
LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

While this letter is written in conjunction with our 2008 Annual Report, we have already completed three months of the 2009 year and we all know the economy in 2008 and 2009 is unlike any we have experienced in our recent history.

This past year we sold our VISAer software business recording a gain of \$2.9 million. While we were disappointed with the price after making significant investment in the software over the past years, it seemed the appropriate thing to do as we sensed continuing pressures in the airline business. We sold it to a venture capital backed company headquartered in India that specialized in the airline industry. We now concentrate our efforts on the operations and plans for our two majority-owned subsidiaries - ChemFree and CoreCard Software. Revenues of both companies are affected by the world-wide recession and financial market turmoil. We implemented company-wide staff and salary reductions in anticipation of potentially lower revenue and longer sales cycles in 2009.

ChemFree had a strong 2008 although, as expected, it did not achieve the record level of sales and profits reported in 2007 which had been bolstered by a sharp spike in domestic equipment sales to a single customer in 2007. Sales of consumable filters and fluid increased year-to-year related to ChemFree's expanding end-user customer base in both U.S. and international markets. ChemFree's profits would have been significantly higher in 2008 had it not incurred legal expenses of approximately \$1.3 million for an ongoing patent infringement action which ChemFree initiated in 2004. We continue to believe this legal action is important to preserve and build ChemFree's value over the long-term and believe that the matter will come to trial in 2009.

In 2008, CoreCard's revenue from software licenses and services grew 36% compared to 2007. During the year, we added full customer implementations of our software in two of our target markets, prepaid cards and fleet cards, in addition to providing an increased level of professional and support services to our existing base of private label and specialty finance customers. Despite this progress, we expect the worldwide disruption in the financial markets will continue to have an impact on CoreCard's near-term performance as prospective customers in the financial services industry may find it difficult to obtain financing or sponsor banks to support their business and purchasing plans.

CoreCard is introducing what it believes will be an attractive alternative to licensing its software for certain prospective customers that issue prepaid cards and prefer to outsource their card issuing, management and processing functions to a third party processor. With its Custom Processing service, CoreCard will configure its software for each customer, handle various aspects of their card issuing and processing requirements, and provide a built-in option for the customer to license the same software and become their own processor at some future date. We believe this will be an attractive offering to a small segment of credit and prepaid card issuers. We have considerable experience helping our customers set up their card processing operations and compliance activities using our software. However, we will need to invest in additional infrastructure, management and marketing resources to set-up our own initial processing operations.

We are considering raising additional capital principally to support CoreCard's strategic plans. Your board of directors has carefully considered various alternatives that will be in the best interests of shareholders. Presently, a rights offering to existing Intelligent Systems' shareholders, which would allow shareholders to avoid dilution by participating pro rata in providing additional equity capital, is the most likely scenario. We expect to provide additional information in the near future. Please understand that our mentioning a prospective offering does not constitute an offering of any securities for sale.

The enclosed notice of the 2009 Annual Meeting of Shareholders and 2009 Proxy Statement contains a proposal that would permit a reverse stock split of our common stock at one of three ratios as determined by the board of directors. We encourage shareholders to read and approve this proposal. If approved, the board will have the flexibility to choose the appropriate ratio and timing that it believes will be in the best interests of our shareholders. Thank you for your continued interest in our company.



J. Leland Strange
President and Chief Executive Officer