

To Fellow Shareholders of Intelligent Systems,

As I write the letter this year, I shouldn't tell you how tempted I was to just say, "Go back and read last year's letter." – I did read it again - and the business description, results, strategy, direction, and expectations can all be summarized the same way for 2017. Revenue did increase 14% and we continued to 'invest' (just look at our R&D numbers) to be in a position to continue our growth in 2018.

CoreCard Software is currently the only 'operating' entity of Intelligent Systems; when we talk about the 'business', we are talking about CoreCard and its affiliates. Processing revenues represented an ever growing percentage of our revenues and we hope to continue that trend. In order to scale, we need to take advantage of our resources (people), a strong customer base, and the power of the software platform we have built over the past many years.

- Our current resources include 350 experienced and talented technical payments professionals. We added 25% to our India headcount in 2017 to prepare ourselves for more growth in 2018. (It is important you know it takes nearly a year for new people to become productive in our systems.)
- Our customer base is strong with some highly recognizable names. Our software is processing accounts in numerous international locales and more are being added in 2018. We, along with our licensees, converted several customers from other processors last year and we expect to continue the trend by converting more this year.
- The platform is scalable and I believe it may be the best choice on the market for flexible credit programs. As evidence of the power of the platform, we continue to add customers without having any sales personnel and doing very limited marketing. Of course, this poses the question as to why we don't add sales people and grow faster – the answer lies in the above comment about training new resources. Our growth has been impeded somewhat by our lack of trained resources as we conservatively grew our resources and took on only new business that we were absolutely certain we could handle well.

CoreCard Software has been unique in that it was willing to license to a third party the same software it uses to process third party accounts. We have been slowly evolving to offer fewer licenses and this year we plan to focus almost completely on processing. That does NOT mean we will no longer offer licensed software but it does give direction and focus to our management and resource efforts.

From time to time, when an appropriate opportunity becomes available, we still invest in companies – primarily in FinTech or related businesses that complement our CoreCard operations. During the past year, we sold the majority of our equity position in one such company that also has a processing contract with CoreCard - we were one of their early investors. This resulted in an approximate \$1.5 million gain. We also had other investment activity that you can read about in the footnotes to our financial statements. Shareholders often ask, "Do you have any other 'gems' hidden in the investment category?" My quick lighthearted response is, "I sure hope so!" however, the truth is that it is likely to be erratic and, as long-term shareholders will remember, we sometimes end up

with investments we would prefer to forget that resulted in write-offs. But yes, we hope there are some that will eventually generate good returns – but we don't expect one to materialize in 2018.

A key metric that we always believed was pivotal is a \$10 million revenue number to 'begin' scaling. Of course, it needs to be much higher than that to fully optimize the ability to scale earnings. 2018 is shaping up to be a very good year for CoreCard and we expect our growth to be greater than last year's growth with a possibility of being considerably better. *(As I write this in mid-March, we do NOT have contracted business that would guarantee much higher growth but we have the potential to make that happen.)*

It seems like I am constantly reminding shareholders that we are still too small to see revenue and/or earnings be predictable on a quarter to quarter basis. Management has reasonable insight on what to expect for the year but it cannot 'manage' to quarterly numbers as revenue recognition depends on so many more things than when the work was done. For example, we may do a lot of work for a specific customer on a specific project and the customer may have actually paid for some or all of the work but we cannot recognize the revenue until they go 'live' with whatever we worked on. And they get to decide, within reason, when they go live.

In summary, we remain focused on being opportunistic and doing whatever it takes to maximize shareholder value in the medium term. Our confidence is justified both by our past experience and our awareness of our resources. We firmly believe we are on the right track and shareholders should continue to see increasing underlying value in their Intelligent Systems Corporation investment in 2018.


President and Chief Executive Officer