
LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

In 2011 we continued to make steady progress in each of our focus areas. Revenue grew by six percent to \$16.3 million and we earned a profit of \$657,000 from continuing operations compared to a profit of \$158,000 from continuing operations in 2010. The positive momentum reflects continued strong performance by our ChemFree operation as well as progress and improved performance at our CoreCard subsidiary.

In my 2010 letter to shareholders, I said we believed ChemFree would continue to be a solidly profitable business at current or modestly higher revenue levels. ChemFree's 2011 results were in line with our expectations although profit contribution was slightly lower than in the prior year due to higher legal expenses and an IT system upgrade. ChemFree experienced growth in revenue in the international markets and for worldwide fluid and filters – what we call consumable supplies – but lower revenue in the domestic U.S. market for machine sales. On the long-running ChemFree patent litigation matter, in March 2012, the U.S. Court of Appeals issued its final ruling. We are disappointed that the ruling upheld the earlier ruling of the lower court that the four patents were invalid under the theory of obviousness (a standard that changed based on a U.S. Supreme Court case in 2007, three years after our lawsuit was filed). While not the outcome we expected, the ruling is not likely to have a material or immediate impact on ChemFree's business since ChemFree competes in the market on factors other than these four patents. Additional details may be found in the accompanying Form 10-K.

Our CoreCard Software business, which now employs over 200 technology employees in the U.S., India and Romania, provides software solutions that help customers manage “end-to-end” their card account programs, whether they involve credit, debit or prepaid cards, fleet cards, loyalty and rewards programs, private label credit, accounts receivable or small revolving loans. Licensing our software solutions to customers who process their card portfolios in-house will continue to be an important strategic focus, but we now offer processing services as an option, particularly for small card programs that may lack internal resources to run their own prepaid programs. It has taken us longer than planned to develop our processing business but we are now actively processing prepaid card programs. We have a close working relationship with a national bank that is the issuer for a number of prepaid card programs that will transition to CoreCard for processing services. We are also cooperating on new prospects for which the bank will be the card issuer and CoreCard will handle the processing operations. This is a long-term initiative that we do not expect to contribute significant revenue in 2012 although expenses may increase as we put in place the necessary infrastructure to support the processing business.

At the Annual Meeting of Shareholders on May 24, 2012, shareholders will elect three directors. One of the director nominees, Jim Napier, has recently been named as a *Financial Times* 2012 Outstanding Director Award winner. Chosen from more than 40 peer-nominated candidates, Jim is recognized as an example of independent corporate governance at its best for his many years of service on the boards of publicly traded companies. We know firsthand that this award is well deserved and are honored that Jim has served on our board of directors for thirty years.

We are also pleased to nominate a new candidate to fill a vacancy in one of the classes of directors. Cherie Fuzzell, President and CEO of FirstView, LLC, will bring a wealth of experience and enthusiasm to our board. Cherie's background in the financial transaction processing industry, her familiarity with our CoreCard Software business, as well as her experience as legal counsel and public company board member will be valuable additions to our board of directors. We look forward to her election and contribution to the company.

Sincerely,

A handwritten signature in black ink that reads "J. Leland Strange". The signature is written in a cursive, flowing style.

J. Leland Strange
President and Chief Executive Officer