
LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

I start this letter by addressing “fellow shareholders” because as most of you know, I personally own a little over 22% of the equity in Intelligent Systems. That is important because the value of that equity is much more important than a ‘job’ and my personal goal (which I am sure is in sync with yours) is to increase the value of that equity. Concomitant with that desire is the challenge to “do no harm” in the process. Sometimes that latter task may get in the way of taking bold risks – but we are not a large company and need to buffer risk taking with moving forward.

The consolidated financial results reported for 2013, in my opinion, do not offer many clues about our progress or lack thereof. Our 2013 revenue was lower than in 2012 but our profit of over \$1 million for 2013 is better than 2012. Those two data points give conflicting signals about where we are. And in the fourth quarter of 2013, we reported lower revenue and profits compared to the fourth quarter of 2012 – which again does not necessarily represent a trend. I have often said our results are likely to vary significantly from quarter to quarter. Results are better analyzed by looking at our two main subsidiaries - CoreCard and ChemFree - individually.

Another factor to consider is cash and the company actually had more cash at the end of 2013 than we had at the end of 2012 and we have no bank debt. So we are not constrained from a cash perspective in continuing to execute on our strategy.

Our ChemFree subsidiary hit a ‘bump’ in 2013 when one of its largest customers decided to implement a company-wide initiative related to some internal regulatory concerns and temporarily halted equipment purchases – and that continues to impact us in early 2014. We are hopeful the process will end soon and we can get back to business as usual. When another large customer decided to purchase all of their machines (which had been on lease from ChemFree), this decision also directly impacts our reported revenue since those lease payments are no longer in ChemFree’s revenue stream. We continue to sell fluid and filters to the customer and believe the equipment purchase validates the ChemFree product solution for this large automotive chain.

I expect ChemFree to continue to generate good profitability and those profits will support the continued build-out of the CoreCard strategy in the transaction payments space.

CoreCard is a small player in many areas of financial transactions that involve cardholder accounts such as:

- Private label cards or accounts (virtual)
- Accounts receivable, short term loans, factoring
- Prepaid cards
- Fleet cards
- Traditional credit cards

No other smaller company of whom we are aware comes close to our breadth of software solutions in the transaction payments space. Of course, that can be a good news/bad news position.

We are currently focused on building out our processing capability – particularly in the area known as prepaid. We continue to sell and support the licensing of our software but believe we can reach scale and have better predictability of results by focusing more resources on the processing opportunities.

To say progress is slow would be an understatement. On the other hand, we definitely continue to move in the right direction.

As a significant investor myself, I am disappointed with the pace of progress but from a management perspective, I have a better understanding of the limited speed with which one can move in the highly regulated financial services space. I expect 2014 will bring us additional opportunities and to confirm the wisdom of the strategy by the end of the year.

Sincerely,

A handwritten signature in cursive script that reads "J. Leland Strange". The signature is written in black ink and is positioned above the printed name.

J. Leland Strange
President and Chief Executive Officer