
LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

This annual letter to shareholders is actually written mid-April 2015, and you will receive it in late April or May. Some years make it difficult to concentrate on the previous year as, in this case 2014, when events since the end of the year now overshadow events of the previous year. So I am going to comment on the latest big happening first and then get back to last year.

As you no doubt know from our press releases, Intelligent Systems sold its interest (and we were the sole owner) in ChemFree Corporation. The sale price was \$21+ million. We believe it was a good price for Intelligent Systems and a fair price for the strategic buyer (CRC Industries). I expect CRC to be able to carry the bioremediating SmartWasher® product into accounts that have proven difficult for ChemFree to penetrate. CRC already has an established presence in the automotive and industrial market place.

Of course the sale of ChemFree brings benefits but also highlights future challenges. Solid, consistent profits from ChemFree have allowed Intelligent Systems to slowly but steadily invest in the transaction payments space through its other main subsidiary, CoreCard Software.

From its founding in the 1970's through most of its history, Intelligent Systems has focused on software or electronic 'hardware'. As one of the early technology companies to go public (our IPO was in 1981), we were a part of the 'ride' in the early days of technology. We began to invest in start-ups or early stage technology companies and have a history of success (but with our share of failures also) during this period. OrCAD Software (now owned by Cadence), Peachtree Software (now owned by Sage Software), Quadram (acquired by National Semiconductor) and PaySys (now owned by First Data) are just a sampling of companies that were at one time majority owned or controlled by Intelligent Systems.

ChemFree is the latest company that we have built and frankly it took longer than anticipated to get to this point. It began when two people came to our door without an appointment saying they had an idea that we should consider. Frank Marks, then an Intelligent Systems Vice President, called me in to listen to the proposal and we said that it did not look 'investable' - but do you have any other ideas? They said that they also had worked on an aqueous based parts cleaner. We decided to take a flyer on this idea. Frank shepherded the development of ChemFree on and off over the years. With the sale of ChemFree, Frank is retiring from both ChemFree (he was President at the time of sale) and Intelligent Systems. He was with Intelligent Systems prior to my coming on board and we thank him for his many years of steady service and advice.

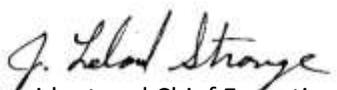
So with ChemFree no longer in the fold, we are back exclusively to our earlier roots in software. CoreCard Software was spun out of PaySys at the time we sold PaySys to First Data. Although we no longer have ChemFree's annual profits, the cash from the ChemFree sale will be used in part to further expand and finance CoreCard. We have already announced that we intend to return some of the cash to shareholders, possibly through a share buyback —in fact, a tender offer is being prepared as I write this letter.

CoreCard continues to steadily (but slowly) add both processing and licensing clients. The plan was and still is to build slowly, as any misstep on our part would be pretty devastating to our clients and our own CoreCard processing business. We take our role in our customers' business very seriously knowing that we are basically a linchpin as the back office account of record that is not easily replicated or transferable. We are a critical piece of many of our customers' businesses.

In 2014, Intelligent Systems had revenue of approximately \$15 million and roughly broke even. Looking forward, there may be some 'gnashing of teeth' as we report lower revenue (mainly because of the sale of ChemFree) and losses (because of the loss of ChemFree profits, corporate expenses, and CoreCard investment) while continuing to build CoreCard, but we believe it is the right strategy to maximize shareholder value. Our corporate overhead will no longer be spread between two operating subsidiaries. We will cut costs where we can but are going to stay the course.

Finally, I want to acknowledge and publically thank retiring director Jim Napier for his many years of service as a Director of Intelligent Systems. Jim has been on our Board of Directors since our early days as a public company. He graciously remained on our 'little' company board while serving on the boards of major public companies such as Scientific Atlanta, McKesson/HBOC and Vulcan Materials. In 2012, he was recognized as an Outstanding Director by the Financial Times – ODX for his exemplary service on public company boards over many years.

While Jim suggested retiring many times, I asked and thankfully he consented to continuing his role of providing invaluable advice over these many years. He finally said 'enough!' so we will miss him but have been assured we can always call. On behalf of all our Shareholders, I want to thank Jim for his long and selfless service.


President and Chief Executive Office