

INTELLIGENT SYSTEMS CORP  
Form 10-K/A  
March 17, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K/A**

**(Amendment No. 1)**

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2014

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9330

**INTELLIGENT SYSTEMS CORPORATION**  
(Exact name of registrant as specified in its charter)

**Georgia** **58-1964787**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**4355 Shackleford Road, Norcross, Georgia** **30093**  
(Address of principal executive offices) (Zip Code)

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

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

**Title of each class** **Name of each exchange on which registered**

**Common Stock, \$.01 par value NYSE MKT**

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

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

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

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

Indicated by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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

The aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2014 was \$5,725,325 (computed using the closing price of the common stock on June 30, 2014 as reported by the NYSE MKT).

As of February 15, 2015, 8,958,028 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held June 11, 2015 are incorporated by reference in Part III hereof.

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## Explanatory Note

The purpose of this Amendment No. 1 to this Annual Report on Form 10-K is to revise Note 7 to the Consolidated Financial Statements of Intelligent Systems Corporation (the “Company”) to reflect a correction to certain tax calculations disclosed in the Note 7. The change affects only the disclosure in Note 7 and there has been no change to the previously reported consolidated financial statements as of and for the years ended December 31, 2014 and 2013. A new Note 18 explains the restatement in more detail.

For the convenience of the reader, this Amendment No. 1 amends in its entirety the original filing of the Annual Report on Form 10-K. This Amendment No. 1 does not reflect events occurring after the February 18, 2015 original filing date of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 or modify or update those disclosures set forth in that Annual Report on Form 10-K, except to reflect the revision to Note 7 and the addition of Note 18 of the Consolidated Financial Statements.

The items of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 that have been amended and restated herein are as follows:

1. Part II, Item 8. Financial Statements have been revised (Note 7 and Note 18 only)
  2. Currently dated consent of Habif, Arogeti & Wynne, LLP has been filed.
  3. Currently dated certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been filed.
  4. Currently dated certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 have been filed
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## **PART I**

### **Forward-Looking Statements**

*In addition to historical information, this Form 10-K may contain forward-looking statements relating to Intelligent Systems Corporation (“ISC”). All statements, trend analyses and other information contained in the following discussion relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as “anticipate”, “believe”, “plan”, “estimate”, “expect”, “likely” and “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, and that actual results may differ materially from those contemplated by such forward-looking statements. A number of the factors that we believe could impact our future operations are discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K. ISC undertakes no obligation to update or revise its forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results except as required by law.*

## **ITEM 1. BUSINESS**

### **Overview**

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

### **Financial Reporting**

We consolidate the results of operations of companies in which we own a majority interest and over which we exert control. We generally account for investments by the equity method for minority owned companies in which we own

20 to 50 percent and over which we exercise significant influence, but do not exert control. In general, under the equity method, we report our pro rata share of the income or loss generated by each of these businesses as equity income/losses of affiliates on a quarterly basis. Privately owned corporations in which we own less than 20 percent of the equity are carried at the lower of cost or market.

## **Industry Segments Overview**

Our consolidated companies operate in two industry segments: Information Technology Products and Services and Industrial Products. The principal operating company in our Information Technology Products and Services segment is CoreCard Software, Inc. (“CoreCard”) and the Industrial Products segment consists of ChemFree Corporation (“ChemFree”). As of December 31, 2014, we own 100 percent of ChemFree and approximately 96 percent (on a fully diluted basis) of CoreCard. We also have two wholly owned subsidiaries, CoreCard SRL in Romania and ISC Software in India, that perform software development and testing for CoreCard but do not sell products or services to third parties.

The business discussion which follows contains information on products, markets, competitors, research and development and manufacturing for our operating subsidiaries organized by industry segment. For further detailed financial information concerning our segments, see Note 15 in the accompanying Notes to Consolidated Financial Statements. For further information about trends and risks likely to impact our business, please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

Our business is not seasonal on a consolidated basis.

## Industrial Products Segment

**ChemFree Corporation** – ChemFree, our largest subsidiary in terms of revenue and profit, designs, manufactures and markets a line of parts washers under the SmartWasher® trademark. The SmartWasher® system uses a proprietary advanced bio-remediation system that cleans automotive parts, machine parts and weapons, without using hazardous, solvent-based chemicals. Typically, the SmartWasher® system consists of a molded plastic tub and sink, recirculating pump, heater, control panel, filter, naturally occurring microorganisms, and aqueous-based degreasing solutions. Unlike traditional solvent-based systems, there are no regulated, hazardous products used or produced in the cleaning process and the SmartWasher® system is completely self-cleaning. Our assembled products are shipped to resellers or direct to customer sites and do not require set-up or on-site support from us. Unit pricing varies by model but typical end-user prices are less than \$2,000 per unit. ChemFree sells replacement fluid and filters, which we refer to as consumable supplies, to its customers on a regular basis after the initial parts washer sale. ChemFree has several U.S. and European patents covering its SmartWasher® system and protects its proprietary fluid and filters as trade secrets. As the leader in bio-remediating parts washers, ChemFree introduces new versions and enhancements of its products, formulations and consumable supplies to the market on a periodic basis. ChemFree received approval by the Environmental Protection Agency (“EPA”) for its OzzyJuice® degreasing fluid under the EPA Design for Environment (DfE) program. To date, OzzyJuice® is the only bio-remediating parts washing fluid to be so recognized.

ChemFree’s markets include the automotive, transportation, industrial and military markets. The automotive market includes companies and governmental agencies with fleets of vehicles, individual and chain automobile service centers, and auto parts suppliers. The industrial market includes customers with machinery that requires routine maintenance, such as power plants and manufacturing operations. Military applications include vehicle, aircraft and weapons maintenance. ChemFree sells its products directly to high volume customers as well as through several distribution channels, including international distributors in Europe, Canada, Latin America and the Pacific Rim. Because ChemFree sells in part through large national non-exclusive distributors such as NAPA in the United States and single distributors in certain international markets, its results could be impacted negatively if one or more of such distributors stops carrying ChemFree products. One of ChemFree’s domestic distributors, NAPA, represented 16 percent and 18 percent of our consolidated revenue in 2014 and 2013, respectively. Part of ChemFree’s revenue is derived from lease contracts under which ChemFree provides SmartWasher® machines and supplies to nationwide chains of auto repair shops, primarily Pep Boys.

ChemFree also sells to large volume corporate customers on a direct basis rather than through its distributor network. One such corporate customer, Cintas Corporation, accounted for 21 percent of consolidated revenue in both 2014 and 2013. Cintas buys machines and consumables from ChemFree and provides them to its lease customers in conjunction with regular visits by its service teams to change filters and replenish fluids. A similar services program was successfully launched in Australia by another ChemFree customer and several other initiatives are being explored with customers in other international markets as well as smaller regional service companies in the U.S. market. International markets are individually much smaller than the U.S. domestic market.



ChemFree competes with companies that offer solvent-based systems, other companies that offer aqueous-based systems, and hazardous waste hauling firms. Although smaller than some established solvent-based firms, ChemFree believes it is competitive based on product features, positive environmental impact, desirable health and safety features, less burdensome regulatory compliance, and cleaning performance. Specifically,

The SmartWasher® system is available in a variety of model sizes and features to meet specific customer needs and incorporate ChemFree’s bio-remediating system, typically employing a heater, recirculating pump, proprietary aqueous based de-greasing fluid and microbe impregnated filter. Compared to solvent-based systems, these features make the SmartWasher® system safer, non-flammable and non-caustic to users and do not require expensive contracts to haul and dispose of regulated materials.

ChemFree’s products have a positive environmental impact because, unlike solvent-based systems, they provide necessary cleaning functions to users without using or generating hazardous chemicals or by-products. As noted above, ChemFree received approval by the Environmental Protection Agency (“EPA”) for its OzzyJuice® degreasing fluid under the EPA Design for Environment (DfE) program, the only bio-remediating parts washing fluid to be so recognized to date.

Unlike solvent-based systems, the SmartWasher® system does not expose workers to harmful, irritating chemicals. ChemFree’s fluid is non-flammable, non-caustic and produces minimal emissions from volatile organic compounds, thus reducing the likelihood of fire and enhancing the safety and health of workers and the workplaces in which parts washers are used.

The SmartWasher® bio-remediation process uses naturally occurring microbes to break down grease, oil and other harmful contaminants into harmless carbon dioxide and water. Since the SmartWasher® system does not generate hazardous substances that are subject to strict environmental regulations, users of the SmartWasher® system eliminate their “cradle to grave” liability and the costs associated with solvent-based systems to comply with regulations for properly manifesting, recordkeeping, hauling and disposing of hazardous substances.

Customer feedback as well as market acceptance and repeat orders over more than fifteen years indicate that the SmartWasher® system cleans as quickly and effectively as solvent-based systems, while providing the additional advantages of positive environmental, health and safety features.

ChemFree also offers its BenchTop Pro model designed to appeal to the home, hobbyist and small shop market, featuring bio-remediating functionality that operates at ambient temperature (i.e. does not require a heater) which it believes is a unique and attractive offering that expands its addressable market.

ChemFree believes that overall domestic and international market demand for its products could increase if environmental regulations in the U.S. and overseas prohibiting or restricting the use of solvent-based products, with which ChemFree's products compete, become increasingly stringent and such regulations are enforced effectively by state, local and national governments. Increased acceptance of bio-remediating and aqueous-based systems could result in more competition and pricing pressure as more suppliers of equipment and fluid enter the market.

In certain state and foreign jurisdictions, ChemFree is required to submit documentation and obtain government approval to sell products that contain biological components (i.e. the microorganisms used in bio-remediation). ChemFree has not experienced any difficulty or delay in obtaining such approvals and presently does not anticipate any changes to such regulations that would create an obstacle to its business. ChemFree's cost of compliance with environmental laws is low as ChemFree's products do not generate any regulated substances. This fact provides a competitive advantage for ChemFree products over solvent-based products, which subject their users to significant environmental regulation, compliance costs and potential liability.

Customer and warranty service, covering one to three year periods, generally consists of shipping a replacement part to the customer or returning a defective product for replacement to either ChemFree or its distributors. ChemFree purchases raw materials and certain major sub-assemblies built to its specifications from various manufacturers and performs assembly and testing at its facility in Norcross, Georgia. ChemFree blends its proprietary fluid at its facility in Norcross, Georgia and at third party facilities in certain international markets under blending arrangements. While it is possible to acquire most raw material parts and sub-assemblies from multiple sources, ChemFree frequently contracts with a single source for certain components in order to benefit from lower prices and consistent quality, especially with respect to molded plastic parts which are produced using ChemFree-owned molds. One sub-assembly and certain molded plastic parts have only a single qualified supplier presently and shortages or price increases associated with such sole-source suppliers could impact ChemFree's ability to meet market demand for its products and/or increase its cost of goods sold. ChemFree has from time to time experienced limited shortages of a sole-sourced molded part that is included in one of its products, but this has not had a material impact on its business due to the limited revenue and margin derived from such product. We expect that some general price inflation affecting raw material prices will continue for the foreseeable future; however, it is unclear how significant this will be.

## **Information Technology Products and Services Segment**

**CoreCard Software, Inc.** – The principal operating company in our Information Technology Products and Services segment is CoreCard Software, Inc. (“CoreCard”). Our wholly owned subsidiaries, CoreCard SRL and ISC Software in Romania and India, respectively, perform software development and testing for CoreCard but do not sell products or services to third parties. Accordingly, this discussion describes the CoreCard business involving the three entities as a single business unit. CoreCard designs, develops, and markets a comprehensive suite of software solutions 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 small loan transactions. CoreCard also uses the same software solutions in its processing operations for companies that prefer to outsource this function rather than license the software for in-house operations.

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

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

Credit/Debit Cards – revolving or non-revolving credit issued to consumer or business accounts (with or without a physical card) that typically involve interest, fees, settlement, collections, etc. Within this market, CoreCard offers software specifically tailored to handle private label cards, network branded (i.e. MasterCard or VISA) bank cards, fleet cards, short-term consumer loans and revolving accounts receivable.

Prepaid Cards – pre-loaded funds drawn down for purchase or cash withdrawal typically involving a variety of fees but no interest. Numerous examples exist including gift cards, loyalty/reward cards, health benefit cards, payroll and benefits disbursement, student aid disbursement, government assistance payments, and transit cards.

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

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

License - Typically CoreCard sells a software license to a customer who then runs the CoreCard software system, configured for the customer's unique requirements, at a customer controlled location.

Processing Services - CoreCard has expanded the ways customers can access or deploy its software by offering processing services that allow customers to outsource their card processing requirements to CoreCard. CoreCard manages all aspects of the processing functions using its proprietary software configured for each processing customer.

It has taken more time and resources than expected to build the relationships and infrastructure to support CoreCard's Processing Services line of business. However, CoreCard is now processing prepaid cards and credit financing for a number of customers and is positioned to add more new processing customers in 2015. CoreCard has a data processing center and disaster recovery site at secure third party locations, has received a certification of compliance with the Payment Card Industry (PCI) Data Security Standards and has an SSAE-16 Type II independent auditor report that can be relied on by its prepaid processing customers. It has obtained certification from the Discover, MasterCard and Pulse networks and expects to complete direct connections and certification by other major network associations in 2015.

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

In 2015, CoreCard expects to be a Program Manager in addition to a processor for a small number of card programs, which will allow the company to gain experience and increase revenue potential, although it does not expect any significant revenue impact near term.

CoreCard's principal target markets include accounts receivable businesses, prepaid card issuers, retail and private-label issuers, small third-party processors, and small and mid-size financial institutions in the United States and in emerging international markets. CoreCard competes with third-party card processors that allow customers to outsource their account transaction processing rather than acquire software to manage their transactions in-house. CoreCard also competes to some extent with larger and more established software suppliers, and a number of software solution providers that offer more limited functional modules. Some of CoreCard's competitors, especially certain processors, have significantly more financial, marketing and development resources than does CoreCard and have large, established customer bases often tied to long-term contracts. CoreCard believes it can compete successfully in its selected markets by providing to its licensed software customers a robust technology platform, lower overall cost-of-ownership, greater system flexibility, and more customer-driven marketing options. Furthermore, we believe our processing option is an attractive alternative particularly for small, prepaid card issuers or other companies entering new credit or prepaid markets that may not have the technology expertise to run the software in-house initially. Under our processing option, customers will contract with CoreCard to provide them with processing services for their accounts using CoreCard software configured to the customer's preferences, with an option to license the same software and bring it in-house when and if the customer decides to become its own processor in the future. We believe this transition path for customers is unique in the industry.

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

Historically, most of the company's sales have resulted from prospects contacting CoreCard based on an online search. In 2014, we hired an industry executive to expand sales and marketing activities for its prepaid processing line of business. CoreCard typically sells its products directly to customers in competitive situations with relatively long sales and implementation cycles.

We have several revenue streams. We receive software license fees that vary depending upon the number of licensed users and the number of software modules licensed with initial contract revenue typically ranging from \$150,000 to \$1 million. We also derive service revenue from implementation, customization, and annual maintenance and support contracts for our licensed software. In addition to licensing our software, we now offer processing services (running on the CoreCard software platform). Processing customers pay an implementation and setup fee plus monthly service fees under a contract with a term of three or more years. Depending on factors such as contract terms, customer implementation and testing schedule, and extent of customization or configuration required and whether we are licensing or processing, the timing of revenue recognition on contracts may lead to considerable fluctuation in revenue and profitability.

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

We believe that the uncertainty and turmoil in the financial services sector as well as the increased regulatory and compliance requirements have had a negative impact on buying decisions for potential customers in recent years. The situation has impacted and may continue to impact the willingness and ability of banks and network associations (such as MasterCard or VISA) to approve new customer programs which could impact demand for our product and service offerings in the near-term.

### **Incubator Program**

For more than twenty years, we have operated the Gwinnett Innovation Park at our corporate facility in Norcross, a suburb of Atlanta, Georgia. In exchange for a monthly facility fee, incubator companies have access to office space, conference facilities, telecommunication and network infrastructure, business advice, and a network of peers. Lease income from incubator companies reduces our total corporate facility and personnel costs by approximately \$30,000 per year. We view this program as a way to stay abreast of new business opportunities and trends which may benefit our company while simultaneously contributing to our local community in a positive way by supporting entrepreneurship and start-ups, with minimal financial outlay or management time.

### **Non-consolidated Companies**

From time to time, we have invested in entrepreneurial companies that we believe are bringing new applications or technologies to business markets and may continue to do so as a regular part of our strategy. Typically, these companies are privately held, early stage companies in technology-related fields. Currently, our largest investment is a 25.5 percent interest in NKD Enterprises, LLC (dba CoreXpand), a technology company with a software-as-a-service (SaaS) offering to help companies and educational institutions manage their purchases of consumable supplies (such as printer supplies, cleaning chemicals, cell phone programs, marketing materials, college apparel, etc.) through a personalized online store that includes only those products and vendors that each customer has approved.

## **Research and Development**

We spent \$3.2 million and \$2.7 million in the years ended December 31, 2014 and 2013, respectively, on company sponsored research and development. During such years, almost all of our consolidated research and development expense is related to our CoreCard subsidiary, with the balance spent for research at ChemFree. In the past two years, CoreCard has maintained a workforce of approximately 200 employees in our offshore operations in India for software development and testing for our Information Technology Products and Services segment, at a lower cost per employee than the domestic workforce. ChemFree routinely researches and develops product improvements, including adding new features and functionality to its parts washer product line and new formulations and packaging of consumables.

## **Patents, Trademarks and Trade Secrets**

Our ChemFree subsidiary had 12 U.S. patents issued and has 2 pending as well as 5 patents in foreign jurisdictions issued covering various aspects of the design and construction of the SmartWasher® system and the process of bio-remediation used in the SmartWasher® system. Most of the U.S. patents expired in 2014. ChemFree considers the proprietary formulation of the chemicals used in its fluids, which ChemFree protects as a trade secret, to be an important intellectual property asset and competitive advantage. CoreCard has one U.S. patent covering aspects of its core software platform. It may be possible for competitors to duplicate certain aspects of our products and processes even though we regard such aspects as proprietary. We have registered with the U.S. Patent and Trademark Office and various foreign jurisdictions various trademarks and service marks for our products. We believe that an active trade secret, trade name, trademark, and copyright protection program is important in developing and maintaining brand recognition and protecting our subsidiaries' intellectual property. Our companies presently market their products under trademarks and service marks such as SmartWasher®, OzzyJuice®, OzzyBooster™ ChemFree®, CoreENGINE™, CoreISSUE™, CoreCOLLECT™, CoreMONEY™ and others.

## **Personnel**

As of February 1, 2015, we had 263 full-time equivalent employees in our company (including our subsidiaries in the United States and foreign countries). Of these, 227 are involved in software development, testing and operations, 29 in manufacturing operations, and 7 in corporate functions. Our employees are not represented by a labor union, we have not had any work stoppages or strikes and we believe our employee relations are good.

## **Financial Information About Geographic Areas**



See Note 14 to the Consolidated Financial Statements. Except for the risk associated with fluctuations in currency, we do not believe there are any specific risks attendant to our foreign operations that are significantly different than the general business risks discussed elsewhere in this Annual Report.

## **ITEM 2. PROPERTIES**

We have a lease covering approximately 61,000 square feet in Norcross, Georgia to house our product development, manufacturing, sales, service and administration operations for our domestic subsidiaries. Our Norcross lease expires on May 31, 2015. Presently, we expect to renew the lease on essentially the same terms and conditions. Five percent of the space we lease in Norcross, Georgia is subleased to non-affiliated businesses in our business incubator. We also lease a small office in Timisoara, Romania and we own a 6,350 square foot office facility in Bhopal, India to house the software development and testing activities of our offshore subsidiaries. We believe our facilities are adequate for the foreseeable future. We do not invest in real estate or interests in real estate, mortgages, or securities of persons primarily engaged in real estate activities.

## **ITEM 3. LEGAL PROCEEDINGS**

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.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**PART II**

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

**Market Information**

Our common stock is listed and traded on the NYSE MKT ("NYSE") under the symbol INS. The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock as reported by the NYSE.

| <b>Year Ended December 31,</b> | <b>2014</b> |            | <b>2013</b> |            |
|--------------------------------|-------------|------------|-------------|------------|
|                                | <i>High</i> | <i>Low</i> | <i>High</i> | <i>Low</i> |
| 1st Quarter                    | \$ 2.68     | \$ 1.60    | \$ 1.97     | \$ 1.21    |
| 2nd Quarter                    | 1.91        | 1.28       | 1.60        | 1.14       |
| 3rd Quarter                    | 1.87        | 1.26       | 1.75        |            |