direct the disposition of a security. An asterisk indicates beneficial ownership of less than 1 percent.
- b. Includes 293,906 shares owned by Jane H. Strange, Mr. Strange's wife. Mr. Strange disclaims any beneficial interest in the shares.
- c. Based on information set forth in a Schedule 13G filed on February 1, 2012, in which Wallace R. Weitz and Company, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, reported beneficial ownership of 2,270,000 shares of common stock, of which Wallace R. Weitz and Company has the sole power to vote and to dispose.
- d. Based on information set forth in a Schedule 13D filed on August 3, 2009, in which Clifford N. Burnstein, an individual, reported beneficial ownership of 835,445 shares of common stock, of which Clifford N. Burnstein has the sole power to vote and to dispose.
- e. Includes 188,333 shares reserved for issuance to officers and directors pursuant to stock options that were exercisable at February 29, 2012 or within sixty days of such date which are deemed beneficially owned by such person pursuant to Rule 13d-3(d)(1) of the Exchange Act. The amounts reported above for Messrs. Napier, Peatman and Petit include 30,000 shares each for shares underlying stock options exercisable at February 29, 2012 or within sixty days of such date. The amounts reported above for Mr. Strange and Ms. Herron include 52,500 and 45,833 shares, respectively, for shares underlying stock options exercisable at February 29, 2012 or within sixty days of such date.

## PROPOSAL 1 – THE ELECTION OF THREE DIRECTORS

## Nominees

At the Annual Meeting of Shareholders, shareholders will elect two directors to the Board to serve a three-year term until the 2015 Annual Meeting of Shareholders and one director to serve a two-year term until the 2014 Annual Meeting of Shareholders. The other directors' terms expire at the Annual Meeting of Shareholders listed in the following table for each category of directors, or upon their earlier death, resignation or removal from office. Directors are elected by a plurality of the shares present and voting at the meeting. A "plurality" means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. Therefore, shares that are withheld or abstain from voting and broker non-votes will have no effect on the outcome of the vote. Unless contrary instructions are given, the persons named as proxies will vote the shares represented by a signed proxy card "FOR" the nominees.

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

The Board has nominated the persons named in the following table to serve as directors of the company. Two of the nominees, Mr. Strange and Mr. Napier are currently directors of the company. The third nominee, Ms. Fuzzell, is not currently a director of the company. The nominees and other directors gave us the following information concerning their current age, other directorships, positions with the company, principal employment and shares of our common stock beneficially owned as of February 29, 2012.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" PROPOSAL 1 TO ELECT THREE NOMINEES TO SERVE AS DIRECTORS OF THE COMPANY.

| Name   | Age | Position / Principal Occupation  | Shares of Common Stock<br>Beneficially Owned<br>(Percent of Class) |         |
|--|-----|--|--|---------|
| Nominees for election to serve until the 2015 Annual Meeting       |     |  |  |         |
| James V. Napier 1 & 2  | 75  | Director, Retired, former Chairman of the Board of Scientific Atlanta                    | 63,300   | *       |
| J. Leland Strange  | 70  | Director, Chairman of the Board, President and Chief Executive Officer                   | 2,050,300 <sup>3</sup>   | 22.75 % |
| Nominee for election to serve until the 2014 Annual Meeting        |     |  |  |         |
| Cherie M. Fuzzell  | 48  | President and CEO of FirstView, LLC  | --   | N/A     |
| Incumbent director elected to serve until the 2014 Annual Meeting  |     |  |  |         |
| Parker H. Petit 1 & 2  | 72  | Director, CEO of MiMedx Group and President of The Petit Group                           | 77,315   | *       |
| Incumbent directors elected to serve until the 2013 Annual Meeting |     |  |  |         |
| John B. Peatman 1 & 2  | 77  | Director, Retired Professor of Electrical Engineering at Georgia Institute of Technology | 31,280   | *       |



\*Less than one percent; share amount includes 30,000 shares pursuant to stock options exercisable at February 29, 2012 or within sixty days of such date.

1.

Audit Committee

2.

Compensation Committee

3. Includes 293,906 shares owned by Jane H. Strange, Mr. Strange's wife. Mr. Strange disclaims any beneficial interest in the shares. Also includes 52,500 options that were exercisable at February 29, 2012 or within 60 days of such date.

Ms. Fuzzell is being nominated to serve as a director for a two year term until the 2014 Annual Meeting to fill a vacancy in the class of directors whose term ends at the 2014 Annual Meeting. The vacancy exists due to the resignation of a former director in 2003 and has not been filled since that time. Since 2008, Ms. Fuzzell has been President and Chief Executive Officer of FirstView, LLC, a privately held company in Atlanta, Georgia. FirstView is a vertically integrated processor and program manager providing turnkey prepaid debit card solutions for multiple industries and applications – from general purpose reloadable cards to payroll cards to incentive and reward cards to corporate funding cards. Prior to 2008, she was an independent industry consultant and from 1999 to 2005 served as Chief Administrative Officer and General Counsel of Nova Information Systems, Inc., an international payments processing company (now operating as Elavon, part of U.S. Bancorp). Other experience includes serving on the board of directors and compensation committee of Otix Global, Inc. [formerly NASDAQ: OTX], a manufacturer of hearing aids, prior to its acquisition in December 2010. The Board considered Ms. Fuzzell's extensive experience in and knowledge of the financial payments industry; her operational and strategic insight; her board and executive service with large and publicly traded companies; her familiarity with the company's CoreCard subsidiary business, products and services; her educational background in accounting and law; and improving the Board's gender diversity, in determining that she should serve as a director of the company. The Board has determined that Ms. Fuzzell qualifies as an independent director under the applicable rules of the NYSE Amex.

Mr. Napier has served as a director since 1982. Mr. Napier served as Chairman of the Board of Scientific-Atlanta, Inc., a firm involved in cable television electronics and satellite-based communication networks, from 1993 until his retirement in November 2000. Within the past five years, Mr. Napier has also served as a director of Vulcan Materials Company, Wabtec Corporation, McKesson Corporation, Engelhard Corporation and Personnel Group of America, Inc. The Board considered Mr. Napier's extensive experience as an executive and member of the board of directors of a wide variety of publicly traded companies, his experience as chair of the audit committees of other public companies, and his familiarity with the company since 1982 in determining that he should serve as a director of the company. The Board has determined that Mr. Napier is an independent director under the applicable rules of the NYSE Amex.

Dr. Peatman has served as a director since 1979 and has been a Professor of Electrical Engineering at the Georgia Institute of Technology from 1964 until his retirement in 2009. The Board considered Dr. Peatman's technology experience and familiarity with the company since 1979 in determining that he should serve as a director of the company. The Board has determined that Dr. Peatman is an independent director under the applicable rules of the NYSE Amex.

Mr. Petit has served as a director since 1996. Mr. Petit is the Chairman, President and CEO of MiMedx Group, an integrated developer, manufacturer and marketer of bio-material based products. Mr. Petit is also the President of The Petit Group, a private investment company. Mr. Petit served as Chairman of the Board and Chief Executive Officer of Matria Healthcare, Inc., a comprehensive disease management services company from 1996 to 2008. He also served as a director of Logility, Inc. within the past five years. The Board considered Mr. Petit's extensive experience as a successful entrepreneur and as an executive and member of the board of directors of several publicly traded technology and healthcare companies, as well as his familiarity with the company since 1996 in determining that he should serve as a director of the company. The Board has determined that Mr. Petit is an independent director under the applicable rules of the NYSE Amex.

Mr. Strange has served as our President since 1983 and our Chief Executive Officer and Chairman of the Board since 1985. The Board considered Mr. Strange's many years of experience as the company's CEO, his familiarity with the industries and customers which our operating companies serve, and his past experience on several boards of directors and audit and compensation committees of other publicly traded companies in determining that he should serve as a director of the company.

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

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to an evaluation of the ability and integrity of any director, executive officer or control person of the company during the past ten years. There are no proceedings to which any director, officer, affiliate, any owner of record or beneficially of more than 5 percent of our common stock, or any security holder of the company is an adverse party to the company or has a material interest adverse to the company.

Three of the four directors and all of the members of the Audit Committee are independent, as such term is defined in the listing standards of the NYSE Amex and the rules of the SEC. The Audit Committee meets the composition requirements of NYSE Amex's listing standards for Small Business Issuers (as defined by the rules of NYSE Amex).

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

The Chief Executive Officer serves as Chairman of the Board of Directors of the company. Given the small size and limited geographic and industry scope of the company's operations, the company believes that the leadership structure of the board, consisting of five directors of which four are independent (assuming the election of all the nominees), is

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

## Meetings and Committees of the Board of Directors

The Board met four times during the year ended December 31, 2011 and acted by unanimous consent on two occasions. The Board has established an Audit committee, a Compensation committee, and a Plan committee, but has no nominating committee. The Audit Committee of the Board met four times during 2011. During 2011, the Audit Committee consisted of Messrs. Peatman, Petit, and Napier (chair). In 2011, the Audit Committee appointed the company's independent auditor, met with the independent auditor to review its report on the 2010 audit and the 2011 quarterly reviews, and carried out a number of other responsibilities, as outlined in the Audit Committee Charter.

All members of the Audit Committee currently meet the applicable independence and qualifications standards of the NYSE Amex. The Board has determined that Mr. Petit and Mr. Napier are financial experts as defined by the rules of the SEC, and are financially sophisticated as defined in the listing standards of NYSE Amex. The Board based this determination, in part, on Mr. Petit's experience in actively supervising senior financial and accounting personnel and in overseeing the preparation of financial statements as the chief executive officer and chairman of publicly-traded companies. Mr. Napier's experience includes serving on the audit committees of several large publicly traded companies as well as serving in executive positions and as the chairman of publicly traded companies.

The Board has a Compensation Committee consisting of the three independent directors, Messrs. Napier, Petit and Peatman. The Compensation Committee met twice in 2011 to review and approve management compensation. The Compensation Committee reviews, makes recommendations and approves the appropriate compensation level for the officers of the company and any changes in the company's various benefit plans covering executive officers or directors. The Compensation Committee does not have a charter. Neither, the Compensation Committee nor management had engaged a compensation consultant to provide advice or recommendations on the form or amount of executive or director compensation. From time to time, the Compensation Committee has sought input from publicly available data compiled by executive officers of the company relating to compensation paid to executive officers and directors in similar size, publicly traded companies in the same geographic area as the company is located. The Compensation Committee has also solicited input from the CEO with respect to compensation of non-CEO executive officers.

The Plan Committee, which met twice in 2011, is responsible for administering the 2003 Stock Incentive Plan including selecting individuals who will receive stock option grants and determining the timing, pricing and amounts of the options granted. The Plan Committee has the same members as the Compensation Committee.

In 2011, the directors attended all of the meetings of the Board of Directors and Committees of the Board on which they serve except that Mr. Petit missed one meeting of the Board and the Audit Committee.

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

## Executive Officers

The following information is provided about our non-director executive officers as of March 31, 2012.

| Name             | Age | Position / Principal Occupation                       |
|------------------|-----|---|
| Bonnie L. Herron | 64  | Vice President, Chief Financial Officer and Secretary |
| Francis A. Marks | 78  | Vice President  |



Mr. Marks joined the company in May 1982 as Vice President of Product Line Programs after 26 years with IBM Corporation in a variety of managerial and executive positions. He was appointed Vice President in 1983 and since 1998 has also served as President of ChemFree Corporation, one of our wholly owned subsidiaries, to which he devotes substantially all of his attention.

Ms. Herron joined the company in 1982 as Director of Planning at one of our subsidiaries and subsequently at the corporate level. She was elected Corporate Secretary in 1987, Vice President in 1990, and Chief Financial Officer in 1999.

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

## Executive Compensation

### Summary Compensation Table

| Name and Principal Position   | Year | Salary<br>\$ | Bonus<br>\$ | Option<br>Awards <sup>1</sup><br>\$ | Other Annual<br>Compensation<br>\$ | Total<br>\$ |
|---|------|--------------|-------------|-------------------------------------|------------------------------------|-------------|
| J. Leland Strange<br>President & Chief Executive<br>Officer                   | 2011 | 295,192      | --          | 82,350                              | 4,428                              | 381,970     |
|   | 2010 | 275,000      | --          | --                                  | 3,675                              | 278,675     |
| Francis A. Marks<br>Vice President  | 2011 | 150,000      | --          | --                                  | --                                 | 150,000     |
|   | 2010 | 150,000      | 49,500      | --                                  | --                                 | 199,500     |
| Bonnie L. Herron<br>Vice President, Chief Financial<br>Officer &<br>Secretary | 2011 | 171,154      | --          | 75,075                              | 2,365                              | 248,594     |
|   | 2010 | 155,000      | 20,000      | --                                  | 2,325                              | 177,325     |

1. The amount reported is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions related to the valuation calculation are disclosed in Note 1 to the company's Consolidated Financial Statements for the year ended December 31, 2011.

The table above sets forth information regarding compensation awarded to, earned by or paid to the company's CEO and the company's two most highly compensated executive officers other than the CEO (the "Named Executive Officers"). None of the Named Executive Officers has an employment agreement with the company and the company does not have any corporate non-equity incentive plans or nonqualified deferred compensation plans. From time to time, officers may be awarded bonuses to recognize achievement of corporate or subsidiary goals or other accomplishments. In 2010, Ms. Herron was awarded a bonus of \$20,000 in recognition of her contribution to the company in a number of areas at the corporate and subsidiary levels. In 2010, Mr. Marks participated in a bonus plan at our ChemFree subsidiary for which he serves as its president. Based on the subsidiary's achievement of revenue, earnings and new revenue program goals for 2010, Mr. Marks was awarded a bonus of \$49,500, which was paid in the first quarter of 2011. During the year ended December 31, 2011, the company awarded 67,500 stock options to Mr. Strange and 60,000 stock options to Ms. Herron. No options were granted to executives in 2010 and no options were repriced in the two year period ended December 31, 2011. All Other Annual Compensation shown above includes matching contributions by the company to the respective accounts of the executive officers pursuant to the terms of our Tax-Deferred Savings and Protection Plan (the "401(k) Plan"). Such amounts are fully vested. It is our policy to provide executives with the same benefits provided to all other employees with respect to medical, dental, life insurance and 401(k) plans.

Grants of Plan-Based Awards

| Name              | Grant Date | All Other Option Awards:                     |  | Grant Date Fair Value of Stock and Option Awards<br>\$ |
|-------------------|------------|--|--|--|
|                   |            | Number of Securities Underlying Options<br># | Exercise or Base Price of Option Awards<br>(\$/sh) |  |
| J. Leland Strange | 03/01/2011 | 22,500                                       | \$1.72   | \$ 29,700  |
|                   | 08/02/2011 | 45,000                                       | \$1.52   | \$ 52,650  |
| Bonnie L. Herron  | 03/01/2011 | 32,500                                       | \$1.72   | \$ 42,900  |
|                   | 08/02/2011 | 27,500                                       | \$1.52   | \$ 32,175  |

## Outstanding Equity Awards at Fiscal Year End

| Name              | Option Awards   |   | Option Exercise Price | Option Expiration Date |
|-------------------|---|---|-----------------------|------------------------|
|                   | Number of Securities Underlying Unexercised Options Exercisable (#) | Number of Securities Underlying Unexercised Options Unexercisable (#) |                       |                        |
| J. Leland Strange | 45,000 1  | -0-   | \$1.51                | 03/04/2013             |
|                   | -0-   | 22,500 2  | \$1.72                | 03/01/2021             |
|                   | -0-   | 45,000 3  | \$1.52                | 08/02/2021             |
| Francis A. Marks  | -0-   | -0-   | NA                    | NA                     |
| Bonnie L. Herron  | 35,000 1  | -0-   | \$1.51                | 03/04/2013             |
|                   | -0-   | 32,500 2  | \$1.72                | 03/01/2021             |
|                   | -0-   | 27,500 3  | \$1.52                | 08/02/2021             |

1. Stock options were issued on March 3, 2003 and vested in one third increments on the first, second and third anniversaries of the grant date.
2. Stock options were issued on March 1, 2011 and vest in one third increments on the first, second and third anniversaries of the grant date.
3. Stock options were issued on August 8, 2011 and vest in one third increments on the first, second and third anniversaries of the grant date.

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

Effective January 1, 1992, the company adopted the Change in Control Plan for Officers so that if control of the company changes in the future, management would be free to act on behalf of the company and its shareholders without undue concern for the possible loss of future compensation. A “change in control” means either: (i) the accumulation by an unrelated person of beneficial ownership of more than 25 percent of the company’s common stock, (ii) the sale of all or substantially all of the company’s assets to an unrelated person, in a merger or otherwise, or (iii) a change of control within the meaning of any rules promulgated by the Securities and Exchange Commission.

Under the Change in Control Plan, if the employment of an officer of the company terminates for any reason within 12 months after a change in control, the officer would receive a lump sum cash payment in an amount equal to twice the total of (i) such officer’s base annual salary at the time of termination, (ii) the cash value of annual benefits, and (iii) such officer’s bonus for the most recent year, if any. Additionally, upon a change in control, all options shall vest and the exercise period for all options becomes the longer of (i) one year after the date of termination or (ii) the exercise period specified in the officer’s option agreement. The right to such benefits would lapse one year after the occurrence of the last change in control event to occur if there were no actual termination during that period. The named executive officers have been designated by the Board as participants in the Change in Control Plan. No amounts have been accrued or paid to any executive officer pursuant to the Change in Control Plan and there is no arrangement presently that would result in a change in control.





## Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information as of December 31, 2011 about the company's common stock that may be issued under the Non-Employee Directors' Stock Option Plan (which expired in 2010), the 2011 Directors Stock Option Plan approved by shareholders in 2011, and the 2003 Stock Incentive Plan, as amended in 2011.

| Plan category   | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders <sup>1</sup>     | 244,500   | \$ 1.59   | 425,500   |
| Equity compensation plans not approved by security holders <sup>2</sup> | 98,000  | \$ 2.26   | -0-   |
| <b>Total</b>  | <b>342,500</b>  | <b>\$ 1.78</b>  | <b>425,500</b>  |

1. Information pertains to the 2003 Stock Incentive Plan and the 2011 Non-Employee Directors' Stock Option Plan.
2. Information pertains to the Non-Employee Directors' Stock Option Plan (adopted in 2000 and expired in 2010).

## Director Compensation

The table below sets forth all compensation paid to non-executive directors in the year ended December 31, 2011. The company does not have a stock award plan or non-equity incentive plan for directors. The company has a Non-Employee Directors' Stock Option Plan which expired in 2010. It was replaced by the 2011 Non-Employee Directors' Stock Option Plan, approved by the shareholders in 2011.

## Director Compensation

| Name            | Fees Earned or Paid in Cash \$ | Option Awards <sup>1</sup> \$ | Total \$ |
|-----------------|--------------------------------|-------------------------------|----------|
| James V. Napier | 16,000                         | 4,840                         | 20,840   |
| John B. Peatman | 16,000                         | 4,840                         | 20,840   |
| Parker H. Petit | 14,000                         | 4,840                         | 18,840   |

1. In 2011, each director was awarded 4,000 stock options at fair market value on the date of grant pursuant to the terms of the 2011 Non-Employee Directors' Stock Option Plan. The amount reported is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. At December 31, 2011, each non-executive director has an aggregate of 36,000 stock options outstanding, of which 30,000 are fully vested and exercisable.

All non-employee directors have the same compensation plan. Non-employee directors earn \$8,000 per year plus a fee of \$2,000 per meeting of the Board of Directors. There is no additional compensation for serving on a committee of the Board of Directors. Total cash compensation is capped at \$16,000 annually. Effective January 1, 1992, the company adopted the Outside Directors' Retirement Plan which provides for each non-employee director, upon resignation from the Board after reaching the age of 65, to receive a lump sum cash payment equal to \$5,000 for each

full year of service as a director of the company (and its predecessors and successors) up to \$50,000. No amounts were paid to any director with respect to the Outside Directors' Retirement Plan in 2011. At December 31, 2011 and 2010, we have accrued \$150,000 for future payments under the Outside Directors' Retirement Plan. Effective March 1, 2011, the company terminated the Outside Directors' Retirement Plan and provided that the outside directors then serving would receive the retirement benefits to which they were entitled under the plan before it was terminated. Effective August 22, 2000, the company adopted a Non-Employee Directors' Stock Option Plan which provided for an initial grant to each director of 5,000 options to purchase common stock of the company and annual grants of 4,000 options on the date of each subsequent Annual Meeting. Options were granted at fair market value on the date of grant. The Non-Employee Directors' Stock Option Plan has expired and was replaced by the 2011 Non-Employee Directors' Stock Option Plan, the terms of which are identical in all material respects to the expired plan and which was approved by the shareholders in 2011. In 2011, each director received a grant of 4,000 options on May 26, 2011, the date of the Annual Meeting of Shareholders.

## Audit Committee Report

The Audit Committee Charter, which is reviewed annually, includes organization and membership requirements, a statement of policy and the Committee's authority and responsibilities.

Management is responsible for our company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the company's consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and for issuing a report thereon. As outlined in more detail in the Audit Committee Charter, the Audit Committee's responsibility is generally to approve all services provided by and compensation paid to the independent auditors; review the adequacy of the company's internal and disclosure controls and risk management practices; review and monitor the annual audit of the financial statements including the financial statements produced and notes thereto; review SEC filings containing the company's financial statements; regularly meet with the independent auditors and management in separate sessions; and authorize investigations into any matter within the scope of their responsibilities. During fiscal year 2011 and through March 15, 2012, among its other activities, the Audit Committee:

- engaged the independent auditors and established their compensation;
- reviewed and discussed with management and the independent auditors the audited financial statements of the company as of December 31, 2010 and 2011 and for the years then ended;
- discussed with the independent auditors their reviews of the quarterly unaudited financial statements of the company for fiscal 2011;
- discussed with the independent auditors the matters required to be discussed by PCAOB standards (SAS No.'s 61, 89 and 90); and
- received from the independent auditors the written disclosures and written affirmation of their independence required by Independence Standards Board Standard No. 1 and discussed with the auditors the firm's independence.

Based upon the reviews and discussions summarized above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2011 for filing with the Securities and Exchange Commission.

### AUDIT COMMITTEE

James V. Napier (Chair)

Parker H. Petit

John B. Peatman

### Nominations Process

The Board has not appointed a standing nominating committee or adopted a formal nominating committee charter because the Board has determined that due to the size, make-up, independence, long tenure and low turnover of the current Board of Directors, there would be limited benefit to the company or its shareholders to do so. Currently, James V. Napier, Parker H. Petit and John B. Peatman, all of whom meet the applicable NYSE independence requirements, participate in the consideration of director nominees. Messrs. Napier, Petit and Peatman also nominate the officers of the company for election by the Board of Directors.

The Board has not previously formed a policy with respect to consideration of candidates nominated by shareholders since there have been no such nominations. However, it is the Board's intent to consider any security holder nominees that may be properly and timely put forth in the future. The Board has not identified any specific, minimum qualifications or skills that it believes must be met by a nominee for director. The company does not have a specific

policy with respect to diversity in identifying nominees for director. In considering nominations for the 2012 Annual Meeting, the Board reviewed the appropriate size of the Board and the skills and characteristics of directors in the context of the current make-up, background and experience of the Board and the requirements and needs of the company in the foreseeable future. Given the current composition and size of the Board and the company and the fact that there is one vacancy on the Board at the present time due to the retirement of a director in 2003, the Board determined that, in addition to nominating two incumbent directors to a new term, it was appropriate to nominate a new candidate to fill the remaining term of the vacancy in the class of directors elected to serve until the 2014 Annual Meeting. The Board considered that it would be beneficial to the company to add a director with relevant experience and insight in the financial services and card processing industry. Security holders wishing to nominate a candidate for consideration at the Annual Meeting of Shareholders in 2013 should submit the nominee's name, affiliation and other pertinent information along with a statement as to why such person should be considered for nomination. Such nominations should be addressed to the Board in care of the Secretary of the company and be received no later than 14 days before the date of the Annual Meeting of Shareholders. The Board will evaluate any such nominees in a manner similar to that for all director nominees.

#### Communication Between Security Holders and the Board of Directors

Security holders wishing to communicate with members of the Board should send a letter to the Secretary of the company with instructions as to which director(s) is to receive the communication. The Secretary will forward the written communication to each member of the Board identified by the security holder or, if no individual director is identified, to all members of the Board of Directors. The company has not in the past required members of the Board to attend each Annual Meeting of Shareholders because the formal meetings have been attended by very few shareholders, and have generally been very brief and procedural in nature. One of the company's directors attended the 2011 Annual Meeting of Shareholders. The Board will continue to monitor shareholder interest and attendance at future meetings and reevaluate this policy as appropriate.

#### CODE OF ETHICS

The company has adopted a Code of Ethics that applies to all directors, officers, and employees. The Code of Ethics is posted on our website at [www.intelsys.com](http://www.intelsys.com). The company discloses on its website, within the time required by the rules of the SEC, any waivers of, or amendments to, the Code of Ethics for the benefit of an executive officer.

#### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, and regulations of the Securities and Exchange Commission thereunder require our executive officers and directors and persons who own more than ten percent of our common stock, as well as certain affiliates of these persons, to file initial reports of ownership of our common stock and changes in such ownership with the Securities and Exchange Commission. The Securities and Exchange Commission also requires executive officers, directors and persons owning more than ten percent of our common stock to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, we believe that, during the fiscal year ended December 31, 2011, the executive officers, directors, and persons owning more than ten percent of our common stock and affiliates of these persons have complied with all applicable filing requirements in a timely manner.

#### INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Habif, Arogeti, & Wynne, LLP ("HAW") acted as our independent registered public accounting firm for the fiscal years ended December 31, 2010 and 2011. We expect that representatives of HAW will be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions. The Audit Committee has not yet selected auditors for the year-end audit for the fiscal year 2012 because historically this decision is made in the second half of the year. The following is a summary of fees and expenses billed to the company by HAW for services during 2010 and 2011:

**Audit Fees** - We were billed aggregate fees of \$134,000 and \$143,000 for review and audit services by HAW in the year ended December 31, 2011 and 2010, respectively.

**Audit-Related Fees** - These fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our Financial Statements and are not reported under "Audit Fees". We did not incur fees for any such services in the two years ended December 31, 2011.

**Fees for Tax Services** - We did not incur any fees for tax services by our independent auditors during the two years ended December 31, 2011.

All Other Fees - We did not incur any fees for other services by our independent auditors during the two years ended December 31, 2011.

It is the policy of the Audit Committee to approve in advance, either verbally or in writing, all audit services and permitted non-audit services provided to the company by the independent accountants. All such services were pre-approved by the Audit Committee in the two years ended December 31, 2011.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The lease on our headquarters and primary facility at 4355 Shackelford Road, Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by our Chairman and Chief Executive Officer, J. Leland Strange. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. In the years ended December 31, 2010 and 2011, we paid \$467,000 and \$465,000, respectively, in rent to ISC Properties, LLC, which is considered market rate.

#### SHAREHOLDERS' PROPOSALS FOR ANNUAL MEETING IN 2013

Shareholders who wish to submit a proposal for inclusion in our proxy statement for the 2013 Annual Meeting of Shareholders must submit such proposals so that they are received by the company no later than December 18, 2012. Such proposals must comply with Exchange Act Rule 14a-8 and all other applicable proxy rules and requirements contained in our Bylaws relating to shareholder proposals to be included in our proxy materials. Shareholders intending to present proposals at the Annual Meeting of Shareholders in 2013 but who do not wish to submit the proposal for inclusion in our proxy statement pursuant to Rule 14a-8 should submit these proposals to the Secretary of the company by certified mail, return receipt requested, at our offices in Norcross, Georgia on or before December 18, 2012. Our bylaws contain an advance notice provision that states that, among other things, in order for business to be brought properly before an annual meeting of shareholders by a shareholder, the shareholder must have given timely notice of the business in writing to the Secretary of the company. To be timely under the Bylaws, a shareholder's notice must be received at our principal offices by December 18, 2012.

#### OTHER MATTERS WHICH MAY COME BEFORE THE MEETING

The Board is not aware of any matter other than those stated above that are to be brought before the meeting. However, if any other matter should be presented for consideration and voting, the persons named in the enclosed form of proxy intend to vote the proxy in accordance with their judgment of what is in the best interest of the company.

#### ADDITIONAL INFORMATION

Any record or beneficial owner of our common stock as of April 9, 2012 may request a copy of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2011, including financial statements and schedules. Shareholders may also view and download a free copy of our Annual Report on Form 10-K from our web site at [www.intelsys.com](http://www.intelsys.com). Any request for the Form 10-K should be in writing addressed to: Bonnie L. Herron, Intelligent Systems Corporation, 4355 Shackelford Road, Norcross, Georgia 30093. We will provide copies of any exhibits to the Form 10-K upon request and upon the payment of our reasonable expenses in furnishing such exhibits.

#### IMPORTANT NOTICE CONCERNING THE AVAILABILITY OF PROXY MATERIALS

This Proxy Statement and our Annual Report to Shareholders are available at <http://www.amstock.com/proxyservices/viewmaterial.asp?CoNumber=03281>







