
LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

In 2006, we completed the sale of our QS Technologies business to a strategic buyer at a valuation that reflects its recurring revenue base, profitability and solid reputation in its niche market. Our 2006 results include a gain on the QS Technologies sale of \$4.9 million, with some additional upside possible based on performance metrics in 2007. We also realized a solid return on our investment in Horizon Software International, with a net gain of \$2.6 million on the sale of our minority ownership in Horizon. These two non-recurring transactions strengthened our financial condition and improved our operating results compared to the prior year. At December 31, 2006, we had no debt, cash of \$2.1 million, notes receivable from the Horizon and QS buyers totaling \$4.3 million and shareholders' equity of \$6.4 million.

ChemFree was a solid, profitable performer again in 2006, achieving revenue growth of 28 percent compared to 2005. Sales of SmartWasher® parts washer and consumables showed strength in domestic and international distributor channels and initial success in selling direct to large domestic corporations. In February 2007, ChemFree won an arbitration ruling in a long-standing dispute with a patents co-owner and was awarded over \$150,000 for legal and other fees. While pleased with this outcome, ChemFree will continue to incur considerable legal expenses in 2007 and beyond to protect its patents against infringers in both the U.S. and European markets. Without these expenses, ChemFree would be considerably more profitable but we continue to believe that this is the right course of action to preserve and build value over the long-term.

In the past, I have emphasized that there is considerable fluctuation in revenue and profits at our less mature software subsidiaries, VISAer and CoreCard Software. Our 2006 results exemplified this as we recognized little new software license revenue for financial reporting purposes. However, from an operations perspective, during 2006 VISAer and CoreCard Software achieved considerable progress on in-process software contracts that we expect to deliver and recognize for financial reporting purposes over the next twelve months.

VISAer's team is focused on meeting key milestones in 2007, the most significant of which involves bringing a large Asian airline live on its newest software release. Professional services and software maintenance that VISAer provides to its installed base of customers are expected to contribute a steady base of revenue, as they did in 2006.

CoreCard Software continues to selectively add new customers that it believes will be good reference accounts for its initial target markets. In 2006 we established a subsidiary in India to leverage our investment in CoreCard's experienced U.S. workforce and to build an infrastructure that will allow the business to scale. While the complexity and mission-critical nature of CoreCard's software resulted in longer than anticipated development and deployment cycles, we currently believe that our in-process contracts for software licenses and other services should result in solid year-over-year revenue growth at CoreCard Software.

Again this year, we are combining our 2006 Annual Report on Form 10-KSB with our Proxy Statement and Notice of the 2007 Annual Shareholders Meeting. Throughout the year, I invite you to review our SEC-filed reports available on our website at www.intelsys.com and to listen to our investor conference calls scheduled from time to time. Thank you for your continued support of our company.



J. Leland Strange
President & Chief Executive Officer