

INTELLIGENT SYSTEMS CORP
Form 10-Q
August 14, 2014

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 June 30, 2014

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

(State or other jurisdiction of incorporation or organization)

58-1964787

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

4355 Shackleford Road, Norcross, Georgia

(Address of principal executive offices)

30093

(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated
filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting
company)

Smaller reporting
company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 31, 2014, 8,958,028 shares of Common Stock of the issuer were outstanding.

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Ex. 10.1	Twelfth Modification to Loan Documents by and among Intelligent Systems Corporation and Fidelity Bank dated June 27, 2014, filed herewith.	
Ex. 10.2	Settlement Agreement by and between Clearwater Environmental Services, Inc. and ChemFree Corporation effective as of May 12, 2014 (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the period ended March 31, 2014).	
Ex. 31.1	Section 302 Certification of Chief Executive Officer	
Ex. 31.2	Section 302 Certification of Chief Financial Officer	
Ex. 32.1	Section 906 Certification of Chief Executive Officer and Chief Financial Officer	
Ex.101.INS**	XBRL Instance	
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** 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.

Part I FINANCIAL INFORMATION**Item 1. Financial Statements****Intelligent Systems Corporation****CONSOLIDATED BALANCE SHEETS***(in thousands, except share and per share amounts)*

	June 30, 2014	December 31, 2013
	<i>(unaudited)</i>	<i>(audited)</i>
ASSETS		
Current assets:		
Cash	\$ 2,939	\$ 3,433
Marketable securities	390	351
Accounts receivable, net	2,474	2,427
Inventories, net	1,036	1,106
Other current assets	241	327
Total current assets	7,080	7,644
Investments	1,608	1,650
Property and equipment, at cost less accumulated depreciation	1,116	1,145
Patents, net	40	64
Other long-term assets	103	124
Total assets	\$ 9,947	\$ 10,627
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 356	\$ 472
Deferred revenue, current portion	643	668
Accrued payroll	725	680
Accrued expenses	409	364
Other current liabilities	280	267
Accrued legal settlement	470	259
Total current liabilities	2,883	2,710
Deferred revenue, net of current portion	187	238
Other long-term liabilities	197	185
Commitments and contingencies (Note 7)		
Intelligent Systems Corporation stockholders' equity:		
Common stock, \$0.01 par value, 20,000,000 shares authorized, 8,958,028 issued and outstanding at June 30, 2014 and December 31, 2013	90	90
Additional paid-in capital	21,521	21,488

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Accumulated other comprehensive loss	(62)	(98)
Accumulated deficit	(13,126)	(12,674)
Total Intelligent Systems Corporation stockholders' equity	8,423	8,806
Noncontrolling interest	(1,743)	(1,312)
Total stockholders' equity	6,680	7,494
Total liabilities and stockholders' equity	\$ 9,947	\$ 10,627

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue				
Products	\$2,879	\$3,159	\$5,556	\$6,537
Services	816	1,007	1,809	1,715
Total net revenue	3,695	4,166	7,365	8,252
Cost of revenue				
Products	1,598	1,467	3,122	3,102
Services	454	592	890	1,178
Total cost of revenue	2,052	2,059	4,012	4,280
Expenses				
Marketing	388	469	767	973
General and administrative	665	583	1,584	1,313
Research and development	844	658	1,634	1,275
Legal settlement	--	59	387	158
Income (loss) from operations	(254)	338	(1,019)	253
Other income (expense)				
Interest expense, net	(3)	(2)	--	--
Investment income	125	--	125	--
Equity in income (loss) of affiliate company	(3)	1	2	--
Other income, net	13	16	21	33
Income (loss) before income taxes	(122)	353	(871)	286
Income taxes	--	41	12	43
Net income (loss)	(122)	312	(883)	243
Net loss attributable to noncontrolling interest	254	107	431	316
Net income (loss) attributable to Intelligent Systems Corporation	\$132	\$419	\$(452)	\$559
Income (loss) per share based on income (loss) attributable to Intelligent Systems Corporation:				
Basic and diluted	\$0.01	\$0.05	\$(0.05)	\$0.06
Basic weighted average common shares outstanding	8,958,028	8,958,028	8,958,028	8,958,028
Diluted weighted average common shares outstanding	8,970,149	8,965,401	8,958,028	8,965,243

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Net income (loss)	\$(122)	\$312	\$(883)	\$243
Other comprehensive income (loss):				
Foreign currency translation adjustment	2	8	(4)	14
Unrealized gain (loss) on available-for-sale marketable securities	23	(32)	39	(16)
Total comprehensive income (loss)	(97)	288	(848)	241

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Comprehensive loss attributable to noncontrolling interest	254	107	431	316
Comprehensive income (loss) attributable to Intelligent Systems	\$157	\$395	\$(417)	\$557

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

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

	Six Months Ended June 30, 2014 2013	
OPERATIONS:		
Net income (loss)	\$(883)	\$243
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	183	219
Stock-based compensation expense	33	41
Non-cash interest income, net	--	(1)
Investment income, net	(125)	--