PUMA BIOTECHNOLOGY, INC.
Form PRE 14A
April 15, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

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

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

PUMA BIOTECHNOLOGY, INC.

(Name of the 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.

¨ 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:

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(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:

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¨ Fee paid previously with preliminary materials.

¨ 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:

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April , 2016

Fellow Stockholder:

You are invited to attend the annual meeting of stockholders of Puma Biotechnology, Inc. to be held on Monday, June 13, 2016, at 1:00 p.m. local time, at the Luxe Sunset Boulevard Hotel, 11461 Sunset Boulevard, Los Angeles, CA 90049.

At this year s annual meeting you will be asked to:

1. Elect five directors to serve for a one-year term;

2. Ratify the selection of our independent registered public accounting firm;

3. Approve an amendment to Puma Biotechnology, Inc. s Amended and Restated Certificate of Incorporation (the Certificate of Incorporation) to eliminate the ability of stockholders to act by written consent;

4. Approve an amendment to the Certificate of Incorporation to eliminate the mandatory indemnification of all persons covered by Section 145 of the General Corporation Law of the State of Delaware; and

5. Transact such other business as may properly come before the annual meeting.

The accompanying Notice of Meeting and proxy statement describe these matters. We urge you to read this information carefully.

The Board of Directors unanimously believes that election of its nominees to serve as our directors, ratification of our independent registered public accounting firm, and approval of amendments to the Certificate of Incorporation to eliminate the ability of stockholders to act by written consent and to eliminate the mandatory indemnification of all persons covered by Section 145 of the General Corporation Law of the State of Delaware are in the best interests of the Company and its stockholders and, accordingly, recommends a vote FOR each of the proposals identified above.

It is important that your shares be represented and voted whether or not you plan to attend the annual meeting in person. You may submit your proxy over the Internet, or if you are receiving a paper copy of the proxy statement, by telephone or by completing and mailing a proxy card. Submitting your proxy over the Internet, by telephone or by written proxy will ensure your shares are represented at the annual meeting.

The Board of Directors appreciates and encourages stockholder participation. Thank you for your continued support.

Sincerely,

Alan H. Auerbach

Chairman, President, Chief Executive Officer and Secretary

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PUMA BIOTECHNOLOGY, INC.

10880 Wilshire Boulevard, Suite 2150

Los Angeles, California 90024

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MONDAY, JUNE 13, 2016

To the Stockholders of Puma Biotechnology, Inc. (the Company, we and our):

We will hold an annual meeting of stockholders of the Company at the Luxe Sunset Boulevard Hotel, 11461 Sunset Boulevard, Los Angeles, California 90049, on Monday, June 13, 2016, at 1:00 p.m. local time. At the annual meeting, we will consider and act upon the following matters:

1. Election of Alan H. Auerbach, Jay M. Moyes, Adrian M. Senderowicz, Troy E. Wilson and Frank E. Zavrl as directors to serve for a one-year term expiring at the 2017 annual meeting of stockholders and until their successors are duly elected and qualified or until their earlier resignation or removal.

2 Ratification of the selection of PKF Certified Public Accountants, a Professional Corporation (PKF Certified Public Accountants), as our independent registered public accounting firm for the year ending December 31, 2016.

3. Approval of an amendment to Puma Biotechnology, Inc. s Amended and Restated Certificate of Incorporation (the Certificate of Incorporation) to eliminate the ability of stockholders to act by written consent;

4. Approval of an amendment to the Certificate of Incorporation to eliminate the mandatory indemnification of all persons covered by Section 145 of the General Corporation Law of the State of Delaware; and

5. Such other business as may properly come before the annual meeting or any adjournments or postponements of the annual meeting.

The proxy statement accompanying this notice describes each of these items of business in detail. The Board of Directors recommends a vote FOR each of the nominees for director named in the proxy statement, a vote FOR the ratification of the selection of PKF Certified Public Accountants as our independent registered public accounting firm and a vote FOR the approval of each of the proposed amendments to the Certificate of Incorporation.

Only the Company s stockholders of record at the close of business on April 20, 2016, the record date for the determination of stockholders entitled to notice of and to vote at the annual meeting, or any adjournment or postponement thereof, are entitled to notice of, and to vote at, the annual meeting. On April 20, 2016, we had shares of common stock outstanding. A list of stockholders eligible to vote at the annual meeting will be available for inspection at the annual meeting, and at the Company s executive offices at 10880 Wilshire Boulevard, Suite 2150, Los Angeles, CA 90024 during regular business hours for a period of no less than ten days prior to the annual meeting.

Your vote is very important. It is important that your shares be represented and voted whether or not you plan to attend the annual meeting in person. If you are viewing the proxy statement on the Internet, you may grant your proxy electronically via the Internet by following the instructions on the Notice of Internet Availability of Proxy Materials previously mailed to you and the instructions listed on the Internet site. If you are receiving a paper copy of the proxy statement, you may submit your proxy by completing and mailing the proxy card enclosed with the proxy statement, or you may grant your proxy electronically via the Internet or by telephone by following the instructions on the proxy card. Submitting a proxy over the Internet, by telephone or by mailing a proxy card will ensure your shares are represented at the annual meeting.

The Luxe Sunset Boulevard Hotel is accessible to those who require special assistance or accommodation. If you require special assistance or accommodation, please contact Investor Relations at (424) 248-6500 or ir@pumabiotechnology.com or write to: Puma Biotechnology, Inc., 10880 Wilshire Boulevard, Suite 2150, Los Angeles, California 90024, Attention: Investor Relations.

By Order of the Board of Directors,

Alan H. Auerbach
Chairman, President, Chief Executive Officer and Secretary

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PROXY STATEMENT

INFORMATION CONCERNING VOTING AND SOLICITATION

General

Your proxy is solicited on behalf of the Board of Directors (the Board) of Puma Biotechnology, Inc., a Delaware corporation (the Company, we, us or our), for use at our 2016 annual meeting of stockholders to be held on Monday, June 13, 2016, at 1:00 p.m. local time, at the Luxe Sunset Boulevard Hotel, 11461 Sunset Boulevard, Los Angeles, California 90049, or at any continuation, postponement or adjournment thereof (the annual meeting), for the purposes discussed in this proxy statement and in the accompanying Notice of Annual Meeting and any business properly brought before the annual meeting. Proxies are solicited to give all stockholders of record an opportunity to vote on matters properly presented at the annual meeting.

In accordance with the Securities and Exchange Commission s notice and access model, we have elected to provide access to our proxy materials, including our notice of annual meeting, this proxy statement and our annual report to stockholders, over the Internet. Accordingly, on or about April 29, 2016, we intend to make our proxy materials available on the Internet and to mail a Notice of Internet Availability of Proxy Materials (the Notice) to all stockholders of record. On or about April 29, 2016, we also intend to mail a paper copy of the proxy materials and proxy card to other stockholders of record who have elected to receive such materials in paper form. Brokers and other nominees who hold shares on behalf of beneficial stockholders will be sending their own similar notice. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or to request to receive a printed set of the proxy materials. Instructions on how to request a printed copy by mail or electronically may be found on the Notice and on the website referred to in the Notice, including an option to request paper copies on an ongoing basis. If you properly request a printed copy of the proxy materials, we intend to mail the proxy materials, together with a proxy card, to you, within three business days of such request.

Important Notice Regarding the Availability of Proxy Materials for the 2016 Annual Meeting of Stockholders to be Held on June 13, 2016

The Notice of Annual Meeting, this proxy statement and our 2015 Annual Report, which consists of a letter to stockholders and our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, are available on our website at *http://investor.pumabiotechnology.com/annual-meeting*. This website address contains the following documents: the Notice, the proxy statement and proxy card sample, and the 2015 Annual Report. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

Who Can Vote

You are entitled to vote at the annual meeting if you were a stockholder of record of our common stock as of the close of business on April 20, 2016. You are entitled to one vote for each share of common stock held on all matters to be voted upon at the annual meeting. Your shares may be voted at the annual meeting only if you are present in person or represented by a valid proxy.

Voting of Shares

You may vote by attending the annual meeting and voting in person or you may submit a proxy to have your shares voted at the annual meeting. The method of submitting your proxy will differ depending on whether you are viewing this proxy statement on the Internet or receiving a paper copy and whether you are a beneficial stockholder or a stockholder of record.

Beneficial Stockholders. Beneficial stockholders hold their shares through a broker, bank, trustee or other nominee (that is, in street name) rather than directly in their own name. If you hold your shares in street name, you are a beneficial stockholder, and the Notice and proxy materials were made available to you by the organization holding your account. This organization is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial stockholder, you have the right to instruct that organization on how to vote the shares held in your account. If you requested printed copies of the proxy materials by mail, you will receive a voting instruction form from your bank, broker, trustee or other nominee.

Stockholders of Record. If your shares are registered directly in your name with our transfer agent, Wells Fargo Bank, N.A., or if you hold stock certificates in your name, you are considered the stockholder of record with respect to those shares, and the Notice and proxy materials were made available directly to you by the Company. If you requested printed copies of the proxy materials by mail, you will receive a proxy card from us.

Whether you are a stockholder of record or a beneficial stockholder, you may direct how your shares are voted without attending the annual meeting. If you are a stockholder of record, you may submit a proxy to authorize how your shares are voted at the annual meeting. You can submit a proxy over the Internet by following the instructions on the website referred to in the Notice or, if you requested and received printed copies of the proxy materials, you can also submit a proxy by mail or telephone pursuant to the instructions on the proxy card enclosed with the proxy materials.

If you are a beneficial stockholder, you may also submit your voting instructions over the Internet by following the instructions provided in the Notice, or, if you requested and received printed copies of the proxy materials, you can also submit voting instructions by telephone or mail by following the instructions provided to you by your bank, broker, trustee or other nominee.

Submitting your proxy or voting instructions via the Internet, by telephone or by mail will not affect your right to vote in person should you decide to attend the annual meeting, although beneficial stockholders must obtain a legal proxy from the bank, broker, trustee or other nominee that holds their shares giving them the right to vote the shares at the annual meeting in order to vote in person at the meeting.

The Internet and telephone voting facilities will close at 12:00 noon (CT) on June 12, 2016. If you vote through the Internet, you should be aware that you may incur costs to access the Internet, such as usage charges from telephone companies or Internet service providers and that these costs must be borne by you. If you submit your proxy over the Internet or by telephone, then you need not return a written proxy card by mail. If you intend to submit your proxy over the Internet or by telephone and have not done so prior to 12:00 noon (CT) on June 12, 2016, your only alternative if you wish to vote at the annual meeting will be to attend the annual meeting and vote in person.

YOUR VOTE IS VERY IMPORTANT. You should submit your proxy even if you plan to attend the annual meeting. If you properly give your proxy and submit it to us in time to vote, one of the individuals named as your proxy will vote your shares as you have directed.

All shares entitled to vote and represented by properly submitted proxies (including those submitted electronically, telephonically and in writing) that have not been properly revoked, will be voted at the annual meeting in accordance with the instructions indicated on those proxies. If no direction is indicated on a properly submitted proxy, your shares will be voted **FOR** each of the nominees for director named in the proxy statement, **FOR** the ratification of the selection of PKF Certified Public Accountants as our independent registered public accounting firm, and **FOR** the approval of the amendments to the Company s Amended and Restated Certificate of Incorporation (the Certificate of Incorporation) to eliminate the ability of stockholders to act by written consent and to eliminate the mandatory indemnification of all persons covered by Section 145 of the General Corporation Law of the State of Delaware. The proxy gives each of Alan H. Auerbach and Charles R. Eyler discretionary authority to vote your shares in accordance with his best judgment with respect to all additional matters that might come before the annual meeting.

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Revocation of Proxy

If you are a stockholder of record, you may revoke your proxy at any time before your proxy is voted at the annual meeting by taking any of the following actions:

- delivering to our Corporate Secretary a signed written notice of revocation, bearing a date later than the date of the proxy, stating that the proxy is revoked;
- signing and delivering a new paper proxy, relating to the same shares and bearing a later date than the original proxy;
- submitting another proxy by telephone or over the Internet (the proxy holders will vote your shares in accordance with your latest telephone or Internet voting instructions); or
- attending the annual meeting and voting in person, although attendance at the annual meeting will not, by itself, revoke a proxy.

Written notices of revocation and other communications with respect to the revocation of proxies should be addressed to:

Puma Biotechnology, Inc.

10880 Wilshire Boulevard, Suite 2150

Los Angeles, CA 90024

Attention: Corporate Secretary

If you are a beneficial stockholder and you submit a voting instruction form, you may change your vote by submitting new voting instructions to your bank, broker, trustee or other nominee in accordance with the procedures of such bank, broker, trustee or other nominee.

Voting in Person

If you plan to attend the annual meeting and wish to vote in person, you will be given a ballot at the annual meeting.

Quorum and Votes Required

At the close of business on April 20, 2016, shares of our common stock were outstanding and entitled to vote. All votes will be tabulated by the inspector of election appointed for the annual meeting, who will separately tabulate votes for, against, abstentions and broker non-votes.

Quorum. A majority of the outstanding shares of common stock, present in person or represented by proxy, will constitute a quorum at the annual meeting. Shares of common stock held by persons attending the annual meeting but not voting, shares represented by proxies that reflect abstentions as to a particular proposal and broker non-votes, if any, will be counted as present for purposes of determining a quorum.

Broker Non-Votes. Brokers or other nominees who hold shares of common stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the election of directors or for the approval of certain non-routine matters, without specific instructions from the beneficial owner. These non-voted shares are referred to as broker non-votes. Proposal 2 (ratifying the appointment of our independent registered public accounting firm), Proposal 3 (amendment of Certificate of Incorporation to eliminate the ability of stockholders to act by written consent) and Proposal 4 (amendment of Certificate of Incorporation to eliminate the mandatory indemnification of all persons covered by Section 145 of the General Corporation Law of the State of Delaware) are considered routine matters. If you are a beneficial stockholder holding shares through a broker or other nominee and you do

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not submit instructions on how your shares should be voted, your broker or other nominee will not be able to vote your shares on Proposal 1 (election of directors).

Votes Required

Proposal 1 Election of Directors. Directors will be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote. Thus, the five nominees receiving the greatest number of votes FOR their election will be elected. Abstentions and broker non-votes are not considered votes cast and therefore will not affect the outcome of the vote.

Proposal 2 Ratification of Independent Registered Public Accounting Firm. The affirmative vote of a majority of the votes cast at the annual meeting is required for the ratification of the selection of PKF Certified Public Accountants, a Professional Corporation, as our independent registered public accounting firm for the year ending December 31, 2016. Abstentions are not considered votes cast and therefore will not affect the outcome of the vote. Brokers have authority in the absence of timely instructions from their beneficial owners to vote on this proposal. As a result, there will be no broker non-votes for this proposal.

Proposal 3 Approval of Amendment to Certificate of Incorporation to Eliminate the Ability of Stockholders to Act by Written Consent. The affirmative vote of a majority of the shares issued and outstanding as of the record date is required for approval of this amendment to the Certificate of Incorporation. Abstentions will have the same effect as votes against this proposal. Brokers have authority in the absence of timely instructions from their beneficial owners to vote on this proposal. As a result, there will be no broker non-votes for this proposal.

Proposal 4 Approval of Amendment to Certificate of Incorporation to Eliminate the Mandatory Indemnification of All Persons Covered by Section 145 of the General Corporation Law of the State of Delaware. The affirmative vote of a majority of the shares issued and outstanding as of the record date is required for approval of this amendment to the Certificate of Incorporation. Abstentions will have the same effect as votes against this proposal. Brokers have authority in the absence of timely instructions from their beneficial owners to vote on this proposal. As a result, there will be no broker non-votes for this proposal.

Solicitation of Proxies

Our Board is soliciting proxies for the annual meeting from our stockholders. We will bear the entire cost of soliciting proxies from our stockholders. In addition to the solicitation of proxies by delivery of the Notice or proxy statement by mail, we will request that brokers, banks and other nominees that hold shares of our common stock, which are beneficially owned by our stockholders, send Notices, proxies and proxy materials to those beneficial owners and secure those beneficial owners voting instructions. We will reimburse those record holders for their reasonable expenses. We have engaged Innisfree M&A Incorporated to assist in the solicitation of proxies and provide related advice and informational support for a services fee and the reimbursement of customary disbursements, which are not expected to exceed $20,000 in the aggregate. We may use several of our regular employees, who will not be specially compensated, to solicit proxies from our stockholders, either personally or by telephone, Internet, facsimile or special delivery letter.

Assistance

If you need assistance in submitting your proxy over the Internet or completing your proxy card or have questions regarding the annual meeting, please contact Investor Relations at (424) 248-6500 or ir@pumabiotechnology.com or write to: Puma Biotechnology, Inc., 10880 Wilshire Boulevard, Suite 2150, Los Angeles, CA 90024, Attention: Investor Relations.

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Forward-Looking Statements

This proxy statement contains forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These statements are based on our current expectations and involve risks and uncertainties, which may cause results to differ materially from those set forth in the statements. The forward-looking statements may include statements regarding actions to be taken by us. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Forward-looking statements should be evaluated together with the many uncertainties that affect our business, particularly those mentioned in the risk factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 and in our periodic reports on Form 10-Q and our current reports on Form 8-K.

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PROPOSAL 1

ELECTION OF DIRECTORS

Board Structure

Under our amended and restated bylaws (Bylaws), the number of directors shall be fixed from time to time by resolutions of the directors. Our Board has fixed the current size of the Board at five members.

Directors and Board Nominees

Based upon the recommendation of our Nominating and Corporate Governance Committee, our Board has nominated Alan H. Auerbach, Jay M. Moyes, Adrian M. Senderowicz, Troy E. Wilson and Frank E. Zavrl for election as directors to the Board. If elected, each director will serve a one-year term expiring at the close of our next annual meeting in 2017, and until such director s successor is elected and qualified, or until such director s earlier resignation or removal. Each of Messrs. Auerbach, Moyes and Zavrl and Drs. Senderowicz and Wilson currently serve on our Board. Biographical information on each of the nominees is furnished below under Director Biographical Information.

Set forth below is certain information with respect to the nominees. Proxies cannot be voted for a greater number of nominees than the five nominees set forth below.

Name	Age	Position with the Company	Director Since
Alan H. Auerbach	46	President, Chief Executive Officer and Chairman of the Board	2011
Jay M. Moyes(1)(3)(5)	62	Director	2012
Adrian M. Senderowicz(4)(6)	52	Director	2015
Troy E. Wilson(2)(6)	47	Director	2013
Frank E. Zavrl(2)(4)	46	Director	2015

(1) Current member and Chairman of the Audit Committee
(2) Current member of the Audit Committee
(3) Current member and Chairman of the Compensation Committee
(4) Current member of the Compensation Committee
(5) Current member and Chairman of the Nominating and Corporate Governance Committee
(6) Current member of the Nominating and Corporate Governance Committee

Director Biographical Information

The following biographical information is furnished with respect to our directors (including nominees).

Alan H. Auerbach. Mr. Auerbach has served as Chairman of our Board and as our President and Chief Executive Officer since October 4, 2011. Prior to October 4, 2011, he served in such capacity at Puma Biotechnology, Inc. (Puma) , a privately held Delaware corporation and our predecessor, from its inception in September 2010. Prior to founding Puma, Mr. Auerbach founded Cougar Biotechnology, Inc. (Cougar) in May 2003 and served as its Chief Executive Officer, President and a member of its board of directors until July 2009, when Cougar was acquired by Johnson & Johnson. From July 2009 until January 2010, Mr. Auerbach served as the Co-Chairman of the Integration Steering Committee at Cougar (as part of Johnson & Johnson) that provided leadership and oversight for the development and global commercialization of Cougar s lead drug candidate, abiraterone acetate, for the treatment of advanced prostate cancer. Prior to founding Cougar, from June 1998 to April 2003, Mr. Auerbach was a Vice President, Senior Research Analyst at Wells Fargo Securities, where he was responsible for research coverage of small- and middle-capitalization biotechnology companies, with a focus on companies in the field of oncology. Mr. Auerbach has served as a director of Radius Health, Inc., a public pharmaceutical company focused on acquiring and developing new therapeutics for the treatment of osteoporosis and other women s health conditions, since May 2011 and its predecessor entity from October 2010 to May 2011. Mr. Auerbach received a B.S. in Biomedical Engineering from Boston University and an M.S. in Biomedical Engineering from the University of Southern California. Mr. Auerbach was nominated to serve as a director because of his position as our President and Chief Executive Officer and his significant experience as an executive and research analyst in the biotechnology industry.

Jay M. Moyes. Mr. Moyes has been a director since April 27, 2012. Mr. Moyes has been a member of the Board and chairman of the audit committee of Osiris Therapeutics, Inc., a publicly held bio-surgery company, since May 2006. He has also been a member of the board of directors and the chairman of the audit committee for each of Biocardia, Inc., a privately held cardiovascular regenerative medicine company, and Integrated Diagnostics, Inc., a privately held molecular diagnostics company, since January 2011 and March 2011, respectively. Mr. Moyes was a member of the board of directors of Amedica Corporation, a public orthopedic implant company, from November 2012 to August 2014. He also served as Chief Financial Officer of Amedica from October 2013 to August 2014. From May 2008 through July 2009, Mr. Moyes served as the Chief Financial Officer of XDx, Inc., a privately held molecular diagnostics company. Prior to that, Mr. Moyes served as the Chief Financial Officer of Myriad Genetics, Inc., a publicly held healthcare diagnostics company, from June 1996 until his retirement in November 2007, and as its Vice President of Finance from July 1993 until July 2005. From 1991 to 1993, Mr. Moyes served as Vice President of Finance and Chief Financial Officer of Genmark, Inc., a privately held genetics company. Mr. Moyes held various positions with the accounting firm of KPMG LLP from 1979 through 1991, most recently as a Senior Manager. He holds an M.B.A. from the University of Utah, a B.A. in economics from Weber State University, and is formerly a Certified Public Accountant. Mr. Moyes also served as a member of the Board of Trustees of the Utah Life Science Association from 1999 through 2006. Mr. Moyes was nominated to serve as a director because of his extensive background in finance and accounting and his experience in the context of the life sciences industry enables him to make significant contributions to the Board.

Adrian M. Senderowicz. Dr. Senderowicz has been a director since August 11, 2015. Dr. Senderowicz has been Senior Vice President and Chief Medical Officer of Cerulean Pharma, Inc., a public clinical-stage company developing nano-particle conjugates, since September 2015. Dr. Senderowicz served as the Chief Medical Officer and Senior Vice President, Clinical Development and Regulatory Affairs from August 2014 to February 2015, and Clinical and Regulatory Strategy Officer from February 2015 to April 2015 of Ignyta, Inc., a public precision oncology biotechnology company. Prior to joining Ignyta, Dr. Senderowicz was Vice President, Global Regulatory Oncology at Sanofi, a position he held from September 2013 to August 2014. Prior to Sanofi, Dr. Senderowicz was Chief Medical Officer and Vice President, Medical Development at Tokai Pharmaceuticals, Inc. from August 2012 to March 2013. From August 2008 to March 2012, Dr. Senderowicz held positions of increasing responsibility, including Senior Medical Director, Oncology Clinical Development, at AstraZeneca. Before his tenure at AstraZeneca, Dr. Senderowicz spent almost four years in a variety of leadership positions at the U.S. Food and Drug Administration Division of Oncology Drug Products in the Center for Drug Evaluation and Research. Prior to his work with the FDA, Dr. Senderowicz held a variety of clinical and research positions, including Coordinator of the Prostate Cancer Drug Development Clinic and Investigator and Chief, Molecular Therapeutics Unit, with the National Cancer Institute/National Institutes of Health. Dr. Senderowicz holds both an M.D. and an Instructor of Pharmacology degree from the School of Medicine at the Universidad de Buenos Aires in Argentina. Dr. Senderowicz was nominated as a director because of his extensive clinical and regulatory background and his significant experience in the life sciences industry.

Troy E. Wilson. Dr. Wilson has been a director since October 18, 2013. Dr. Wilson has been the President and Chief Executive Officer and a member of the board of directors of Kura Oncology, Inc., a public reporting clinical stage biopharmaceutical company discovering and developing personalized therapeutics for the treatment of solid tumors and blood cancers, since August 2014. He has also been the President and Chief Executive Officer and a member of the board of managers of Avidity NanoMedicines LLC, a private biopharmaceutical company, since November 2012 and the President and Chief Executive Officer and a member of the board of

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managers of Wellspring Biosciences LLC, a private biopharmaceutical company, since July 2012 and May 2012, respectively. Dr. Wilson served as the President and Chief Executive Officer and a member of the board of directors of Intellikine, a private biopharmaceutical company, from April 2007 to January 2012 and from August 2007 to January 2012, respectively. He has served as a director of Zosano Pharma Corporation, a public clinical stage specialty pharmaceutical company that has developed a proprietary transdermal microneedle patch system to deliver its proprietary formulations of existing drugs through the skin for the treatment of a variety of indications, since June 2014, and as a member of the board of managers of Araxes Pharma LLC, a private biopharmaceutical company, since May 2012. He holds a J.D. from New York University and graduated with a Ph.D. in bioorganic chemistry and a B.A. in biophysics from the University of California, Berkeley. Dr. Wilson was nominated to serve as a director because of his background in finance and accounting and his experience in the life sciences industry.

Frank E. Zavrl. Mr. Zavrl has been a director since September 8, 2015. Mr. Zavrl served as a Partner at Adage Capital Management, L.P. from 2002 to 2011, specializing in biotechnology investments. Prior to joining Adage Capital, Mr. Zavrl was a Portfolio Manager from 1999 to 2002 at Merlin Biomed, a healthcare investment group. From 1998 to 1999, Mr. Zavrl was an analyst at Scudder Kemper Investments Inc., focusing on biotechnology investments. Mr. Zavrl received a B.S. in Biochemistry from the University of California, Berkeley and an M.B.A. from the Tuck School of Business at Dartmouth College. Mr. Zavrl was nominated as a director because of his significant experience and background in the biotechnology investments field.

Board Recommendation

OUR BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE FIVE DIRECTOR NOMINEES.

Executive Officers

Set forth below is information regarding each of our executive officers as of the date of this proxy statement.

Name	Age	Position
Alan H. Auerbach	46	President, Chief Executive Officer and Chairman of the Board
Charles R. Eyler	68	Senior Vice President, Finance and Administration and Treasurer
Richard P. Bryce, MBChB, MRCGP, MFPM	58	Senior Vice President, Clinical Research and Development
Steven Lo	49	Chief Commercial Officer

Alan H. Auerbach. See Director Biographical Information above.

Charles R. Eyler. Mr. Eyler has served as our Senior Vice President, Finance and Administration and Treasurer since October 4, 2011. Prior to October 4, 2011, he served in such capacity at Puma beginning on September 1, 2011. Prior to joining Puma, Mr. Eyler served as Senior Vice President of Finance at Cougar until July 2009, when Cougar was acquired by Johnson & Johnson. He also served as Treasurer of Cougar from April 2006 to July 2009. From July 2009 until March 2010, Mr. Eyler served on the Integration Steering Committee at Cougar (as part of Johnson & Johnson) and oversaw the integration of Cougar s finance and IT functions with those of Johnson & Johnson. From April 2010 until September 2011, Mr. Eyler explored various entrepreneurial and other opportunities. Prior to joining Cougar, Mr. Eyler served as Chief Financial Officer and Chief Operating Officer of Hayes Medical Inc. from March 1999 to January 2004. Mr. Eyler received his B.S. from Drexel University and his M.B.A. from Saint Francis College.

Richard P. Bryce, MBChB, MRCGP and MFPM. Dr. Bryce has served as our Senior Vice President, Clinical Research and Development since June 20, 2012. Dr. Bryce previously served as Senior Medical Director

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for Onyx Pharmaceuticals, a biopharmaceutical company, from September 2008 to June 2012, where he oversaw the Phase III clinical trial program of carfilzomib for the treatment of multiple myeloma and the Phase II clinical trial program of sorafenib for the treatment of breast and colorectal cancers. From August 2007 to August 2008, Dr. Bryce served as Senior Medical Director for ICON Clinical Research, a clinical research organization, where he was responsible for developing and evaluating oncology protocols, medical monitoring, and overseeing drug safety management activities in connection with the clinical trials of oncology drugs. From May 2005 until July 2007, he served as Executive Vice President of Medical Affairs at Ergomed Clinical Research, a clinical research organization, where he worked to establish the company s U.S. operations, had overall responsibility for the global Phase I unit activities, drug safety, medical writing and regulatory affairs, and oversaw the company s provision of consulting services to various oncology-focused biotechnology companies. From April 2003 to May 2005, Dr. Bryce served as International Medical Leader at Roche, where he oversaw the global Phase IV clinical trial program of Xeloda® (capecitabine) for the treatment of breast cancer. Dr. Bryce holds a BSc in Medical Sciences and his primary medical degree (MBChB) from the University of Edinburgh, Scotland. He also holds post-graduate diplomas in Obstetrics and Gynaecology from the Royal College of Obstetricians and Gynaecologists of London and in Child Health and Pharmaceutical Medicine from the Royal College of Physicians of the United Kingdom. He is a member of the Royal College of General Practitioners and the Royal College of Physicians (Faculty of Pharmaceutical Medicine) of the United Kingdom. He is also a member of the American Society of Clinical Oncology, the American Society of Hematology and the European Society of Medical Oncology.

Steven Lo. Mr. Lo has served as our Chief Commercial Officer since September 8, 2015. Prior to joining the Company, Mr. Lo held a number of positions at Corcept Therapeutics Incorporated from September 2010 to September 2015, including Senior Vice President & Head of Oncology, Senior Vice President & Chief Commercial Officer and Vice President & Head of Commercial Operations. Prior to Corcept, Mr. Lo was with Genentech, Inc. from December 1997 to September 2010. At Genentech, Mr. Lo held a number of positions, including Senior Director, Oncology Marketing, where he prepared and led the first U.S. launch of Herceptin® in adjuvant HER2-positive breast cancer and also worked with Genentech s then ex-U.S. marketing partner, Roche, to develop the global adjuvant launch strategy for Herceptin® in adjuvant HER2-positive breast cancer. Mr. Lo received a B.S. in Microbiology from the University of California, Davis and a Master of Health Administration from the University of Southern California.

None of our directors, nominees or executive officers is related by blood, marriage or adoption to any other director, nominee or executive officer. In addition, except as indicated herein, no arrangements or understandings exist between any director or person nominated for election as a director and any other person pursuant to whom such person is to be selected as a director or nominee for election as a director.

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CORPORATE GOVERNANCE

Board Leadership Structure and Role in Risk Oversight

Alan H. Auerbach currently serves as our Chairman and Chief Executive Officer. We have no policy requiring the combination or separation of the Chief Executive Officer and Chairman roles and our governing documents do not mandate a particular structure. At present, we have determined that this leadership structure of having a combined Chairman of the Board and Principal Executive Officer is appropriate due to the size and operations and resources of our company. Our Board believes that having these roles combined helps promote efficient and centralized decision-making, focuses the Board s discussions and facilitates the presentation of the Company s strategy with a unified voice.

Our Board acknowledges that no single leadership model is right for all companies at all times. As such, our Board periodically reviews its leadership structure and may, depending on the circumstances, including our size, resources and operations, choose a different leadership structure in the future.

Our Board is involIZE: 10pt; FONT-FAMILY: Times New Roman, Times, serif">Loss from continuing operations before income taxes

(667) (581)

Income taxes

3 --

Loss from continuing operations

(670) (581)

Gain on sale of discontinued operations, net of taxes

18,746 --

Loss from discontinued operations, net of taxes

(3) (181)

Net income (loss)

18,073 (762)

Net loss attributable to noncontrolling interest

223 176

Net income (loss) attributable to Intelligent Systems Corporation

$18,296 $(586)

Earnings (loss) per share attributable to Intelligent Systems Corporation:

Basic

Continuing operations

(0.05)(0.05)

Discontinued operations

2.09 (0.02)

Earnings (loss) per share

$2.04 $(0.07)

Diluted

Continuing operations

(0.05)(0.05)

Discontinued operations

2.08 (0.02)

Earnings (loss) per share

$2.03 $(0.07)

Basic weighted average common shares outstanding

8,958,028 8,958,028

Diluted weighted average common shares outstanding

9,029,273 8,953,028

Net income (loss) attributable to Intelligent Systems Corporation:

Loss from continuing operations

(447)(405)

Income (loss) from discontinued operations

18,743 (181)

Net income (loss) attributable to Intelligent Systems Corporation

$18,296 $(586)

The accompanying notes are an integral part of these consolidated financial statements.

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Intelligent Systems Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands)

	Three Months Ended March 31,	
	2015	**2014**
Net income (loss)	$18,073	$(762)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(4)	(5)
Unrealized gain on available-for-sale marketable securities	2	16
Total comprehensive income (loss)	18,071	(751)
Comprehensive loss attributable to noncontrolling interest	222	176
Comprehensive income (loss) attributable to Intelligent Systems Corporation	$18,293	$(575)

The accompanying notes are an integral part of these consolidated financial statements.

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Intelligent Systems Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

CASH PROVIDED BY (USED FOR):	**Three Months Ended March 31, 2015**	**2014**
OPERATING ACTIVITIES:		
Net income (loss)	$18,073	$(762)
Loss (income) from discontinued operations	(18,743)	181
Net loss from continuing operations	(670)	(581)
Adjustments to reconcile net loss from continuing operations to net cash used for operating activities:		
Depreciation and amortization	36	32
Stock-based compensation expense	4	21
Equity in (income) loss of affiliate company	6	(5)
Changes in operating assets and liabilities:		
Accounts receivable	53	31
Other current assets	128	27
Other long term assets	3	11
Accounts payable	36	42
Accrued payroll	(63)	(27)
Deferred revenue, current portion	(3)	(131)
Accrued expenses	7	104
Other current liabilities	--	(87)
Deferred revenue, net of current portion	34	(25)
Other long-term liabilities	(18)	--
Net cash used for operating activities	(447)	(588)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(10)	(63)
Long-term investment	(30)	--
Net cash used for investing activities	(40)	(63)
Net cash provided by operating activities from discontinued operations	415	169
Net cash provided by (used for) investing activities from discontinued operations	18,202	(23)
Net cash provided by discontinued operations	18,617	146
Effects of exchange rate changes on cash	(4)	(5)
Net increase (decrease) in cash	18,126	(510)
Cash at beginning of period	2,624	3,433
Cash at end of period	$20,750	$2,923

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	$--	$13

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

Intelligent Systems Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Throughout this report, the terms “we”, “us”, “ours”, “ISC” and “company” refer to Intelligent Systems Corporation, includi its wholly-owned and majority-owned subsidiaries. The unaudited Consolidated Financial Statements presented in this Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of ISC management, these Consolidated Financial Statements contain all adjustments (which comprise only normal and recurring accruals) necessary to present fairly the financial position and results of operations as of and for the three month periods ended March 31, 2015 and 2014. The interim results for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with our Consolidated Financial Statements and notes thereto for the fiscal year ended December 31, 2014, as filed in our Annual Report on Form 10-K/A.

2. *Sale of Subsidiary; Discontinued Operations* – On March 31, 2015, we and CRC Industries, Inc., a Pennsylvania corporation (“CRC”), entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) whereby we sold all of the issued and outstanding stock of our wholly owned subsidiary, ChemFree Corporation (“ChemFree”), to CRC (the “ChemFree Sale”). The purchase price for the all-cash sale was $21,600,000, subject to customary post-closing adjustments, including a working capital adjustment. The company retained all net cash of ChemFree as of the closing date. In the quarter ended March 31, 2015, the company recorded a gain on the sale of ChemFree of $18,746,000 and has retroactively classified the ChemFree operations as discontinued operations in all periods presented. The company intends to apply operating loss and capital loss carryforwards against the gain of sale and presently expects to incur an alternative minimum tax liability of approximately $181,000 on the transaction, which amount is included in liabilities of discontinued operations as of March 31, 2015. At the closing, a total of $3,300,000 of the purchase price was placed in escrow for purposes of securing our obligations to indemnify CRC and to refund a portion of the purchase price if ChemFree’s actual working capital amount on the closing date is less than the agreed upon target set forth in the Stock Purchase Agreement. Based on the initial post-closing working capital determination, we have accrued $200,000 for a working capital adjustment, which amount is reflected in the gain on sale calculation at March 31, 2015. We anticipate that once the working capital adjustment becomes final and binding, an amount equal to $1,100,000 less the final working capital adjustment will be released from escrow to the company in May 2015, assuming the absence of any outstanding claims for indemnification under the Stock Purchase Agreement. As of March 31, 2015, $900,000 of the escrow funds is shown as Restricted Cash – Current Portion (reflecting the escrow of $1,100,000 less the estimated $200,000 working capital adjustment) and the remaining escrow balance of $2,200,000, which will remain in escrow until September 30, 2016, is shown as Restricted Cash – Noncurrent Portion.

The following condensed financial information is provided for the ChemFree discontinued operations for the periods shown:

(unaudited, in thousands)	**Three Months Ended March 31, 2015**	**2014**
Net sales	$2,902	$2,564
Operating loss	(3)	(179)
Net income (loss) before income taxes	6	(169)
Income taxes	9	12
Net loss from discontinued operations	$(3)	$(181)

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The major components of the assets and liabilities of discontinued operations presented separately on the balance sheet are as follows:

(in thousands, unaudited)	**March 31, 2015**	**December 31, 2014**
Major classes of assets included as part of discontinued operations:		
Accounts receivable	$ --	$ 1,276
Inventories	--	1,042
Property, plant & equipment	--	488
Other assets	--	206
Total assets of discontinued operations	$ --	$ 3,012
Major classes of liabilities included as part of discontinued operations:		
Accounts payable	$ 88	$ 190
Accrued payroll	--	152
Other current liabilities	712	284
Other liabilities	--	212
Total liabilities of discontinued operations	$ 800	$ 838

3. *Stock-based Compensation* – At March 31, 2015, we have two stock-based compensation plans in effect. We record compensation cost related to unvested stock awards by recognizing the unamortized grant date fair value on a straight line basis over the vesting periods of each award. We have estimated forfeiture rates based on our historical experience. Stock option compensation expense for the three month periods ended March 31, 2015 and 2014 has been recognized as a component of general and administrative expenses in the accompanying Consolidated Financial Statements. We recorded $4,000 and $21,000 of stock-based compensation expense in the quarters ended March 31, 2015 and 2014, respectively.

As of March 31, 2015, there is $13,000 of unrecognized compensation cost related to stock options. No options were granted during the three months ended March 31, 2015. The following table summarizes options as of March 31, 2015:

	# of Shares	**Wgt Avg Exercise Price**	**Wgt Avg Remaining Contractual Life in Years**	**Aggregate Intrinsic Value**
Outstanding at March 31, 2015	274,500	$ 1.72	5.8	$ 334,092
Vested and exercisable at March 31, 2015	250,000	$ 1.76	5.4	296,437

The estimated fair value of options granted is calculated using the Black-Scholes option pricing model with assumptions as previously disclosed in our 2014 Form 10-K/A.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the company's closing stock price on the last trading day of the first quarter of 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2015. The amount of aggregate intrinsic value will change based on the market value of the company's stock.

4. *Fair Value of Financial Instruments* - The carrying value of cash, marketable securities, accounts receivable, accounts payable and certain other financial instruments (such as short-term borrowings, accrued expenses, and other current liabilities) included in the accompanying consolidated balance sheets approximates their fair value principally due to the short-term maturity of these instruments.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash, marketable securities and trade accounts. Our available cash is held in accounts managed by third-party financial institutions. Cash may exceed the Federal Deposit Insurance Corporation, or FDIC, insurance limits. While we monitor cash balances on a regular basis and adjust the balances as appropriate, these balances could be impacted if the underlying financial institutions fail. To date, we have experienced no loss or lack of access to our cash; however, we can provide no assurances that access to our cash will not be impacted by adverse conditions in the financial markets.

5. *Fair Value Measurements* - In determining fair value, the company uses quoted market prices in active markets. GAAP establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. GAAP emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are based on data obtained from sources independent of the company that market participants would use in pricing the asset or liability. Unobservable inputs are inputs that reflect the company's assumptions about the estimates market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is measured in three levels based on the reliability of inputs:

• Level 1

Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

• Level 2

Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

• Level 3

Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment is needed in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Our available-for-sale investments are classified within level 1 of the valuation hierarchy.

The fair value of equity method and cost method investments has not been determined as it was impracticable to do so due to the fact that the investee companies are relatively small, early stage private companies for which there is no comparable valuation data available without unreasonable time and expense.

6. *Inventories* – Following the sale of our former subsidiary, ChemFree, we no longer have any inventory.

7. *Concentration of Revenue* – In the three month periods ended March 31, 2015 and 2014, the two largest customers in each period represented an aggregate of 45 percent and 40 percent, of consolidated revenue from continuing operations. However, they were not the same two customers in both periods. Most of our customers have multi-year contracts with recurring minimum revenue as well as professional services fees that vary by period depending on their business needs.

8. *Commitments and Contingencies* – Please refer to Note 8 to our Consolidated Financial Statements included in our 2014 Form 10-K/A for a description of our commitments and contingencies in addition to those disclosed herein. Effective April 1, 2015, we entered into a new lease for our U.S. operations. Accordingly, our future minimum lease payments for offices and data centers expiring at various dates through March 31, 2018 are as follows:

Year ended December 31,	
(in thousands)	
2015 (April 1 – December 31)	$179
2016	198
2017	158
2018	34
Total minimum lease payments	$569

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.

9. *Industry Segment* – Following the sale of our ChemFree subsidiary, management considers our remaining subsidiaries, consisting of CoreCard and its affiliate companies, to be one operating segment. Historically, we have described this industry segment as Information Technology Products and Services but as our company and the financial software and services industries have evolved, we now consider the financial transaction solutions and services ("FinTech") industry segment to be more appropriate.

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

There were no unrecognized tax benefits at March 31, 2015 and December 31, 2014. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. There were no accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the periods presented. We have determined we have no uncertain tax positions.

We file a consolidated U.S. federal income tax return for all subsidiaries in which our ownership equals or exceeds 80%, as well as individual subsidiary returns in various states and foreign jurisdictions. With few exceptions we are no longer subject to U.S. federal, state and local or foreign income tax examinations by taxing authorities for years before 2011.

11. *Reclassification* – Certain prior year numbers related to the ChemFree subsidiary have been reclassified to conform to the current year presentation.

12. *Recent Accounting Pronouncements* – In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-8, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This guidance states that the disposal of a component of an entity is to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The pronouncement also requires additional disclosures regarding individually significant disposals of components that do not meet the criteria to be recognized as a discontinued operations as well as additional and expanded disclosures. ASU 2014-8 was effective for periods after December 15, 2014 and accordingly, we have prepared the Consolidated Financial Statements presented herein in accordance with this ASU.

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

13. *Subsequent Event* – On April 22, 2015, we commenced a modified “Dutch” auction style tender offer to purchase for cash shares of our common stock for an aggregate purchase price of no more than $5 million. The tender offer expires May 19, 2015, unless extended. Depending upon the number of shares tendered and the purchase price per share, we could use up to $5 million of our cash and reduce the number of shares outstanding by as much as 1.96 million shares (approximately 21.9%) during the quarter ended June 30, 2015. We have evaluated subsequent events through the date when these financial statements were issued and, except as disclosed above or elsewhere in this Form 10-Q, we are not aware of any other significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our Consolidated Financial Statements.

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

In addition to historical information, this Form 10-Q may contain forward-looking statements relating to ISC. All statements, trend analyses and other information relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as “anticipate”, “believe”, “plan”, “estimate”, “expect”, 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 including those factors described below under “Factors That May Affect Future Operations”, and that actual results may differ materially from those contemplated by such forward-looking statements. ISC undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results.

For purposes of this discussion and analysis, we are assuming and relying upon the reader’s familiarity with the information contained in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, in the Form 10-K/A for the year ended December 31, 2014 as filed with the Securities and Exchange Commission.

Overview

The results reported reflect the effect of the sale of ChemFree subsidiary on March 31, 2015, as explained in more detail in Note 2 to the Consolidated Financial Statements. We have retroactively classified the ChemFree operations as discontinued operations in all periods presented. Our consolidated continuing operations consist primarily of the CoreCard Software subsidiary and its affiliate companies in Romania and India, as well as the corporate office which provides significant administrative, human resources and executive management support to CoreCard. Since the ChemFree subsidiary was our largest and most profitable operating company, our reported results for continuing operations will reflect significantly lower revenue and operating losses in the near-term.

CoreCard provides technology solutions and processing services to the financial services market, commonly referred to as the FinTech industry. We derive our product revenue from licensing our comprehensive suite of financial transaction management software to accounts receivable businesses, financial institutions, retailers and processors to manage their credit and debit cards, prepaid cards, private label cards, fleet cards, loyalty programs, and accounts receivable and small loan transactions. Our service revenue consists of fees for software customization, maintenance and support for licensed software products as well as fees for processing services that we provide to companies that prefer to outsource their financial transaction processing functions rather than license our software for in-house operations.

We have frequently recognized consolidated operating losses on a quarterly and annual basis and are likely to do so in the foreseeable future. CoreCard may report operating profits on an irregular basis and its results vary in part depending on the size and number of software licenses recognized in a particular period and the level of expenses incurred to support existing customers and development and sales activities. A significant portion of CoreCard’s expense is related to personnel, including approximately 200 employees located in India and Romania. In addition, CoreCard is now offering processing services as an alternative for customers who prefer to outsource this function instead of licensing our software and running the application in-house. There are a number of uncertainties related to a new line of business. We are likely to incur losses in the near future for the processing business because contract revenue is spread out over multi-year contracts while we are currently investing in the infrastructure, resources and processes to support this new processing business. In addition, we have certain corporate office expenses associated with being a public company that impact our operating results.

Our revenue fluctuates from period to period and our results are not necessarily indicative of the results to be expected in future periods. It is difficult to predict the level of consolidated revenue on a quarterly or annual basis for a number of reasons, including the following:

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

The recent sale of the ChemFree operations has resulted in significant cash balances. Presently we intend to use up to $5 million to repurchase shares of our common stock pursuant to a modified “Dutch” auction tender initiated on April 22, 2015. We intend to use the additional proceeds to support the domestic and international operations associated with our CoreCard business and to expand our operations in the FinTech industry through financing the growth of CoreCard and, if appropriate opportunities become available, through acquisitions of businesses in this industry.

Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and the notes to Consolidated Financial Statements presented in this quarterly report. The results for 2014 have been reclassified to reflect the former ChemFree subsidiary as a discontinued operation.

Revenue – Total revenue from continuing operations in the three month period ended March 31, 2015 was $1,069,000, three percent lower than total revenue in the first quarter of 2014.

Revenue from products, which includes software license fees (and, in some cases monthly support fees when the license and support fees are bundled) was $136,000 in the three month period ended March 31, 2015, compared to $113,000 in the three months ended March 31, 2014. The increase reflects growth in the number of accounts covered by certain software licenses.

Revenue from services was $933,000 in the first quarter of 2015 compared to $993,000 in the first quarter of 2014. Revenue from transaction processing services and professional services were both higher in the first quarter of 2015 as compared to the first quarter of 2014 due to an increase in the number of customers and accounts on file and more revenue was generated from professional services due to an increase in the number and value of professional services contracts completed during the first quarter of 2015. In the first quarter of 2015, total maintenance revenue from annual contracts for technical and software support was lower than in the first quarter of 2014 due to the expiration of a contract in the second quarter of 2014; however maintenance revenue associated with the current installed base of customers was higher than in the first quarter of 2014. We expect that processing services will continue to grow as CoreCard's customer base increases; however, the time required to implement new customer programs has proven longer than anticipated due to delays in third party integration and approval processes. It is not possible to predict with any accuracy the number and value of professional services contracts that CoreCard's customers will require in a given period. Customers typically request our professional services to modify or enhance their CoreCard software implementation based on their specific business strategy and operational requirements, which vary from customer to customer and period to period.

Cost of Revenue – Total cost of revenue was 57 percent and 45 percent of total revenue in the three month period ended March 31, 2015 and 2014, respectively.

Cost of product revenue as a percent of product revenue was 43 percent and 51 percent in the periods ended March 31, 2015 and 2014, respectively but essentially the same absolute dollar cost in both periods.
Cost of service revenue as a percentage of total service revenue was 59 percent in the first quarter of 2015 compared to 44 percent in the first quarter of 2014. Cost of service revenue includes three components: costs to provide annual maintenance and support services to our installed base of licensed customers, costs to provide professional services, and costs to provide our financial transaction processing services. The cost and gross margins on such services vary considerably depending on the customer mix, customer requirements and project complexity as well as the mix of our U.S. and offshore employees working on the various aspects of services provided. In addition, we continue to devote the resources necessary to support our developing processing business, including direct costs for regulatory compliance, infrastructure, network certifications, and customer support and currently expect these costs to continue to outpace processing revenue for the foreseeable future.

Operating Expenses – In the three month period ended March 31, 2015, total operating expenses from continuing operations were six percent lower than in the comparable period in 2014. Marketing expenses were lower by $8,000 and General and Administrative expenses were higher by $35,000, due to a number of changes between periods, none of which are individually material. Research and development expenses were $93,000 (12 percent) lower in the first quarter of 2015 compared to the same period last year, mainly due to more technical personnel expenses being charged to direct cost of services for maintenance, professional services and processing.

Gain on Sale of Discontinued Operations – As explained in more detail in Note 2 to the Consolidated Financial Statements, we recorded a gain of $18,746,000 on the sale of our ChemFree subsidiary in the first quarter of 2015.

Liquidity and Capital Resources

Our cash balance at March 31, 2015 was $20.8 million compared to $2.6 million at December 31, 2014. The principal source of cash during the period was the sale of the ChemFree subsidiary which generated cash proceeds of $18.2 million on the closing of the transaction. In addition, a total of $3.3 million of the sale price was placed in escrow for purposes of securing our obligations to indemnify the buyer and to refund a portion of the purchase price if ChemFree's actual working capital amount on the closing date is less than the agreed upon target working capital. As of March 31, 2015, $1.1 million of the escrow funds (less an estimated working capital adjustment of $200,000) is recorded as Restricted Cash - Current Portion and will be released in the second quarter of 2015. The remaining escrow balance of $2.2 million will remain in escrow until September 30, 2016 and is recorded as Restricted Cash – Noncurrent Portion as of March 31, 2015.

During the three months ended March 31, 2014, continuing operations used $447,000 cash for operations. In the current quarter, discontinued operations generated $415,000 from operating activities, in addition to the proceeds from the sale of ChemFree discussed above.

As explained in Note 13 to the Consolidated Financial Statements, on April 22, 2015, we initiated a modified "Dutch" auction tender offer to purchase for cash shares of our common stock for an aggregate purchase price of up to $5.0 million, which will be financed by a portion of the proceeds from the ChemFree sale. We expect to have sufficient liquidity from cash on hand as well as projected customer payments at CoreCard to support our operations and capital equipment purchases in the foreseeable future.

We renewed our line of credit in June 2014 with a maximum principal availability of $1.25 million based on qualified receivables; however, we have not borrowed under the bank line of credit in the past five years and do not expect to do so in the foreseeable future. The line of credit expires June 30, 2016, subject to the bank renewing the line for an additional period.

We expect to use cash in excess of what is required for our current CoreCard operations for opportunities we believe will expand our CoreCard and FinTech business, although there can be no assurance that appropriate opportunities will arise.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. We consider certain accounting policies related to revenue recognition, valuation of intangibles, valuation of investments and accrued expenses to be critical policies due to the estimation processes involved in each. Management discusses its estimates and judgments with the Audit Committee of the Board of Directors. For a detailed description on the application of these and other accounting policies, see Note 1 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2014. Reference is also made to the discussion of the application of these critical accounting policies and estimates contained in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K/A for 2014. During the three month period ended March 31, 2015, there were no significant or material changes in the application of critical accounting policies that would require an update to the information provided in the Form 10-K/A for 2014.

Factors That May Affect Future Operations

Future operations are subject to risks and uncertainties that may negatively impact our future results of operations or projected cash requirements. It is difficult to predict future quarterly and annual results with certainty. Any trend or delay that affects our CoreCard subsidiary could have a negative impact on our consolidated results of operations or cash requirements on a quarterly or annual basis. In addition, the carrying value of our investments is impacted by a number of factors which are generally beyond our control since we are typically a non-control shareholder in a private company with limited liquidity.

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

As an alternative to licensing its software, CoreCard is now offering processing services running on the CoreCard software system. There are numerous risks associated with entering any new line of business and if CoreCard fails to manage the risks associated with its processing operations, it could have a negative impact on our business.

Stricter regulations and reluctance by financial institutions to act as sponsor banks for prospective customers (such as issuers and processors of credit and prepaid cards) could negatively impact the processing services business and increase CoreCard's losses and cash requirements.

Delays in software development projects could cause our customers to delay implementations or delay payments, which would increase our costs and reduce our revenue.

Our CoreCard subsidiary could fail to deliver software products which meet the business and technology requirements of its target markets within a reasonable time frame and at a price point that supports a profitable, sustainable business model.

CoreCard's processing business is impacted, directly or indirectly, by more regulations than its licensed software business. If the company fails to provide services that comply with (or allow its customers to comply with) applicable regulations or processing standards, it could be subject to financial or other penalties that could negatively impact its business.

Software errors or poor quality control may delay product releases, increase our costs, result in non-acceptance of our software by customers or delay revenue recognition.

CoreCard could fail to retain key software developers and managers who have accumulated years of know-how in our target markets and company products, or fail to attract and train a sufficient number of new software developers and testers to support our product development plans and customer requirements at projected cost levels.

Increasing and changing government regulations in the United States and foreign countries related to such issues as data privacy, financial and credit transactions could require changes to our products and services which would increase our costs and could affect our existing customer relationships or prevent us from getting new customers.

Delays in anticipated customer payments for any reason would increase our cash requirements and possibly our losses.

Competitive pressures (including pricing, changes in customer requirements and preferences, and competitor product offerings) may cause prospective customers to choose an alternative product solution, resulting in lower revenue and profits (or increased losses).

Declines in performance, financial condition or valuation of minority-owned companies could cause us to write-down the carrying value of our investment or postpone an anticipated liquidity event, which could negatively impact our earnings and cash.

Our long-term future capital needs are uncertain and depend on a number of factors; additional capital may not be available on acceptable terms, if at all.

Other general economic and political conditions could cause customers to delay or cancel purchases.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the company carried out an evaluation, under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective. There were no significant changes in the company's internal control over financial reporting or in other factors identified in connection with this evaluation that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 6. Exhibits

The following exhibits are filed or furnished with this report:

2.1	Purchase Agreement between CRC Industries, Inc. and Intelligent Systems Corporation dated March 31, 2015 (Incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K dated March 31, 2015)
3.1	Amended and Restated Articles of Incorporation of the Registrant dated May 4, 2011 (Incorporated by reference to Exhibit 3.(1) to the Registrant's Form 10-Q for the period ended March 31, 2011)
3.2	Bylaws of the Registrant dated December 7, 2007. (Incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K dated December 7, 2007.)
10.1	Thirteenth Modification to Loan Documents by and among Intelligent Systems Corporation and Fidelity Bank dated March 31, 2015, filed herewith.
10.2	Lease Agreement by and between Intelligent Systems Corporation and ISC Properties, LLC dated April 1, 2015, filed herewith.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer furnished as required by Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definitions
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

	INTELLIGENT SYSTEMS CORPORATION Registrant
Date: May 15, 2015	By*: /s/ J. Leland Strange* J. Leland Strange Chief Executive Officer, President
Date: May 15, 2015	By*: /s/ Bonnie L. Herron* Bonnie L. Herron Chief Financial Officer

Exhibit Index

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