
LETTER TO SHAREHOLDERS

Fellow Shareholders,

2016 results validate the long-term vision of Intelligent Systems' continued investment in its CoreCard Software operations. Revenue jumped 71% over the prior year and CoreCard was profitable, before accounting for loan interest due to the parent. Intelligent Systems still reported a loss since the CoreCard profit did not cover the expenses at the parent, which included a loss on an investment that did not pan out.

While happy with the CoreCard growth, and happy with their profit, I am not going to pretend that our plan has played out as originally envisioned – it has taken many more years and many more dollars than we expected when we began the process. Each year we take a look, scratch our heads a little and ask, “Are we doing the right thing by continuing to invest”? Frankly, when we answered the question positively again this year, I am more comfortable with the probability that ‘yes’ is the right answer.

We have some great customers (easily recognizable names but contracts prohibit public disclosure) utilizing our latest generation transaction processing software. Our financial technology leadership team and many of our dedicated employees in the United States, Romania, and India have been with the company for more than 10 years, developing a world class financial transaction processing platform.

Initially CoreCard planned to primarily license its technology but, over time, recognized the potential to use the technology itself to offer processing services. That effort continues to grow and while we are not doing heavy marketing or sales, prospects for whom we are the best fit continue to find us. Building out the required infrastructure takes time and the process is not always (our team would say seldom!) in our control. We need to work with each of the payment associations (Visa, MasterCard, Discover, Pulse, and others) to get approved, have our software certified, and then get their equipment connected in our data center and certified. Bringing on a new, smaller processor such as CoreCard is not a high priority or frequent event for these complex, global associations so from initial conversations to the final completion with live customers can be a multi-year process.

Growth in the processing segment is also heavily dependent on bank partnerships and cooperation. Every association ‘card’ (think MasterCard, Visa ...) has to be issued by a bank. The bank is ultimately responsible for all aspects of the card, including fraud, so it is reasonable that a bank would proceed cautiously in forming new partnerships.

Currently, all of our processing and licensing customers are using association cards that are known in the industry as “prepaid”. They may actually be gift, payroll, or other types of prepaid, but they are NOT credit cards. In the next year, we hope to also get CoreCard certified as a “credit card” processor. We expect some of our licensees to also adopt the credit branch of our technology platform.

A large part of our business is ‘outside’ of association cards. We have both licensed and processing customers who use our technology for different variations of accounts receivables. Typically this is for loans (all types including those offered by some of the newer and well known FinTech companies) and ‘closed loop’ or ‘private label’ store cards (think of jewelry store purchases on a retailer’s own card).

By explaining a little more of the business, I hope you will have a better understanding of the complexity of the technology that we have developed and also appreciate why CoreCard has to grow brick by brick, instead of by giant leaps. I'm fairly confident about where we are and what we have. It is broad in scope and able to be used internationally. There are not many companies in the FinTech industry that have the full complement and range of products that CoreCard has developed. Those that do are mostly large enterprises that have been around for many years.

What does this mean for the immediate future? While we want to keep pushing forward on our present trajectory, I am cognizant that we work for all the shareholders and will pursue any opportunity that we believe is best for our shareholders. If we should receive a good (for shareholders) offer to exit, then we would be open to that discussion. On the other hand, if we see an opportunity to either purchase, invest, or merge with another enterprise that is synergistic, we would pursue that path. Perhaps I should summarize this paragraph by saying we are unapologetically opportunistic on behalf of our shareholders.

In the meantime, every day we will keep trying to increase the real (whether recognized or not) underlying values of the assets we hold.

A handwritten signature in blue ink, reading "J. Lehal Strang". The signature is fluid and cursive, with a long horizontal stroke at the end.

President and Chief Executive Officer