INTELLIGENT SYSTEMS CORP
Form DEF 14A
April 18, 2003

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SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

INTELLIGENT SYSTEMS CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:
April 18, 2003

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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 Friday, May 30, 2003 at 4:00 p.m., local time, at our corporate 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 2006 Annual Meeting;

2. The adoption of the Intelligent Systems Corporation 2003 Stock Incentive Plan;

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 11, 2003 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 2002 Annual Report to Shareholders is enclosed.

By order of the Board of Directors,

Bonnie L. Herron
Secretary

April 18, 2003

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

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4355 Shackleford Road
Norcross, Georgia 30093

PROXY STATEMENT

FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 30, 2003

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 2003 Annual Meeting of Shareholders of Intelligent Systems Corporation and any adjournment thereof. The Annual Meeting will be held on May 30, 2003 at our corporate 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 18, 2003.

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. The record of shareholders entitled to vote at the Annual Meeting was taken as of the close of business on Friday, April 11, 2003. On that date, we had outstanding and entitled to vote 4,489,821 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 a broker, bank, custodian, nominee or other record holder of our common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, the shares held by that record holder (referred to as broker non-votes) will also 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 the proposal to be voted upon on the accompanying proxy card. **If no specific instructions are given with regard to the matter to be voted upon, then the shares represented by a signed proxy card will be voted FOR the election of the director nominees and FOR the adoption of the Intelligent Systems 2003 Stock Incentive Plan.** If any other matters properly come before the Annual Meeting, the persons named as proxies will vote upon such matters according to their judgment.

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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 or voting instructions delivered in connection with this solicitation at any time prior to voting at the Annual Meeting by:

- 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, for shares held in street name, by submitting new voting instructions to your nominee, 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.

Security Ownership of Principal Shareholders, Directors and Certain Executive Officers and Related Stockholder Matters

The following table contains information concerning the only persons who are known to us to be beneficial owners of more than 5 percent of our common stock as of March 15, 2003, and the ownership of our common stock as of that date by each director, each executive officer named in the Summary Compensation Table and by all directors and officers as a group.

Beneficial Owner	Address	Shares Beneficially Owned[a]	Percent of Class[a]
J. Leland Strange *Chairman of the Board, President, CEO*	4355 Shackleford Road Norcross, GA 30093	727,794[b]	16.2%
Wallace R. Weitz & Company[c]	1125 South 103rd St., Suite 600 Omaha, NE 68124	584,766	13.0%
Donald A. McMahon *Director*		8,500	*
James V. Napier *Director*		18,100	*
John B. Peatman *Director*		8,280	*
Parker H. Petit *Director*		18,327	*
Francis A. Marks *Vice President*		111,900	2.5%
Bonnie L. Herron *Vice President, Chief Financial Officer and Corporate Secretary*		63,825	1.4%
All Directors and Executive Officers as a Group (8 persons)		1,047,986[d]	23.1%

a. Except as otherwise noted, beneficial ownership is determined on the basis of 4,489,821 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. An asterisk indicates beneficial ownership of less than 1 percent.

b. Includes 96,953 shares owned by Jane H. Strange, Mr. Strange s wife. Rule 13d-3(d)(1) of the Exchange Act, deems Mr. Strange to be the beneficial owner of such shares owned by his wife. Mr. Strange disclaims any beneficial interest in the shares.

c. In a Schedule 13G filed January 17, 2003, Wallace R. Weitz and Company, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, reported beneficial ownership of 584,766 shares of common stock, of which the firm has the sole power to vote and to dispose.

d. Includes 47,014 shares reserved for issuance to officers and directors pursuant to stock options that were exercisable at March 15, 2003 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. McMahon, Napier, Peatman and Petit include 7,000 shares each for shares underlying stock options exercisable at March 15, 2003.

Securities Authorized for Issuance Under Equity Compensation Plan

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	52,680	$ 3.78	
Equity compensation plans not approved by security holders	52,000	$ 3.82	148,000
Total	104,680	$ 3.80	148,000

Effective August 22, 2000, the company adopted the Non-Employee Director Stock Option Plan (the Director Plan). Up to 200,000 shares of common stock may be issued under the Director Plan to non-employee directors with each director receiving an initial grant of 5,000 options followed by annual grants of 4,000 options on the date of each subsequent Annual Meeting. Non-qualified stock options are granted at fair market value on the date of grant and vest 50% on each of the first and second anniversaries of the date of grant.

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PROPOSAL 1 THE ELECTION OF TWO DIRECTORS

Nominees

At the Annual Meeting of Shareholders, shareholders will elect two directors to the Board of Directors to serve a three-year term until the 2006 Annual Meeting of Shareholders. The other directors terms expire at the Annual Meeting of Shareholders listed below for each category of directors or until 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 individual who receives the largest number of votes cast is elected as director 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 either of the nominees withdraws or for any reason or is not able to serve as a director, the proxy will be voted for another person designated by the Board of Directors as substitute nominee, but in no event will the proxy be voted for more than two nominees. The Board of Directors has no reason to believe that either nominee will not serve if elected.

The Board of Directors has nominated the persons named below to serve as directors of the company. The nominees are currently directors 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 March 15, 2003.

The Board of Directors recommends that shareholders vote FOR the proposal to elect the nominees listed below as directors of the company.

Name	Age	Position / Principal Occupation	Shares of Common Stock Beneficially Owned (Percent of Class)	
Nominees for election to serve until the 2006 Annual Meeting				
James Napier[1,2]	66	Director, former Chairman of the Board of Scientific Atlanta, Inc.	18,100	*
J. Leland Strange	61	Director, Chairman of the Board, President, and Chief Executive Officer	727,794	16.2%
Incumbent directors elected to serve until the 2004 Annual Meeting				
John B. Peatman[2]	68	Director, Professor of Electrical Engineering at Georgia Institute of Technology	8,280	*
Incumbent directors elected to serve until the 2005 Annual Meeting				
Donald A. McMahon[1,2]	72	Director, Retired	8,500	*
Parker H. Petit[1]	63	Director, Chairman, President and Chief Executive Officer of Matria Healthcare, Inc.	18,327	*

* Less than one percent; share amount includes 7,000 shares pursuant to stock options exercisable at March 15, 2003

1. Audit Committee

2. Compensation Committee

Mr. McMahon has served as a director since 1981. He retired in 1984 from the position of President and Chief Executive Officer of Royal Crown Companies, a soft drink beverage firm.

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 November 2000. He serves as a director of Scientific-Atlanta, McKesson Corporation, Vulcan Materials Company, Engelhard Corporation, Personnel Group of America, Inc. and Wabtec Corporation.

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Dr. Peatman has served as a director since 1979 and has been a Professor of Electrical Engineering at the Georgia Institute of Technology since 1964.

Mr. Petit has served as a director since 1996. Mr. Petit has served as Chairman of the Board and a director of Matria Healthcare, Inc., a comprehensive disease management services company, since March 1996 and he has served as President and CEO of Matria since October 2000. Mr. Petit was founder and Chairman of the Board of Directors of Healthdyne, Inc., Matria s predecessor, from 1970 to 1996. He also serves as a director of Logility, Inc.

Mr. Strange has served as our President since 1983 and our Chief Executive Officer and Chairman of the Board of Directors since 1985. He serves as a director of Allied Holdings, Inc.

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

Meetings and Committees of the Board of Directors

The Board of Directors met six times during the year ended December 31, 2002. The Board of Directors has established an audit committee, a compensation committee, and a plan committee, but has no nominating committee. The Audit Committee of the Board of Directors, which met five times during the last fiscal year, consists of Messrs. McMahon, Napier and Petit. In 2002, the Audit Committee recommended the appointment of the company s independent auditors, met with the independent auditors to review their report on the financial operations of the company and carried out a number of other responsibilities, as outlined in the Amended Audit Committee Charter, attached hereto as Appendix B. Each of the members of the Audit Committee is independent, as such term is defined in Section 121(A) of the listing standards of the American Stock Exchange (the AMEX), and the Audit Committee meets the composition requirements of Section 121(B)(b) of the AMEX s listing standards.

The Board has a Compensation Committee consisting of Messrs. McMahon, Napier and Peatman, which met once during the last year. The Compensation Committee reviews and makes recommendations concerning the appropriate compensation level for the officers of the company and any changes in the company s various benefit plans.

The Plan Committee, which did not meet in 2002, was responsible for administering the 1991 Stock Option Plan (the 1991 Plan), which expired in 2001, and will be administering the 2003 Stock Incentive Plan (the 2003 Incentive Plan), if Proposal 2 is approved by the shareholders at the Annual Meeting. The Plan Committee has the same members as the Compensation Committee. All directors attended all of the meetings of the Committees of the Board on which they serve and at least 80 percent of the meetings of the Board of Directors.

Executive Officers

The following information is provided about our non-director executive officers as of March 15, 2003.

Name	Age	Position / Principal Occupation
J. William Goodhew, III	65	Vice President
Bonnie L. Herron	55	Vice President, Chief Financial Officer and Secretary
Francis A. Marks	69	Vice President

Mr. Goodhew joined the company in 1997 as Vice President. He was President of Peachtree Software, Inc. from 1985 through 1996. He is former Chairman of the Board of Navision Software A/S and serves as director of Ross Systems, Inc.

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 also serves as President of ChemFree Corporation, one of our wholly owned subsidiaries.

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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. She also serves as Executive Director of the Intelligent Systems Incubator.

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

Executive Compensation

Summary Compensation Table

		Annual Compensation		
Name and Principal Position	**Year**	**Salary $**	**Bonus $**	**Other Annual Compensation $**
J. Leland Strange	2002	250,000		3,750 1.
President & Chief Executive Officer	2001	250,000	150,000	3,750 1.
	2000	239,423	150,000	485,226 1.2.
Francis A. Marks	2002	130,000		
Vice President	2001	130,000		975 1.
	2000	130,000	2,500	55,133 1.3.
Bonnie L. Herron	2002	133,077		1,996 1.
Vice President, Chief Financial Officer & Secretary	2001	125,000	25,000	1,875 1.
	2000	122,519	25,000	55,099 1.3

1. 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.

2. Includes $482,500 non-cash compensation representing the difference between the market price and the exercise price of non-qualified stock options on the date of exercise.

3. Includes $53,333 non-cash compensation representing the difference between the market price and the exercise price of non-qualified stock options on the date of exercise.

Stock Options

At December 31, 2002, none of the named executive officers had any unexercised options to purchase shares of the company s common stock and none of such persons exercised any options during 2002.

Compensation of Directors

Non-employee directors earn $8,000 per year plus a fee of $2,000 per meeting day. Total 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. Effective August 22, 2000, the company adopted the Non-Employee Director Stock Option Plan which provides 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 are granted at fair market value on the date of grant.

Change-in-Control Arrangements

Effective January 1, 1992, we 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.

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Under the Change in Control Plan, if the employment of an officer of the company terminates for any reason within 12 months of 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. Currently, J. Leland Strange, Francis A. Marks and Bonnie L. Herron are the only officers designated by the Board to participate in the Change in Control Plan.

Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors reviews and approves compensation paid by the company to its executive officers. The Compensation Committee reviews compensation of the executive officers annually (other than the Chief Executive Officer), with input from the Chief Executive Officer. The Plan Committee is responsible for administering the 1991 Plan, including selecting individuals who will receive stock option grants and determining the timing, pricing and amounts of the options granted. There have been no stock option grants to executive officers since 1996 and the 1991 Plan expired in 2001. If Proposal 2 is approved, the Plan Committee will be responsible for administering the 2003 Incentive Plan. Both committees are comprised of three non-employee directors of the company.

Given our current level of executive compensation, it was not necessary for the Compensation Committee to consider the cap on deductibility of compensation over $1 million for named executive officers.

The basic goal of our compensation program for executive officers is to:

- fairly compensate executive officers in line with their responsibilities and contributions to the company;
- reward management for achievement of financial or other measurable goals of the company and specified subsidiaries, where the contribution of the executive can be tied to operations under his/her control; and
- align management s compensation with shareholder interests as measured by stock price appreciation.

The compensation of executive officers consists of a base salary, a cash incentive and long-term compensation consisting of stock options. Because the company does not have readily identifiable comparative companies, the Compensation Committee determines the base salary for non-CEO executive officers with input from the Chief Executive Officer. The Committee intends the base salary to be in the median range for persons with similar experience and scope of responsibility. The Committee considers a number of subjective factors including the nature, scope and variety of responsibilities of each executive as well as the company s financial results and condition. The Committee considers an individual executive s performance in a variety of functions which may include line responsibility for established as well as start-up companies, corporate development activities (including acquisitions and investments), completion of significant transactions, contribution to and management of the company s minority-owned businesses and other corporate functions.

Cash incentives are earned by the named executives based on achievement of goals of the company as a whole or those subsidiaries or projects for which the named executive has management responsibility.

Our long-term incentive compensation plan has historically been based on the 1991 Plan and, if approved, will be based on the 2003 Incentive Plan, which are designed to reward executives for increases in the market price of our stock, thus linking the interest of executives and shareholders. The Plan Committee, in its sole discretion, grants options to those individuals whose contribution is most likely to have an impact on our overall performance and price of the company s common stock. The Committee intends for the number of options granted to an individual executive to provide an adequate financial incentive over a three to five year time frame and to provide the executives with an equity interest in the company. The number of options granted to an executive officer depends upon a subjective evaluation of the individual s contribution to the company. The Committee did not award any options to executives in the three years ended December 31, 2002 and the 1991 Plan expired in December 2001. The named executive officers each exercised all of their stock options in 2000 and currently do not have any unexercised stock options under the 1991 Plan. The Plan Committee has awarded 100,000 stock options to executive officers subject to shareholder approval of the 2003 Stock Incentive Plan.

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.

Chief Executive Officer Compensation

The Compensation Committee reviews the compensation of the Chief Executive Officer annually. Mr. Strange, the largest shareholder of the company, does not have an employment agreement with the company. Since there have not been directly comparable peer group companies, the Committee considers a number of subjective factors in setting Mr. Strange s compensation. The Compensation Committee considered the nature, scope and variety of his responsibilities; his contribution to increasing the value of the company s majority and minority-owned companies; and the company s financial results and condition. The Compensation Committee believes Mr. Strange s compensation is appropriate in consideration of the scope of his position, the performance of the company and the value of his contribution to the company s operations and affiliate companies. Mr. Strange was awarded stock options in 1991 and 1996 under the same conditions as described above for all executive officers. In determining the number of options granted, the Plan Committee considered his base salary, the number of shares owned by Mr. Strange, and the number of options granted to other executives.

COMPENSATION COMMITTEE	PLAN COMMITTEE
Donald A. McMahon	Donald A. McMahon
James V. Napier	James V. Napier
John B. Peatman	John B. Peatman

Compensation Committee Interlocks and Insider Participation

Messrs. McMahon, Napier and Peatman served as members of the Compensation Committee and the Plan Committee in 2002. None of these individuals is a present or former officer or employee of the company.

Audit Committee Report

In November 2002, the Board of Directors amended the company s Audit Committee Charter. A copy of the amended Audit Committee Charter is attached hereto as Appendix B. The provisions of the Audit Committee Charter, as amended, meet the current requirements of the AMEX. The Audit Committee Charter includes organization and membership requirements, a statement of policy and the Committee s authority and responsibilities. All members of the Audit Committee currently meet the independence and qualification standards set forth in the AMEX listing standards.

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 generally accepted in the United States 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 2002, 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, 2002 and for the year then ended;

discussed with the independent auditors the matters required to be discussed by auditing standards generally accepted in the United States (SAS 61); 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 of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2002 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE
James V. Napier *(Chair)*
Parker H. Petit
Donald A. McMahon

PROPOSAL 2 APPROVAL OF THE INTELLIGENT SYSTEMS CORPORATION 2003 STOCK INCENTIVE PLAN

On March 4, 2003, the Board of Directors adopted the Intelligent Systems Corporation 2003 Stock Incentive Plan (the 2003 Incentive Plan), subject to shareholder approval at the Annual Meeting. The full text of the 2003 Incentive Plan is attached as Appendix A to this Proxy Statement. The following summary of the material provisions of the 2003 Incentive Plan is qualified, in its entirety, by reference to the 2003 Incentive Plan as set forth in Appendix A. Capitalized terms not otherwise defined herein shall have the meaning set forth in the 2003 Incentive Plan.

The rules of the AMEX require that this proposal be approved by the holders of a majority of the votes cast on this proposal. Because a vote to abstain on this proposal would be a vote cast, an abstention would have the same effect as a vote AGAINST the proposal. However, because a broker non-vote does not result in a vote cast, a broker non-vote would 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 approval of this proposal.

Purpose and Administration

The Plan Committee believes that the 2003 Incentive Plan is an important part of the company s overall compensation program. The 2003 Incentive Plan supports the company s ongoing efforts to develop and retain qualified executives to lead the company and to permit the company to provide incentives that are more directly linked to the profitability of the company s businesses and to increases in shareholder value. In addition, the company may grant awards outside the 2003 Incentive Plan. Awards granted under the 2003 Incentive Plan may be in the form of incentive stock options, non-qualified stock options, restricted stock awards, stock appreciation rights and other stock-based awards.

Eligibility. The Plan Committee will determine the persons eligible to receive awards under the 2003 Incentive Plan. Under the 2003 Incentive Plan, all employees of the company, its parents, subsidiaries and affiliates, as well as non-employee officers and non-employee directors and key consultants and advisors of the company or its parents, subsidiaries or affiliates are eligible to be granted awards under the 2003 Incentive Plan. Approximately 125 employees and four non-employee directors are eligible to

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participate in the 2003 Incentive Plan. The company cannot presently determine the number of key consultants, advisors or non-employee officers that may be eligible to participate in the future.

Administration. The Plan Committee administers the 2003 Incentive Plan, except that with respect to options or awards granted to the company s executive officers or directors, the Board of Directors or a committee comprised solely of two or more non-employee directors (if the Plan Committee is not so comprised) is responsible for granting awards. The Plan Committee will determine the amount, type and terms of any awards granted under the 2003 Incentive Plan, within limitations specified therein, which will be set forth in an award agreement that may be amended by the Plan Committee as provided in the 2003 Incentive Plan.

Shares Reserved. Up to 450,000 shares of common stock may be issued under the 2003 Incentive Plan, subject to adjustments for stock splits, dividends and other dilution events. Shares of common stock underlying options, stock appreciation rights or other stock-based awards that have expired or have been cashed out, exercised or terminated without any payment being made in the form of common stock will be available for reissuance under the 2003 Incentive Plan.

Stock-Based Awards. The 2003 Incentive Plan permits the company to grant incentive stock options, which qualify for special tax treatment, and non-qualified stock options, as well as restricted stock awards, stock appreciation rights and other stock-based awards. Stock appreciation rights may be granted either singly or in combination with underlying stock options. The exercise price for incentive stock options cannot be less than the fair market value of a share of common stock on the date of grant, as determined under the 2003 Incentive Plan. Further, an incentive stock option must comply with all of the other requirements of the Code and the 2003 Incentive Plan with respect to incentive stock options. The total number of shares of restricted stock and shares subject to options, stock appreciation rights and other stock-based awards granted to a single person in a three year period under the 2003 Incentive Plan may not exceed 67,500, or 15% of the number of shares of common stock originally reserved for issuance under the 2003 Incentive Plan. Also, no more than 25% of the shares of common stock originally reserved for issuance under the 2003 Incentive Plan may be issued pursuant to restricted stock awards and other stock-based awards, not including awards with values based on the spread between the fair market value of the common stock and the exercise or grant price, if any, of such award. These limitations are to ensure that incentive awards issued under the 2003 Incentive Plan are exempt from the limitations of Section 162(m) of the Code and to provide the company with flexibility over the life of the 2003 Incentive Plan. However, the company does not intend in the foreseeable future to issue awards that might approach or reach these limits. Incentive stock options may not be granted under the 2003 Incentive Plan after February 28, 2013.

Restricted Stock. Under the 2003 Incentive Plan, the company may award shares of restricted common stock. Each award agreement will set forth conditions that must be satisfied before the restricted stock vests and becomes transferable. For example, restricted stock awards may be forfeited to the extent that the award did not vest before the recipient s employment terminated. Except as specified in the 2003 Incentive Plan and at the time of grant, holders of restricted stock will have voting rights and the right to receive dividends on such stock.

Effect of Change in Control. The 2003 Incentive Plan provides that in certain circumstances, a change in control (as defined in the 2003 Incentive Plan) may be deemed to occur. In the event of a change in control, all stock options and stock appreciation rights will become immediately exercisable, the restrictions applicable to outstanding restricted stock and other stock-based awards will immediately lapse, and (unless otherwise determined by the Committee at or after the grant of the award) the value of outstanding stock options, stock appreciation rights, restricted stock and other stock-based awards will be cashed out on the basis of the maximum price paid for any shares of stock acquired as part of the change in control.

Amendment and Termination. The 2003 Incentive Plan may be terminated by the Board at any time, and it may be amended by the Committee or the Board of Directors, in each case without shareholder approval, unless shareholder approval would be required under applicable law or stock exchange rules to effect such amendment. Except as set forth in an award agreement, no termination or amendment of the 2003 Incentive Plan may materially and adversely affect any outstanding awards without the recipient s consent.

Non-Transferability of Awards. Except as permitted by an award agreement, awards shall not be transferable or assignable other than by will or the laws of descent and distribution, and shall be exercisable during the lifetime of the recipient only by him or her.

Unfunded Status. The 2003 Incentive Plan shall constitute an unfunded plan for incentive compensation. The company may authorize the creation of trusts or other arrangements to meet its obligations under the 2003 Incentive Plan, but such trusts or other arrangements must be consistent with the unfunded status of the 2003 Incentive Plan unless the Committee otherwise determines.

Federal Income Tax Consequences

The following is a brief summary of the U.S. Federal income tax consequences generally associated with awards under the 2003 Incentive Plan. The following summary is for general information only, and interested parties should consult their own advisors as to specific tax consequences applicable to them, including the application and effect of foreign, state and local tax laws. This summary does not address the tax consequences of the receipt or exercise of any award by a person who is not an employee of the company.

Nonqualified Stock Options. Nonqualified stock options granted under the 2003 Incentive Plan will not be taxable to an employee on the date of grant but generally will result in taxation when exercised. At that time, the employee will recognize ordinary income in an amount equal to the excess of the fair market value of the stock acquired upon exercise over the option price paid for the stock. The company will be entitled to a corresponding deduction when the employee must recognize the income and in the amount of the income recognized.

Incentive Stock Options. An employee will not recognize income upon the grant of an incentive stock option. An employee also generally will not recognize income upon exercise of an incentive stock option provided that he had been an employee of the company or its subsidiaries at all times from the date of grant of the incentive stock option until three months before exercise of the incentive stock option (or one year, in the case of an exercise after becoming disabled). The amount by which the fair market value of the stock at exercise exceeds the exercise price, however, is an adjustment in computing the employee s alternative minimum tax in the year of exercise. If the employee holds the shares of common stock acquired upon exercise of an incentive stock option at least until the first anniversary of the date of exercise or, if later, the second anniversary of the date of grant of the incentive stock option, upon disposition of the shares the employee will have long-term capital gain equal to the excess of the amount realized upon the disposition over the amount paid for the shares. If the employee holds the shares for this period, the company will not be entitled to a deduction with respect to the incentive stock option.

If an employee disposes of shares acquired upon exercise of an incentive stock option before the expiration of the holding period described above, the employee is considered to have engaged in a disqualifying disposition, as a consequence of which the employee will generally recognize ordinary income in the year of the disqualifying disposition equal to the excess, if any, of the lesser of the amount realized upon disposition of the shares and the fair market value of the shares on the date of exercise over the exercise price paid for the shares. If the amount realized upon disposition is greater than the fair market value of the shares on the date of exercise, the difference will be taxable to the employee as capital gain. The company will be entitled to a deduction in the year of the disqualifying disposition in an amount equal to the amount of ordinary income recognized as a result of the disqualifying disposition.

Stock Appreciation Rights. The grant of a stock appreciation right does not result in taxable income to an employee. Instead, upon exercise, the employee recognizes ordinary income equal to the amount of cash or the fair market value of any shares of common stock the employee receives. The company will be entitled to a corresponding deduction.

Restricted Stock. The recognition of income for federal tax purposes relating to an award of restricted stock depends on the restrictions imposed on the shares. Generally, taxation occurs in the first taxable year in which the shares cease to be subject to a substantial risk of forfeiture. When the restrictions lapse, the employee will recognize taxable income equal to the excess of the fair market value of the stock at that time over the amount, if any, paid for the stock. The employee may, however, make an election to include in income when the shares are first transferred to him an amount equal to the excess of the fair market value of the stock at that time over the amount, if any, paid for the stock. The company is generally entitled to a deduction corresponding to the employee s income inclusion.

Other Stock-Based Awards. Any cash payments or the fair market value of any common stock or other property an employee receives in connection with other stock-based awards will be taxable as ordinary income to the employee in the year received. The company will generally be entitled to a corresponding deduction.

Other Federal Income Tax Considerations. As noted above, Section 162(m) of the Code places a $1,000,000 annual limit on the compensation paid to certain of its executives that is deductible by the company. The limit, however, does not apply to qualified performance-based compensation. The company believes that its awards of stock options, stock appreciation rights and other incentive compensation awards under the 2003 Incentive Plan will qualify for this exception to the deduction limitation.

Also, awards that are granted, accelerated or enhanced upon the occurrence of a change in control may give rise, in whole or in part, to excess parachute payments within the meaning of Section 280G of the Code and, to such extent, will be non-deductible by the company and subject to a 20% excise tax by the participant.

State tax consequences may in some cases differ from the federal tax consequences. In addition, awards under the 2003 Incentive Plan may in some instances be made to employees who are subject to tax in jurisdictions other than the United States and may result in consequences different from those described above.

New Plan Benefits

The following table provides certain information with respect to all options under the 2003 Incentive Plan that have been granted or will be received by or allocated to the specified persons, subject to the approval of the 2003 Incentive Plan by the company s shareholders at the Annual Meeting:

2003 Incentive Plan

Group or Name and Principal Position	Number of Shares of Common Stock Underlying Award [1.]
J. Leland Strange *President and CEO*	45,000
Bonnie L. Herron *Vice President, CFO and Secretary*	35,000
All Executive Officers as a Group (4 persons)	100,000

1. Awards reported in this table were granted, subject to shareholder approval at the Annual Meeting, as incentive stock options (except for awards granted Mr. Strange which were granted as nonqualified stock options), each with an exercise price of $1.51 per share, which is equal to the closing price of a share of common stock on the date of grant, and each shall vest and become exercisable in 3 equal installments beginning on the first anniversary of the date of grant.

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No options or other awards under the 2003 Incentive Plan have been received by any other person, including (i) any other director nominee of the company, or (ii) any associate of a director, executive officer or director or officer nominee of the company. The company cannot presently determine the amounts and recipients of any options or other awards that may be received in the future under the 2003 Incentive Plan.

Effective Date

Upon approval of the 2003 Incentive Plan by the shareholders of the company, the 2003 Incentive Plan will be effective as of March 4, 2003, the date of approval by the Board of Directors.

Shareholder Vote

The 2003 Incentive Plan will be approved and adopted if a majority of the votes cast vote FOR such approval and adoption. **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ADOPTION AND APPROVAL OF THE INTELLIGENT SYSTEMS CORPORATION 2003 STOCK INCENTIVE PLAN AS SET FORTH IN APPENDIX A ATTACHED HERETO.**

PERFORMANCE GRAPH

The following line graph compares the cumulative total shareholder return on our common stock since December 31, 1997, based on the market price of our common stock together with dividends paid to holders of our common stock, with the cumulative total return of the companies on the AMEX Market Value Index and the S&P Technology Sector Index.

Comparison of Five Year Cumulative Total Return*
Among Intelligent Systems, the S&P Technology Sector Index and the AMEX Market Value Index

	Cumulative Total Return					
	12/97	**12/98**	**12/99**	**12/00**	**12/01**	**12/02**
INTELLIGENT SYSTEMS CORPORATION	100.00	34.62	82.05	73.73	66.63	36.05
AMEX COMPOSITE	100.00	100.64	128.10	131.13	123.81	120.42
S & P INFORMATION TECHNOLOGY	100.00	178.14	318.42	188.18		