

Edgar Filing: PUBLICARD INC - Form 10-K

PUBLICARD INC
Form 10-K
March 30, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____ TO ____.

COMMISSION FILE NUMBER 0-29794

PUBLICARD, INC.

(Exact Name of Registrant as Specified in Its Charter)

PENNSYLVANIA 23-0991870
(State or Other Jurisdiction (I.R.S. Employer Identification No.)
of Incorporation or Organization)

ONE ROCKEFELLER PLAZA, 14TH FLOOR, NEW YORK, NY 10020
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (212) 651-3102

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK (\$.10 PAR VALUE)
(Title of Class)

RIGHTS TO PURCHASE CLASS A PREFERRED STOCK, FIRST SERIES
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

As of June 30, 2004, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was approximately \$1,025,000.

Edgar Filing: PUBLICARD INC - Form 10-K

Number of shares of Common Stock outstanding as of March 24, 2005: 24,690,902

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

This Form 10-K contains forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations of PubliCARD, Inc. and subsidiaries, ("PubliCARD," the "Company," "we," "us" and "our," as the context requires) preceded by, followed by or that include forward-looking words or phrases, including "believes," "expects," "anticipates," "estimates," "may," "should," "would," "could," "intends," "plans" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. You should understand that the possible consequences of events described under such statements made under "Factors That May Affect Future Results" and elsewhere in this document could affect our future results and could cause those results to differ materially from those expressed in such forward-looking statements.

ITEM 1. BUSINESS

PubliCARD was originally incorporated in 1913 in the Commonwealth of Pennsylvania. PubliCARD's sole operating activities are conducted through its Infineer Ltd. ("Infineer") subsidiary. Infineer is a smart card technology company, which designs and develops smart card software and hardware solutions for campus environments. This market includes institutions such as corporate campuses, secondary schools and universities. The Company's ChipNet solution focuses on delivering a multi-functional platform to control access to and payment for a wide variety of applications using a single smart card. The solution has been designed to accommodate integration with a range of third party technologies. The Company believes that the educational, government and corporate sectors all continue to move toward the more functional and broader applications that a smart card solution can provide over traditional methods. The Company sells its transaction solutions to value-added resellers and distributors, and directly to end-users.

The Company's future plans revolve around a potential acquisition strategy that would focus on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining funding, as to which no assurance can be given.

The consolidated financial statements included in this Form 10-K contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred operating losses, a substantial decline in working capital and negative cash flow from operations for a number of years. The Company has also experienced a substantial reduction in its cash and short term investments, which declined from \$17.0 million at December 31, 2000 to \$1.9 million at December 31, 2004. The Company also had a shareholders' deficiency of \$118.5 million at December 31, 2004.

The Company sponsored a defined benefit pension plan (the "Plan") that was frozen in 1993. In January 2003, the Company filed a notice with the Pension Benefit Guaranty Corporation (the "PBGC") seeking a "distress termination" of

Edgar Filing: PUBLICARD INC - Form 10-K

the Plan. In September 2004, the PBGC proceeded to terminate the Plan and was appointed as the Plan's trustee. See Note 5 to the Notes to Consolidated Financial Statements for further information regarding the Plan termination. As a result of the Plan termination, the Company's 2003 and 2004 funding requirements due to the Plan amounting to \$3.4 million through September 15, 2004 were eliminated. As such, management believes that existing cash and short term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2005. However, additional capital will be necessary in order to operate beyond December 31, 2005 and to fund the current business plan and other obligations. While the Company is considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations it is not likely to be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which would have a material adverse effect on its business and results of operations and is likely to lead the Company to seek bankruptcy protection. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The independent auditors' reports on the Company's Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 contain emphasis paragraphs concerning substantial doubt about the Company's ability to continue as a going concern.

2

INDUSTRY

Security and privacy are primary concerns of the ever-growing information economy. The expected level of growth in secure business-to-business and consumer-to-business transactions will only occur if consumers, businesses, governments and other organizations are confident that their network and Internet exchanges and transactions are secure from unauthorized intrusion, usage, sabotage and theft. To effectively address the growing need for greater enterprise and on-line security, individuals and organizations are turning to smart card technology. Through its central processing and memory capabilities, smart card technology enables cryptographic communications, authentication and other applications that permit secure data access, information exchange and electronic transactions within network and Internet environments.

A smart card is similar in appearance to a traditional credit card, but unlike a traditional credit card, stores information on an integrated circuit chip embedded within the card, rather than on a magnetic stripe on the surface. While a typical magnetic stripe card can store information such as a user's name, account and personal identification number, a smart card has the capacity to store detailed account information, health care records, merchant coupons, still or video images and cash. Additionally, the integrated circuit within a smart card serves as a central processing unit which, combined with its memory capacity, facilitates the use of encryption applications, which secure data and value exchanges within networks and the Internet. Smart cards also permit bi-directional authentication in which the smart card can authenticate the validity of the intended party or device prior to exchanging information or value.

The rollout of smart card technology started in the telecommunication sector, specifically to facilitate the use of public payphones (replacing coins) and mobile phones (Subscriber Identification Modules). The deployment of smart card technology in this sector demonstrates the security and adaptability of the

Edgar Filing: PUBLICARD INC - Form 10-K

technology and evidences the uniqueness of smart cards as a medium for storing, transporting and processing personal information, access keys and other information.

Smart card technology is now being widely deployed in other market sectors, including the security and transaction management sectors. In the security sector, smart card technology is being used to authenticate and secure access to physical premises, PCs, networks, virtual private networks, and the Internet, and through cryptography, facilitate secure email, electronic document and information exchanges, e-commerce transactions/payments and other Internet and broadband applications. In the transaction management sector, smart card technology is being used within a variety of closed system environments. For example, smart card technology is being used in the banking sector to secure payment transactions in physical and virtual worlds and in the transportation sector to replace "tickets," thereby speeding up the ticketing process and making it more efficient. Other closed environments such as corporate or educational campuses are using smart card technology to resolve a mix of both security and transaction needs including purchase and payment transactions, identification, authentication and access.

Demand for smart card solutions is being further driven by governments and financial institutions. The U.S. Department of Defense began deployment of smart cards to armed forces personnel under the Common Access Card personal identity program in 2000. The European Commission ("EC") is also supporting the adoption of smart card technology in their continuing efforts to create a more efficient and competitive economy within the European community. Through the eEurope program, the EC is sponsoring programs to standardize smart card infrastructure devices and harmonize system platforms. Finally, smart card technology is rapidly becoming a key facilitator of financial transactions. The financial and banking community in Asia and Europe is using smart card technology to support credit, debit and e-purse cards (cards that store cash values), multi-application services and services dealing with coupons and/or tickets. Several large U.S. financial institutions, including American Express, MasterCard and Visa International, have introduced smart cards as part of their financial card systems.

The use of smart card technology is especially well suited for managing transactions in closed environment solutions that restrict access and manage payments. In closed environments, smart cards are used to control access to physical premises, process payments and provide portable network security. The Company believes that the educational, government and corporate sectors all continue to provide growth opportunities as these institutions move toward the more functional and broader applications that a smart card solution can provide over other traditional methods. Smart card solutions offer a greater level of flexibility and permit development of customer specific applications that cannot be offered by traditional methods of providing closed environment security and transaction management such as the magnetic stripe.

3

With the increased use and acceptance of smart cards and related technologies worldwide, there are numerous applications to use smart card technology in a variety of infrastructure platforms. PubliCARD has developed a client-server based software solution for closed campus proprietary card users, which is focused on delivering multi-functionality around a single card supporting a wide range of third party technologies.

STRATEGY

Edgar Filing: PUBLICARD INC - Form 10-K

HISTORY OF THE COMPANY'S SMART CARD INITIATIVE

PubliCARD established its presence within the smart card industry through a series of acquisitions:

- o In February 1998, PubliCARD acquired, through a joint venture arrangement in Greenwald Intellicard, Inc. ("Greenwald Intellicard"), the assets and intellectual property of Intellicard Systems, Ltd. Greenwald Intellicard provided smart cards, smart card readers, value transfer stations, card management software and machine interface boards for the commercial laundry appliance industry. PubliCARD initially owned 50% of Greenwald Intellicard, and acquired the remaining 50% in February 1999 and February 2000.
- o In November 1998, PubliCARD acquired Tritheim Technologies, Inc. ("Tritheim"), which developed conditional access and security products for the software industry, computers and the electronic information and the digital video broadcast industry. In May 2000, the Company changed the name of its Tritheim subsidiary to Infineer, Inc. as part of a re-branding effort.
- o In February 1999, PubliCARD acquired Amazing! Smart Card Technologies, Inc. ("Amazing"), a developer of consumer smart card solutions and a manufacturer of customized smart cards.
- o In February 1999, PubliCARD acquired Greystone Peripherals, Inc. ("Greystone"), a developer of hard disk duplicators.
- o In November 1999, PubliCARD acquired Absec Limited ("Absec"), a designer of closed environment solutions, including small value electronic cash systems and database management solutions. In May of 2000, the Company changed the name of its Absec subsidiary to Infineer Ltd. as part of a re-branding effort.

While PubliCARD developed a number of successful products and solutions, its operations were fragmented throughout a variety of markets. PubliCARD's Board of Directors, together with its management team, determined to integrate its operations and focus on a single market in which:

- o high growth potential existed;
- o PubliCARD had established relationships;
- o PubliCARD had already deployed products and gained credibility; and
- o PubliCARD possessed core technologies and competencies.

PubliCARD believed that it could leverage its existing smart card technology for deployment in the rapidly growing enterprise and on-line security and transaction management market sectors, which PubliCARD had already penetrated and which it believed exhibited each of the characteristics identified above. To effect this new business strategy, in March 2000, the Company's Board of Directors adopted a plan to dispose of the operations of the Company's Greenwald Industries Inc. ("Greenwald"), Greenwald Intellicard, Greystone and Amazing subsidiaries. These subsidiaries designed, manufactured and distributed mechanical and smart card laundry solutions, hard disk duplicators and smart cards.

On June 29, 2000, the Company completed the sale of substantially all of the assets of Greenwald and Greenwald Intellicard to The Eastern Company ("Eastern") for \$22.5 million in cash, less \$1.75 million held in escrow to secure the payment of certain indemnification obligations. As part of the transaction, Eastern assumed certain liabilities of Greenwald and Greenwald Intellicard, including certain contractual liabilities, accounts payable and accrued liabilities. The Company completed the wind-down of the operations of

Edgar Filing: PUBLICARD INC - Form 10-K

Amazing and Greystone including the sale of certain assets and the licensing of certain intellectual property during 2000 and 2001.

In December 2000, the Company acquired a 3.5% ownership interest in TecSec Incorporated ("TecSec") for \$5.1 million. TecSec, a Virginia company, develops and markets encryption products and solutions, which are designed to enable the next generation information security for the enterprise, multi-enterprise e-business and other markets.

4

In July 2001, after evaluating the timing of potential future revenues, PublicARD's Board decided to shift the Company's strategic focus. While the Board remained confident in the long-term prospects of the smart card business, the timing of public sector and corporate initiatives in wide-scale, broadband environments utilizing the Company's smart card reader and chip products had become more uncertain. Given the lengthened time horizon, the Board did not believe it would be prudent to continue to invest the Company's current resources in the ongoing development and marketing of these technologies. Accordingly, the Board determined that shareholders' interests would be best served by pursuing strategic alliances with one or more companies that have the resources to capitalize more fully on the Company's smart card reader and chip-related technologies. In connection with this shift in the Company's strategic focus, workforce reductions and other measures were implemented to achieve cost savings.

CURRENT STRATEGY

At present, PublicARD's sole operating activities are conducted through its Infineer subsidiary, which designs smart card solutions for educational and corporate sites. The Company's future plans revolve around a potential acquisition strategy focused on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining funding, as to which no assurance can be given. Key elements of our strategy include the following:

- o GENERATE CAPITAL. Management believes that existing cash and short term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2005. However, additional capital will be necessary in order to operate beyond December 31, 2005 and to fund the current business plan and other obligations. While the Company is considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations it is not likely to be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which would have a material adverse effect on its business and results of operations and is likely to lead the Company to seek bankruptcy protection. These conditions raise substantial doubt about the Company's ability to continue as a going concern.
- o GROW PUBLICARD BUSINESS THROUGH ACQUISITIONS. An important element of the Company's strategic plan involves the acquisition of businesses in areas outside the technology sectors in which the Company is engaged, so as to diversify its asset base. The Company made a series of successful acquisitions in the 1980s and early 1990s and will endeavor to replicate

Edgar Filing: PUBLICARD INC - Form 10-K

this success by seeking out businesses meeting a targeted profile. Implementation of this plan will require the Company to obtain funding. However, there can be no assurance that the Company will be able to obtain funding on acceptable terms or at all.

- o EXPAND INFINEER MARKET REACH. Management believes that Infineer can expand the market reach of its smart card solutions by forming strategic marketing and distribution relationships with a number of key industry players both in the United Kingdom and elsewhere. Infineer has a strong market position in the United Kingdom educational sector, and to a lesser extent in the corporate market, and intends to leverage this market position to select markets outside of the United Kingdom. Implementation of this initiative will require the Company to obtain funding. However, there can be no assurance that the Company will be able to obtain funding on acceptable terms or at all.
- o EXPAND INFINEER PRODUCT OFFERING. Management believes that Infineer can expand its total product offering, technologies and market position by partnering with companies engaged in complementary businesses or by acquiring or licensing complementary technologies and products. Infineer intends to form relationships, which will provide a "complete" solution to the educational and corporate campus market places. Implementation of this initiative will require the Company to obtain funding. However, there can be no assurance that the Company will be able to obtain funding on acceptable terms or at all.

PUBLICARD PRODUCTS AND SOLUTIONS

PubliCARD, through its Infineer subsidiary, designs smart card solutions for campus environments. Infineer's solutions facilitate card-based payment for a wide variety of services typically found on both corporate and education sites. Infineer's card-based solutions are currently installed in over 700 sites, primarily in educational and corporate sites in the United Kingdom and Ireland. Infineer's products and solutions include the following:

- o CHIPNET3. Using a single smart card, ChipNet3 users gain access to, and tender payment for, a wide variety of services typically found on both corporate and educational sites. ChipNet3 delivers applications such as photo identification, payment for cafeteria, vending machine, photocopy

5

and printing purchases, and access control on a single card platform. Each time a transaction takes place, all details are recorded, such as the date and time, user and item purchased. The transaction details are then processed by a back office software package, utilizing a tracking tool that delivers accurate management information regarding sales and card activity.

ChipNet3 has the ability to accept a range of both contact and contactless smart cards. The solution is scalable and can run in a networked or non-networked environment. The ChipNet3 solution has been structured to allow integration with existing third party applications such as payroll, stock control, physical access control, PC log-on and time and attendance reporting.

ChipNet3 solution is comprised of smart cards, application software and hardware. Each user has a personalized smart card which may feature photo identification, a bar code, magnetic stripe or signature panel, if

Edgar Filing: PUBLICARD INC - Form 10-K

required. The chip on the card carries the cardholder's personal permission file and may be loaded and reloaded with a cash value which is used for purchasing needs. Hardware includes point-of-sale terminals and mini-tills, vending station card readers and add-value or card reload stations.

Infineer recently introduced ChipNetID which allows corporate sites the ability to extend the use of their existing identification cards to include payment at cafeteria and vending stations. ChipNetID can operate with a range of contactless smart cards issued by Mifare and HID. Corporate sites can benefit from deploying cashless payments in a facility without the need to replace existing in-use identification and access control cards.

- o EASYSMART. EasySmart is designed to deliver a first experience with smart cards for locations that do not want to pay or do not need a multi-application card system, and has been developed to fill a gap in the market for an entry-level smart card solution providing an administration-free payment system. EasySmart is a stand-alone solution operating with a low cost smart card and is useful for a wide range of locations including colleges, cafeterias and libraries. EasySmart offers card acceptance for PC log-on, cafeteria point-of-sale, self-service centers, networked printing, photocopying and encoding stations. Although EasySmart offers the capacity to run without being networked, it also contains a built-in upgrade path to ChipNet3.
- o EASYCARD. The EasyCard product line delivers a flexible magnetic stripe based solution across a range of applications, including copying, printing, point-of-sale, vending and Internet access. Operating with either disposable or rechargeable thin magnetic stripe cards, EasyCard is a simple to use solution, useful for schools, colleges, libraries and copy shops as well as corporate and government facilities and business parks. Users carry cards, featuring either a cash or unit value, and the appropriate amount is deducted each time a service is used. For those customers not paying in advance for services, account cards can be used, recording the use of a range of services against an individual or department. A full range of support products offer card acceptance at self-service card centers and encoding stations.
- o PCOUNTER. Pcounter is a scalable network server-based print management and accounting solution that provides a range of cost control and cost recovery capabilities. Pcounter aims to eliminate waste and misuse and help rationalize and reallocate print resources by providing usage accountability. Pcounter is marketed to schools, colleges, professional services firms, the public sector and corporations.

SALES AND MARKETING

Infineer sells and distributes its products directly to end-users in the United Kingdom through its direct sales force. Infineer has approximately 16 employees directly engaged in the sale, distribution and support of its products in the United Kingdom. Outside of the United Kingdom, Infineer is represented by over 30 independent distributors and value-added resellers. Key markets include, among others, the United States, the Netherlands, France and Australia.

In support of its sales strategies, Infineer also makes use of direct mail campaigns to its customers, advertising in targeted trade media and at trade shows and conferences. Infineer intends to continue seeking to form strategic relationships with key industry players to provide it with access to leading edge technology, marketing and sales leverage, and access to key customers and accounts.

Edgar Filing: PUBLICARD INC - Form 10-K

RESEARCH AND DEVELOPMENT

Research and development is a key element to the Company's future success and competitive position. Infineer develops an annual technology development plan as an integral part of its business planning process. This plan identifies new areas requiring development in support of identified business opportunities, as well as a program of maintenance and enhancement for existing solutions. Development expenses were \$716,000, \$584,000 and \$605,000 in 2004, 2003 and 2002, respectively.

6

Infineer's product development is organized to quickly bring products from concept to product introduction. The Company's future success will depend upon its ability to enhance existing products and to develop and to introduce new products on a timely basis that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of its customers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- Our future success depends on our ability to keep pace with technological changes and introduce new products in a timely manner."

COMPETITION

Competition in the markets in which Infineer operates is intense and is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and rapid changes in customer requirements. To maintain and improve its competitive position, Infineer must continue to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of its customers. The principal competitive factors affecting the market for Infineer's technology products are the product's technical characteristics and price, customer service and competitor reputation, as well as positioning and resources. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results -- The highly competitive markets in which we operate could have a material adverse effect on our business and operating results." Infineer will be required to continue to respond promptly and effectively to the challenges of technological changes and its competitors' innovations.

The market for smart card technology solutions is new, intensely competitive and rapidly evolving. The Company expects competition to continue to increase both from existing competitors and new market entrants. Infineer's primary competition currently comes from or is anticipated to come from companies offering campus environment solutions, including small value electronic cash systems and database management solutions, such as Moneybox (Girovend), Counter Solutions, Uniware, Cunninghams, Plastic Card Services, MARS, Diebold and Schlumberger.

Many of Infineer's current and potential competitors have longer operating histories and significantly greater financial, technical, sales, customer support, marketing and other resources, as well as greater name recognition and a larger installed base of their products and technologies than Infineer. Many of these companies have broader customer relationships that could be leveraged, including relationships with many of Infineer's customers. These companies also have more established customer support and professional services organizations than Infineer does. In addition, a number of companies with significantly greater resources than Infineer could attempt to increase their presence in the

Edgar Filing: PUBLICARD INC - Form 10-K

marketplace by acquiring or forming strategic alliances with competitors of Infineer, resulting in increased competition.

INTELLECTUAL PROPERTY

PubliCARD's success depends significantly upon Infineer's proprietary technology. Infineer relies on a combination of copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect its proprietary rights. Infineer seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. Infineer generally enters into confidentiality and non-disclosure agreements with its employees and with key vendors and suppliers. Despite Infineer's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of Infineer's products or to obtain and use information that Infineer regards as proprietary. Moreover, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries, making the possibility of misappropriation of Infineer's proprietary technology more likely. The steps taken by Infineer to protect its proprietary technology might not prevent misappropriation of such technology, and such protections may not preclude competitors from developing products with functionality or features similar to Infineer's products.

PubliCARD currently has several trademarks and trademark applications registered and pending in the United States. PubliCARD and Infineer will continue to evaluate the registration of additional trademarks as it deems appropriate. There can be no assurance that Infineer will develop proprietary products or technologies that are patentable, that any issued patent will provide Infineer with any competitive advantages or will not be challenged by third parties or that the patents of others will not have a material adverse effect on Infineer's business and operating results.

In the event that Infineer's technology or products are determined to infringe upon the rights of others, Infineer could be required to cease using such technology and stop selling such products, if Infineer is unable to obtain licenses to utilize such technology. There can be no assurance that Infineer would be able to obtain such licenses in a timely manner on acceptable terms and conditions, and the failure to do so could have a material adverse effect on PubliCARD's and Infineer's financial condition and results of operations. If

7

Infineer is unable to obtain such licenses, it could encounter significant delays in product market introductions while it attempted to design around the infringed-upon patents or rights, or could find the development, manufacture or sale of products requiring such license to be foreclosed. In addition, patent disputes are common in the smart card and computer industries and there can be no assurance that PubliCARD and Infineer will have the financial resources to enforce or defend a patent infringement or proprietary rights action.

PubliCARD expects that software product developers will be increasingly subject to infringement claims as the number of products and competitors in the smart card market grows. Any such claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel, cause product shipment delays or require Infineer to develop non-infringing technology or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable or at all. In the event of a successful claim of product infringement against Infineer and failure or inability to develop non-infringing technology or license the infringed or similar technology, PubliCARD's and Infineer's

Edgar Filing: PUBLICARD INC - Form 10-K

business, financial condition and results of operations could be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results -- Our proprietary technology is difficult to protect and may infringe on the intellectual proprietary rights of third parties."

EMPLOYEES

As of March 24, 2005, the Company had approximately 38 employees, of which 36 are employed by Infineer. At Infineer, there are 16 employees involved in sales, marketing and customer support, 9 employees in product development, 7 employees in manufacturing and 4 employees in administration. The Company considers its employee relations to be good.

SEGMENT INFORMATION

The Company's sole operating activities involve the deployment of smart card solutions for educational and corporate sites. As such, the Company reports as a single segment. Revenues by geographical areas for the years ended December 31, 2004, 2003 and 2002 are as follows (in thousands):

	2004	2003	2002
	-----	-----	-----
United States	\$ 540	\$ 869	\$1,029
Europe	3,631	3,467	3,445
Rest of world	224	445	131
	-----	-----	-----
	\$4,395	\$4,781	\$4,605
	=====	=====	=====

The Company has operations in the United States and United Kingdom. Identifiable tangible assets by country as of December 31, 2004 and 2003 are as follows (in thousands):

	2004	2003
	-----	-----
United States	\$2,770	\$4,542
United Kingdom	1,521	2,035
	-----	-----
	\$4,291	\$6,577
	=====	=====

See also the Company's Financial Statements beginning on page F-1.

AVAILABLE INFORMATION

The SEC maintains an Internet site that contains reports, proxy and information statements, and other Company related information at <http://www.sec.gov>.

ITEM 1A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information about the only executive officer of the Company as of March 24, 2005. The business address of the executive officer is the address of the Company, One Rockefeller Plaza, New York, New York 10020.

Name	Age	Office and Position
------	-----	---------------------

Edgar Filing: PUBLICARD INC - Form 10-K

Antonio L. DeLise	43	Director, President, Chief Executive Officer, Chief Financial Officer and Secretary
-------------------	----	---

Officers are elected to serve for a term ending with the next annual meeting of shareholders.

Mr. DeLise joined the Company in April 1995 as Vice President, Chief Financial Officer and Secretary. He was appointed to the Board of Directors in July 2001 and was elected to the additional posts of President in February 2002 and Chief Executive Officer in August 2002.

Effective January 1, 2005, Harry I. Freund and Jay S. Goldsmith resigned their officer positions as Chairman and Vice Chairman, respectively. Mr. Freund and Mr. Goldsmith remain Chairman and Vice Chairman of the Board of Directors, respectively.

ITEM 2. PROPERTIES

The Company leases the following facilities, which are believed to be adequate for its present needs.

PREMISES	PURPOSE	YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE
New York, NY	Executive offices for PublicARD	2007	3,600
Bangor, Northern Ireland	Office and manufacturing	2008	12,000

Balfour Investors Inc. ("Balfour") occupies a portion of the office space leased by the Company in New York City. The Chairman and Vice Chairman of the Company's Board of Directors are the only shareholders of Balfour. Balfour pays to the Company 50% of the rent and occupancy costs paid by the Company under its lease, including base rent, electricity, water, real estate tax escalations and operation and maintenance escalations. The base rent payable by Balfour is approximately \$9,500 per month.

ITEM 3. LEGAL PROCEEDINGS

On May 28, 2002, a lawsuit was filed against the Company in the Superior Court of the State of California, in the County of Los Angeles by Leonard M. Ross and affiliated entities alleging, among other things, misrepresentation and securities fraud. The lawsuit names the Company and four of its current and former executive officers and directors as the defendants. The plaintiffs seek monetary and punitive damages for alleged actions made by the defendants in order to induce the plaintiffs to purchase, hold or refrain from selling PublicARD common stock. The plaintiffs allege that the defendants made a series of material misrepresentations, misleading statements, omissions and concealments, specifically and directly to the plaintiffs concerning the nature, existence and status of contracts with certain purchasers, the nature and existence of investments in the Company by third parties, the nature and existence of business relationships and investments by the Company. The Company believes it has meritorious defenses to the allegations and intends to defend vigorously.

In November 2002, the Company and the individual defendants served with the action filed a demurrer seeking the dismissal of six of the plaintiffs' nine purported causes of action. In January 2003, the court ruled in favor of the demurrer and dismissed the entire complaint. The plaintiffs were granted the right to replead and subsequently filed an amended complaint in February 2003.

Edgar Filing: PUBLICARD INC - Form 10-K

9

The Company and individual defendants filed a second demurrer in March 2003. In June 2003, the court ruled in favor of the demurrer and dismissed, without leave to amend, six of the eleven purported causes of action in the amended complaint. Discovery has commenced and no trial date has been set. Consequently, at this time it is not reasonably possible to estimate the damages, or range of damages, if any, that the Company might incur in connection with this action. However, if the outcome of this lawsuit is unfavorable to the Company, it could have a material adverse effect on the Company's operations, cash flow and financial position.

The Company incurred approximately \$200,000 in defense costs in 2002. No additional costs have been incurred in 2004 and 2003. Notice of the commencement of this action has been given to the Company's directors and officers liability insurance carriers. The Company's directors and officers liability insurance carriers are funding the additional costs of defending this action, subject to the carriers' reservation of rights.

Various other legal proceedings are pending against the Company. The Company considers all such other proceedings to be ordinary litigation incident to the character of its business. Certain claims are covered by liability insurance. The Company believes that the resolution of these claims to the extent not covered by insurance will not, individually or in the aggregate, have a material adverse effect on the consolidated financial position or consolidated results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

10

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

- (a) PublicARD's common stock was listed on the Nasdaq National Market from December 22, 1998 to May 1, 2002. Effective May 2, 2002, the listing of PublicARD common stock was transferred to the Nasdaq SmallCap Market. On March 19, 2003, the Company received a Nasdaq Staff Determination letter indicating that the Company failed to comply with the minimum bid price requirement for continued listing on the Nasdaq SmallCap Market and that the Company's common stock was therefore subject to delisting. The board of directors of the Company decided not to appeal the delisting determination. Effective March 28, 2003, the Company's common stock began trading on the OTC Bulletin Board. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results - Our stock was delisted from the Nasdaq System." The following table sets forth the high and low closing sale prices of PublicARD's common stock for the calendar periods indicated (in dollars):

2004		2003	
HIGH	LOW	HIGH	LOW

Edgar Filing: PUBLICARD INC - Form 10-K

	----	----	----	---
First Quarter	.09	.05	.16	.06
Second Quarter	.10	.05	.09	.042
Third Quarter	.06	.03	.09	.045
Fourth Quarter	.06	.02	.12	.04

- (b) There were approximately 2,300 registered holders of record of common stock of the Company as of March 24, 2005.
- (c) The Company did not pay dividends on its common stock during the prior five fiscal years and does not anticipate paying dividends in the foreseeable future.

11

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data of the Company presented below for the five year period ended December 31, 2004 have been derived from the consolidated financial statements of the Company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and the Notes thereto included elsewhere in this Form 10-K.

	YEAR ENDED DECEMBER 31			
	2004	2003	2002	2001
	-----	-----	-----	-----
	(in thousands, except per share a			
STATEMENT OF OPERATIONS DATA:				
Revenues	\$ 4,395	\$ 4,781	\$ 4,605	\$ 5,65
Cost of revenues	2,010	2,316	2,455	2,87
Inventory adjustment	--	--	--	1,66
	-----	-----	-----	-----
Gross margin	2,385	2,465	2,150	1,11
	-----	-----	-----	-----
Operating expenses:				
General and administrative	2,330	2,708	3,235	4,62
Sales and marketing	1,671	1,844	1,877	3,41
Product development	716	584	605	2,44
Stock compensation expense	--	--	--	8
Amortization of goodwill and intangibles	40	40	576	1,82
Impairment of goodwill and intangibles	--	--	1,365	--
Repositioning and other special charges	--	--	--	5,65
	-----	-----	-----	-----
	4,757	5,176	7,658	18,04
	-----	-----	-----	-----
Loss from operations	(2,372)	(2,711)	(5,508)	(16,93
	-----	-----	-----	-----
Other income (expenses):				
Interest income	27	15	71	47
Interest expense	(22)	(12)	(39)	(6
Cost of retirement benefits - non-operating	(405)	(903)	(795)	(78
Loss on pension settlement	(2,739)	--	--	--
Write-down of minority investment	--	(3,000)	(2,068)	--

Edgar Filing: PUBLICARD INC - Form 10-K

Gain on insurance recoveries	647	4,590	--	--
Other income	5	428	80	13
	-----	-----	-----	-----
	(2,487)	1,118	(2,751)	(24)
	-----	-----	-----	-----
Loss from continuing operations	(4,859)	(1,593)	(8,259)	(17,17)
	-----	-----	-----	-----
Gain on disposition of discontinued operations	--	--	1,066	2,35
	-----	-----	-----	-----
Net loss	\$ (4,859)	\$ (1,593)	\$ (7,193)	\$ (14,82)
	=====	=====	=====	=====
Basic and diluted earnings (loss) per common share:				
Continuing operations	\$ (.20)	\$ (.07)	\$ (.34)	\$ (.7
Discontinued operations	--	--	.04	.1
	-----	-----	-----	-----
	\$ (.20)	\$ (.07)	\$ (.30)	\$ (.6
	=====	=====	=====	=====

AS OF DECEMBER DECEMBER 3

	2004	2003	2002	2001
	-----	-----	-----	-----
BALANCE SHEET DATA:				
Working capital (deficiency)	\$ 1,405	\$ (987)	\$ (548)	\$ 2,63
Total assets	5,073	7,399	7,939	17,39
Other non-current liabilities	7,869	3,552	4,990	5,32
Shareholders' equity (deficiency)	(5,159)	(2,928)	(1,002)	7,48

No dividends on common shares have been declared or paid during the last five years.

12

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

PubliCARD was incorporated in the Commonwealth of Pennsylvania in 1913. PubliCARD entered the smart card industry in early 1998, and began to develop solutions for the conditional access, security, payment system and data storage needs of industries utilizing smart card technology. In 1998 and 1999, the Company made a series of acquisitions to enhance its position in the smart card industry. In March 2000, PubliCARD's Board of Directors (the "Board"), together with its management team, determined to integrate its operations and focus on deploying smart card solutions, which facilitate secure access and transactions. To effect this new business strategy, in March 2000, the Board adopted a plan of disposition pursuant to which the Company divested its non-core operations. See Note 9 to the Consolidated Financial Statements for a discussion on the disposition plan.

In July 2001, after evaluating the timing of potential future revenues, PubliCARD's Board decided to shift the Company's strategic focus. While the Board remained confident in the long-term prospects of the smart card business, the timing of public sector and corporate initiatives in wide-scale, broadband

Edgar Filing: PUBLICARD INC - Form 10-K

environments utilizing the Company's smart card reader and chip products had become more uncertain. Given the lengthened time horizon, the Board did not believe it would be prudent to continue to invest the Company's current resources in the ongoing development and marketing of these technologies. Accordingly, the Board determined that shareholders' interests will be best served by pursuing strategic alliances with one or more companies that have the resources to capitalize more fully on the Company's smart card reader and chip-related technologies. In connection with this shift in the Company's strategic focus, workforce reductions and other measures were implemented to achieve cost savings.

At present, PubliCARD's sole operating activities are conducted through its Infineer subsidiary, which designs smart card solutions for educational and corporate sites. The Company's future plans revolve around a potential acquisition strategy that would focus on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining additional funding, as to which no assurance can be given.

PubliCARD's consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred operating losses, a substantial decline in working capital and negative cash flow from operations for a number of years. The Company has also experienced a substantial reduction in its cash and short term investments, which declined from \$17.0 million at December 31, 2000 to \$1.9 million at December 31, 2004. The Company also had a shareholders' deficit of \$5.2 million at December 31, 2004.

The Company's defined benefit pension plan was frozen in 1993. In January 2003, the Company filed a notice with the PBGC seeking a "distress termination" of the Plan. In September 2004, the PBGC proceeded to terminate the Plan and was appointed as the Plan's trustee. See Note 5 to the Notes to Consolidated Financial Statements for further information on the Plan termination. As a result of the Plan termination, the Company's 2003 and 2004 funding requirements due to the Plan amounting to \$3.4 million through September 15, 2004 were eliminated. As such, management believes that existing cash and short term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2005. However, additional capital will be necessary in order to operate beyond December 31, 2005 and to fund the current business plan and other obligations. While the Company is considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations it is not likely to be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which would have a material adverse effect on its business and results of operations and is likely to lead the Company to seek bankruptcy protection. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The independent auditors' reports on the Company's Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 contain emphasis paragraphs concerning substantial doubt about the Company's ability to continue as a going concern.

Edgar Filing: PUBLICARD INC - Form 10-K

RESULTS OF OPERATIONS

The following table is derived from the Consolidated Financial Statements and sets forth the Company's consolidated results of operations for the years ended December 31, 2004, 2003 and 2002 (in thousands).

	2004	2003	2002
	-----	-----	-----
Revenues	\$ 4,395	\$ 4,781	\$ 4,605
Cost of revenues	2,010	2,316	2,455
	-----	-----	-----
Gross margin	2,385	2,465	2,150
	-----	-----	-----
Gross margin percentage	54%	52%	47%
Operating expenses:			
General and administrative	2,330	2,708	3,235
Sales and marketing	1,671	1,844	1,877
Product development	716	584	605
Amortization of intangibles	40	40	576
Impairment of goodwill and intangibles	--	--	1,365
	-----	-----	-----
	4,757	5,176	7,658
	-----	-----	-----
Loss from operations	(2,372)	(2,711)	(5,508)
	-----	-----	-----
Other income (expenses):			
Interest income	27	15	71
Interest expense	(22)	(12)	(39)
Cost of retirement benefits - non-operating	(405)	(903)	(795)
Loss on pension settlement	(2,739)	--	--
Write-down of minority investment	--	(3,000)	(2,068)
Gain on insurance recoveries	647	4,590	--
Other income	5	428	80
	-----	-----	-----
	(2,487)	1,118	(2,751)
	-----	-----	-----
Loss from continuing operations	(4,859)	(1,593)	(8,259)
Income from discontinued operations	--	--	1,066
	-----	-----	-----
Net loss	\$ (4,859)	\$ (1,593)	\$ (7,193)
	=====	=====	=====

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

REVENUES. Revenues are generated from product sales, technology and software license fees, installation and maintenance contracts. Consolidated revenues decreased to \$4.4 million in 2004 compared to \$4.8 million for 2003. Foreign currency changes had the effect of increasing revenues by a 10%. Excluding the impact of foreign currency changes, revenues in 2004 decreased by 18% driven principally by a decline in shipments to distribution partners located in the United States and elsewhere outside of Europe.

GROSS MARGIN. Cost of revenues consists primarily of material, personnel costs and overhead. Gross margin as a percentage of sales increased to 54% in 2004 from 52% in 2003. The gross margin improvement resulted from a higher percentage of revenues derived from direct sales in the United Kingdom.

SALES AND MARKETING EXPENSES. Sales and marketing expenses consist

Edgar Filing: PUBLICARD INC - Form 10-K

primarily of personnel and travel costs, public relations, trade shows and marketing materials. Sales and marketing expenses were \$1.7 million in 2004 compared to \$1.8 million in 2003. The decrease is primarily attributable to a reduction in employee business expense and employee termination expense resulting from headcount reductions in 2003. Also, the 2004 expenses reflect a reimbursement of \$47,000 of marketing costs under a grant with a government agency in Northern Ireland.

PRODUCT DEVELOPMENT EXPENSES. Product development expenses consist primarily of personnel, independent consultants and contract engineering services. Product development expenses include expenses associated with the development of new products and enhancements to existing products. Product development expenses amounted to \$716,000 in 2004 compared to \$584,000 in 2003. The 2003 expenses included a \$75,000 reimbursement of certain development costs under a grant with a government agency in Northern Ireland. This reimbursement, coupled with a \$73,000 increase in wages and third party engineering costs, primarily accounted for the increase in product development expense.

14

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of personnel and related costs for general corporate functions, including finance and accounting, human resources, risk management and legal. General and administrative expenses for the year ended December 31, 2004 decreased to \$2.3 million from \$2.7 million for 2003. The decrease in expenses is mainly attributable to a \$196,000 decline in corporate legal, public reporting costs and other corporate costs as well as a \$43,000 favorable bad debt allowance adjustment.

AMORTIZATION OF INTANGIBLES. In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill is no longer amortized. Goodwill and other intangibles will be subject to an annual review for impairment or earlier if circumstances or events indicate that impairment has occurred. This may result in future write-downs or the write-off of such assets. Amortization expense in 2004 and 2003 relates to the continuing amortization of definite lived intangibles. Amortization expense was \$40,000 in both 2004 and 2003.

COST OF PENSIONS - NON-OPERATING. Cost of pensions, which represents amounts related to discontinued product lines and related plant closings in prior years, principally relates to pension expense associated with the Company's frozen defined benefit pension plan. As a result of the pension settlement (see below), cost of pensions - non-operating will be zero prospectively. Cost of pensions declined from \$903,000 in 2003 to \$405,000 in 2004.

LOSS ON PENSION SETTLEMENT. The Company sponsored a defined benefit pension plan that was frozen in 1993. In January 2003, the Company filed a notice with the PBGC seeking a "distress termination" of the Plan. Pursuant to the Agreement for Appointment of Trustee and Termination of Plan between the PBGC and the Company effective September 30, 2004, the PBGC proceeded to terminate the Plan and was appointed as the Plan's trustee. As a result, the PBGC has assumed responsibility for paying the obligations to Plan participants. Under the terms of the Settlement Agreement, the Company was liable to the PBGC for the unfunded guaranteed benefit payable by the PBGC to Plan participants in the amount of \$7.5 million. The Company satisfied this liability by issuing a non-interest bearing note payable to the PBGC with a face amount of \$7.5 million (the "Note"). A loss on the termination of the Plan of \$2.7 million was recorded

Edgar Filing: PUBLICARD INC - Form 10-K

in the third quarter of 2004.

Pursuant to the Security Agreement and Pledge Agreement, both dated September 23, 2004, between the Company and the PBGC (the "Security Agreement" and the "Pledge Agreement") the Note is secured by (a) all presently owned or hereafter acquired real or personal property and rights to property of the Company and (b) the common and preferred stock of Infineer and TecSec owned by the Company. Infineer is a wholly-owned subsidiary of the Company. The Company has an approximately 5% ownership interest in TecSec, on a fully diluted basis.

The Note matures on September 23, 2011. The first payment will be equal to \$1.0 million and will become due 30 days after the Company has received a total of \$4.0 million in Net Recoveries (as defined below). Thereafter, on each anniversary of the first payment, the Company is required to pay the PBGC an amount equal to 25% of the Net Recoveries in excess of \$4.0 million (less the sum of all prior payments made in accordance with this sentence in prior years). "Net Recoveries", as defined in the Settlement Agreement, is the net cash proceeds received by the Company with respect to transactions consummated after March 31, 2003 from (a) the sale of the Company's interest in Infineer and TecSec, real property in Louisiana and any other real or personal property assets and (b) any recoveries from the Company's historic insurance program. As of December 31, 2004, Net Recoveries was approximately \$3.4 million.

In the event of default by the Company under the Settlement Agreement, the PBGC may declare the outstanding amount of the Note to be immediately due and payable, proceed with foreclosure of the liens granted in favor of the PBGC and exercise any other rights available under applicable law.

GAIN ON INSURANCE RECOVERIES. In February 2004, the Company entered into a binding agreement to assign to a third party certain insurance claims against a group of historic insurers. In July 2004, the assignment was supplemented to include several additional insurers. The claims involve several historic general liability policies of insurance issued to the Company. As a result of the assignment, after allowance for associated expenses and offsetting adjustments, the Company received net proceeds of approximately \$477,000 in May 2004 and an additional \$170,000 in October 2004. The Company recognized a gain of \$477,000 in the first quarter of 2004 and an additional gain of \$170,000 in the third quarter of 2004.

INTEREST INCOME AND EXPENSE. Interest income increased to \$27,000 from \$15,000 in the prior year principally due to higher investment balances. Interest expense increased from \$12,000 to \$22,000 due to higher average borrowings under the overdraft facility.

15

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

REVENUES. Consolidated revenues increased to \$4.8 million in 2003 compared to \$4.6 million for 2002 driven by a 6% increase from foreign currency changes. Excluding the impact of foreign currency changes, revenues in 2003 decreased by 2%.

GROSS MARGIN. Gross margin as a percentage of sales increased to 52% in 2003 from 47% in 2002. The gross margin improvement resulted from higher margins generated from certain custom development projects and increased service revenue in the United Kingdom.

SALES AND MARKETING EXPENSES. Sales and marketing expenses were \$1.8

Edgar Filing: PUBLICARD INC - Form 10-K

million in 2003 compared to \$1.9 million in 2002.

PRODUCT DEVELOPMENT EXPENSES. Product development expenses amounted to \$584,000 in 2003 compared to \$605,000 in 2002.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the year ended December 31, 2003 decreased to \$2.7 million from \$3.2 million for 2002. The decrease in expense is mainly due to a \$400,000 decline in salary costs due to a headcount reduction of three employees.

IMPAIRMENT OF GOODWILL AND INTANGIBLES. The Company performed an initial review for impairment of goodwill as of January 1, 2002 and determined that no impairment existed at that date. The Company determined the fair value of its sole reporting unit primarily using two approaches: a market approach technique and a discounted cash flow valuation technique. The market approach relied primarily on the implied fair value using a multiple of revenues for several entities with comparable operations and economic characteristics. Significant assumptions used in the discounted cash valuation included estimates of future cash flows, future short-term and long-term growth rates and estimated cost of capital for purposes of arriving at a discount factor.

In performing its annual goodwill impairment test at the end of the fourth quarter of 2002, the Company determined that goodwill had been impaired. Based on comparing the values derived from the two techniques described above to the carrying value of the reporting unit, the Company recorded a goodwill impairment loss of \$364,000 in the fourth quarter of 2002. The Company attributed the impairment loss to the value of a comparable entity that was sold in a transaction in late 2002, the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital available to invest in the reporting unit.

In the fourth quarter of 2002, the Company determined that its intangible assets had been impaired and recorded an impairment loss of \$1.0 million. The Company attributes the impairment loss to the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital available to invest in the reporting unit.

AMORTIZATION OF INTANGIBLES. Amortization expense decreased from \$576,000 in 2002 to \$40,000 in 2003 as a result of an impairment charge recorded in 2002, which significantly reduced the carrying value of intangibles.

COST OF PENSIONS - NON-OPERATING. Cost of pensions increased from \$795,000 in 2002 to \$903,000 in 2003. The net periodic pension cost increased by \$112,000 principally as a result of amortization of unrecognized net losses.

GAIN ON INSURANCE RECOVERIES. During 2003, the Company entered into three binding settlements with various historical insurers that resolved certain claims (including certain future claims) under policies of insurance issued to the Company by those insurers. As a result of the settlements, after allowance for associated expenses, offsetting adjustments and amounts held in escrow, the Company received net proceeds of approximately \$4.1 million in 2003. Pursuant to one of the settlements, an additional net amount of approximately \$470,000 was placed in escrow to secure the payment of certain indemnification obligations. Absent any indemnity claims, amounts will be released from escrow beginning September 30, 2004 and ending June 30, 2006. The Company recognized a gain from these settlements of approximately \$4.6 million in 2003.

WRITE-DOWN OF MINORITY INVESTMENT. In 2003 and 2002, other expense includes charges for an impairment of the Company's minority investment in TecSec of \$3.0 million and \$2.1 million, respectively.

Edgar Filing: PUBLICARD INC - Form 10-K

OTHER INCOME AND EXPENSE. In 2002, other expense includes a \$200,000 charge in connection with the defense of a shareholder lawsuit.

16

INTEREST INCOME AND EXPENSE. Interest income decreased to \$15,000 from \$71,000 in the prior year principally due to lower interest rates and investment balances.

LIQUIDITY

The Company has financed its operations over the last several years primarily through funds received from the sale of a non-core businesses in 2000 and insurance recoveries in 2003 and 2004. During the year ended December 31, 2004, cash, including short-term investments, decreased by \$1.6 million to \$1.9 million as of December 31, 2004.

Operating activities utilized cash of \$2.3 million in 2004 and principally consisted of the net loss of \$4.9 million plus a gain on insurance recoveries of \$647,000 offset by a loss on the pension settlement of \$2.7 million, depreciation and amortization of \$156,000 and a reduction in assets and liabilities of \$286,000.

Investing activities provided cash of \$686,000 in 2004 and principally consisted of cash received from insurance recoveries of \$727,000 offset by capital expenditures of \$48,000.

The Company has experienced negative cash flow from operating activities in the past and expects to experience negative cash flow in 2005 and beyond. In addition to funding operating and capital requirements and corporate overhead, future uses of cash include the following:

- o The Company sponsored a defined benefit pension plan, which was frozen in 1993. In January 2003, the Company filed a notice with the PBGC seeking a "distress termination" of the Plan. Pursuant to the Agreement for Appointment of Trustee and Termination of Plan between the PBGC and the Company effective September 30, 2004, the PBGC proceeded to terminate the Plan and was appointed as the Plan's trustee. As a result, the PBGC has assumed responsibility for paying the obligations to Plan participants. Under the terms of the Settlement Agreement effective September 23, 2004 between the PBGC and the Company, the Company was liable to the PBGC for the unfunded guaranteed benefit payable by the PBGC to Plan participants in the amount of \$7.5 million. The Company satisfied this liability by issuing the Note dated September 23, 2004 payable to the PBGC with a face amount of \$7.5 million.

Pursuant to the Security Agreement and Pledge Agreement, both dated September 23, 2004, the Note is secured by (a) all presently owned or hereafter acquired real or personal property and rights to property of the Company and (b) the common and preferred stock of Infineer and TecSec owned by the Company. Infineer is a wholly-owned subsidiary of the Company. The Company has an approximately 5% ownership interest in TecSec, on a fully diluted basis.

The Note matures on September 23, 2011. The first payment will be equal to \$1.0 million and will become due 30 days after the Company has received a total of \$4.0 million in Net Recoveries. Thereafter,

Edgar Filing: PUBLICARD INC - Form 10-K

on each anniversary of the first payment, the Company is required to pay the PBGC an amount equal to 25% of the Net Recoveries in excess of \$4.0 million (less the sum of all prior payments made in accordance with this sentence in prior years). As of December 31, 2004, Net Recoveries was approximately \$3.4 million.

In the event of default by the Company under the Settlement Agreement, the PBGC may declare the outstanding amount of the Note to be immediately due and payable, proceed with foreclosure of the liens granted in favor of the PBGC and exercise any other rights available under applicable law.

- o On May 28, 2002, a lawsuit was filed against the Company in the Superior Court of the State of California, in the County of Los Angeles by Leonard M. Ross and affiliated entities alleging, among other things, misrepresentation and securities fraud. The lawsuit names the Company and four of its current and former executive officers and directors as the defendants. The plaintiffs seek monetary and punitive damages for alleged actions made by the defendants in order to induce the plaintiff to purchase, hold or refrain from selling PublicCARD common stock. The plaintiffs allege that the defendants made a series of material misrepresentations, misleading statements, omissions and concealments, specifically and directly to the plaintiffs concerning the nature, existence and status of contracts with certain purchasers, the nature and existence of investments in the Company by third parties, the nature and existence of business relationships and investments by the Company. The Company believes it has meritorious defenses to the allegations and intends to defend vigorously.

17

In November 2002, the Company and the individual defendants served with the action filed a demurrer seeking the dismissal of six of the plaintiffs' nine purported causes of action. In January 2003, the court ruled in favor of the demurrer and dismissed the entire complaint. The plaintiffs were granted the right to replead and subsequently filed an amended complaint in February 2003. The Company and individual defendants filed a second demurrer in March 2003. In June 2003, the court ruled in favor of the demurrer and dismissed, without leave to amend, six of the eleven purported causes of action in the amended complaint. Discovery has commenced and no trial date has been set. Consequently, at this time it is not reasonably possible to estimate the damages, or range of damages, if any, that the Company might incur in connection with this action. However, if the outcome of this lawsuit is unfavorable to the Company, it could have a material adverse effect on the Company's operations, cash flow and financial position.

- o The Company leases certain office space, vehicles and office equipment under operating leases that expire over the next four years. Minimum future payments for operating leases having initial or remaining non-cancelable terms in excess of one year aggregates approximately \$861,000.

The Company will need to raise additional capital that may not be available to it. As a result of the Plan termination discussed above, the Company's 2003 and 2004 funding requirements due to the Plan amounting to \$3.4 million through September 15, 2004 were eliminated. As such, management believes

Edgar Filing: PUBLICARD INC - Form 10-K

that existing cash and short term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2005. However, additional capital will be necessary in order to operate beyond December 31, 2005 and to fund the current business plan and other obligations. While the Company is considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations it is not likely to be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which would have a material adverse effect on its business and results of operations.

The Company currently has no capacity for commercial debt financing. Should such capacity become available it may be adversely affected in the future by factors such as higher interest rates, inability to borrow without collateral, and continued operating losses. Borrowings may also involve covenants limiting or restricting its operations or future opportunities.

As a result of a failure to meet certain continuing listing requirements of the Nasdaq National Market, the Company transferred the listing of its common stock to the Nasdaq SmallCap Market effective May 2, 2002. On March 19, 2003, the Company received a Nasdaq Staff Determination letter indicating that the Company failed to comply with the minimum bid price requirement for continued listing on the Nasdaq SmallCap Market and that the Company's common stock was therefore subject to delisting. The Board of the Company decided not to appeal the delisting determination. Effective March 28, 2003, the Company's common stock no longer traded on the Nasdaq SmallCap Market. On March 28, 2003 the Company's common stock began trading on the OTC Bulletin Board. As a result of the delisting, the liquidity of the common stock may be adversely affected. This could impair the Company's ability to raise capital in the future. If additional capital is raised through the issuance of equity securities, the Company's stockholders' percentage ownership of the common stock will be reduced and stockholders may experience dilution in net book value per share, or the new equity securities may have rights, preferences or privileges senior to those of its common stockholders.

If the Company's liquidity does not improve, it may be unable to continue as a going concern and is likely to seek bankruptcy protection. Such an event may result in the Company's common and preferred stock being negatively affected or becoming worthless. The auditors' reports on the Company's Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 contained an emphasis paragraph concerning substantial doubt about the Company's ability to continue as a going concern.

18

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's commitments as of December 31, 2004 (in thousands):

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	MORE THAN 5 YEARS
Operating lease obligations	\$ 861	\$ 350	\$ 463	\$ 48	\$ --

Edgar Filing: PUBLICARD INC - Form 10-K

Other long-term liabilities:

Note payable to PBGC	7,501	--	--	--	7,501
Other long-term obligations	368	20	273	40	35
	-----	-----	-----	-----	-----
Total	\$8,730	\$ 370	\$ 736	\$ 88	\$7,536
	=====	=====	=====	=====	=====

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are more fully described in the Notes to the Company's Consolidated Financial Statements. Certain accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company considers certain accounting policies related to revenue recognition, estimates of reserves for receivables and inventories, and valuation of goodwill to be critical policies due to the estimation processes involved.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE. Revenue from product sales and technology and software license fees is recorded upon shipment if a signed contract exists, the fee is fixed and determinable, the collection of the resulting receivable is probable and the Company has no obligation to install the product or solution. If the Company is responsible for installation, revenue from product sales and license fees is deferred and recognized upon client acceptance or "go live" date. Maintenance and support fees are deferred and recognized as revenue ratably over the contract period. Provisions are recorded for estimated warranty repairs and returns at the time the products are shipped. In the event changes in conditions cause management to determine that revenue recognition criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's credit worthiness. The Company continually monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within management's expectations and the provisions established, there is no assurance that the Company will continue to experience the same credit loss rates as in the past.

INVENTORIES. Inventories are stated at lower of cost (first-in, first-out method) or market. The Company periodically evaluates the need to record adjustments for impairment of inventory. Inventory in excess of the Company's estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are management's estimates related to the Company's production schedules, customer demand, possible alternative uses and the ultimate realization of potentially excess inventory. A decrease in future demand for current products could result in an increase in the amount of excess inventories on hand.

IMPAIRMENT OF GOODWILL AND INTANGIBLES. Effective January 1, 2002, the Company adopted SFAS No. 142. In accordance with the guidelines of this statement, goodwill and indefinite lived intangible assets are no longer amortized but will be assessed for impairment on at least an annual basis. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment. The Company determines the fair value of its sole reporting unit primarily using two approaches: a market approach technique and a discounted cash flow valuation technique. The market approach relies primarily on the implied fair value using a multiple of revenues for several entities with comparable operations and economic characteristics. Significant assumptions used

Edgar Filing: PUBLICARD INC - Form 10-K

in the discounted cash valuation include estimates of future cash flows, future short-term and long-term growth rates and estimated cost of capital for purposes of arriving at a discount factor.

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the net realizable of the asset.

19

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R (revised 2004), "Share-Based Payment". This statement requires compensation costs related to share-based payment transactions to be recognized in financial statements. Generally, compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the requisite service period, generally as the award vests. The Company will adopt SFAS No. 123R in the third quarter of 2005. SFAS No. 123R applies to all awards granted after June 30, 2005 and to previously-granted awards unvested as of the adoption date. The adoption of the statement is not expected to have a material impact on Company's consolidated financial positions, results of operations and cash flows.

In November 2004, the FASB issued SFAS No. 151, "Inventory Cost, an amendment of ARB No. 43, Chapter 4." This statement amends Accounting Research Bulletin No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). The provision of the statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of the statement is not expected to have a material effect on the Company's consolidated financial positions, results of operations and cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." This statement amends APB No. 29, "Accounting for Nonmonetary Transactions," to eliminate the exception for nonmonetary exchanges of similar productive assets under APB No. 29 and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The statement is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of the statement is not expected to have a material effect on the Company's consolidated financial positions, results of operations and cash flows.

FACTORS THAT MAY AFFECT FUTURE RESULTS

WE HAVE A HISTORY OF OPERATING LOSSES AND NEGATIVE CASH FLOW, WE HAVE ONGOING FUNDING OBLIGATIONS AND WE NEED TO RAISE ADDITIONAL CAPITAL THAT MAY NOT BE AVAILABLE TO US, ALL OF WHICH COULD LEAD US TO SEEK BANKRUPTCY PROTECTION. We have incurred losses and experienced negative cash flow from operating activities in the past, and we expect to incur losses and experience negative cash flow from operating activities in the foreseeable future. We incurred losses from continuing operations in 2002, 2003 and 2004 of approximately \$8.3 million, \$1.6 million and \$4.9 million, respectively. In addition, we experienced negative cash flow from operating activities of \$5.1 million, \$2.2

Edgar Filing: PUBLICARD INC - Form 10-K

million and \$2.3 million in 2002, 2003 and 2004 respectively, and have a shareholders' deficiency of \$5.2 million as of December 31, 2004.

We sponsor a defined benefit pension plan which was frozen in 1993. In January 2003, we filed a notice with the PBGC seeking a "distress termination" of the Plan. Pursuant to the Agreement for Appointment of Trustee and Termination of Plan between the PBGC and us effective September 30, 2004, the PBGC proceeded to terminate the Plan and was appointed as the Plan's trustee. As a result, the PBGC has assumed responsibility for paying the obligations to Plan participants. Under the terms of the Settlement Agreement effective September 23, 2004 between the PBGC and us, we were liable to the PBGC for the unfunded guaranteed benefit payable by the PBGC to Plan participants in the amount of \$7.5 million. We satisfied this liability by issuing the Note dated September 23, 2004 payable to the PBGC with a face amount of \$7.5 million.

Pursuant to the Security Agreement and Pledge Agreement, both dated September 23, 2004, the Note is secured by (a) all of our presently owned or hereafter acquired real or personal property and rights to property and (b) the common and preferred stock of Infineer and TecSec we own. Infineer is a wholly-owned subsidiary of ours. We have an approximately 5% ownership interest in TecSec, on a fully diluted basis.

The Note matures on September 23, 2011. The first payment will be equal to \$1.0 million and will become due 30 days after we have received a total of \$4.0 million in Net Recoveries. Thereafter, on each anniversary of the first payment, we are required to pay the PBGC an amount equal to 25% of the Net Recoveries in excess of \$4.0 million (less the sum of all prior payments made in accordance with this sentence in prior years). As of December 31, 2004, Net Recoveries was approximately \$3.4 million.

In the event of our default under the Settlement Agreement, the PBGC may declare the outstanding amount of the Note to be immediately due and payable, proceed with foreclosure of the liens granted in favor of the PBGC and exercise any other rights available under applicable law.

20

We and certain current and former officers are defendants in a lawsuit alleging, among other things, misrepresentation and securities fraud. We believe that we have meritorious defenses to the allegations and intend to defend ourselves vigorously. The cost of defending against this action could be significant, and if the Company is not successful in defending itself, the Company may be required to pay the plaintiff's damages, which could have a material adverse effect on the Company's business and operations. See "We are unable to predict the extent to which the resolution of lawsuits pending against us could adversely affect our business". In addition, we have future non-cancelable operating lease obligations for office space, vehicles and office equipment aggregating \$861,000.

We will need to raise additional capital that may not be available to us. As a result of the Plan termination discussed above, our 2003 and 2004 funding requirements due to the Plan amounting to \$3.4 million through September 15, 2004 were eliminated. As such, we believe that existing cash and short term investments may be sufficient to meet our operating and capital requirements at the currently anticipated levels through December 31, 2005. However, additional capital will be necessary in order to operate beyond December 31, 2005 and to fund the current business plan and other obligations. While we are actively considering various funding alternatives, no arrangement to obtain additional funding has been secured or entered into. There can be no assurance that we will

Edgar Filing: PUBLICARD INC - Form 10-K

be able to obtain additional funding, on acceptable terms or at all. If we cannot raise additional capital to continue at our present level of operations we may not be able to meet our obligations, take advantage of future acquisition opportunities or further develop or enhance our product offering, any of which could have a material adverse effect on our business and results of operations and could lead us to seek bankruptcy protection. The auditors' reports on the Company's Consolidated Financial Statements for the years ended December 31, 2002, 2003 and 2004 contained an emphasis paragraph concerning substantial doubt about the Company's ability to continue as a going concern.

We currently have no capacity for commercial debt financing. Should such capacity become available to us, we may be adversely affected in the future by factors such as higher interest rates, inability to borrow without collateral, and continued operating losses. Borrowings may also involve covenants limiting or restricting our operations or future opportunities.

WE CANNOT ASSURE YOU THAT INFINEER WILL BE ABLE TO CONTINUE TO OPERATE. During 2002, 2003 and 2004, PubliCARD contributed additional capital to Infineer of \$44,000, \$70,000 and \$225,000, respectively. Without such contributions, Infineer may not have been able to fund its operations. We cannot assure you that additional capital contributions will not be required in the future, or, if required, that PubliCARD will be in a position to make any additional capital contributions.

WE ARE UNABLE TO PREDICT THE EXTENT TO WHICH THE RESOLUTION OF LAWSUITS PENDING AGAINST US COULD ADVERSELY AFFECT OUR BUSINESS. On May 28, 2002, a lawsuit was filed against us in the Superior Court of the State of California, in the County of Los Angeles by Leonard M. Ross and affiliated entities alleging, among other things misrepresentation and securities fraud. The lawsuit names four of our current and former executive officers and directors and us as the defendants. The plaintiffs seek monetary and punitive damages for alleged actions made by the defendants in order to induce the plaintiff to purchase, hold or refrain from selling our common stock. The plaintiffs allege that the defendants made a series of material misrepresentations, misleading statements, omissions and concealments, specifically and directly to the plaintiffs concerning the nature, existence and status of contracts with certain purchasers, the nature and existence of investments in us by third parties, the nature and existence of business relationships and investments by us. We believe we have meritorious defenses to the allegations and intend to defend vigorously.

In November 2002, we and the individual defendants served with the action filed a demurrer seeking the dismissal of six of the plaintiffs' nine purported causes of action. In January 2003, the court ruled in favor of the demurrer and dismissed the entire complaint. The plaintiffs were granted the right to replead and subsequently filed an amended complaint in February 2003. We and the individual defendants filed a second demurrer in March 2003. In June 2003, the court ruled in favor of the demurrer and dismissed, without leave to amend, six of the eleven purported causes of action in the amended complaint. Discovery has commenced and no trial date has been set. Consequently, at this time it is not reasonably possible to estimate the damages, or range of damages, if any, that we might incur in connection with this action. However, if the outcome of this lawsuit is unfavorable to us, it could have a material adverse effect on our operations, cash flow and financial position.

We incurred approximately \$200,000 in defense costs in 2002. No additional costs have been incurred in 2004 and 2003. Notice of the commencement of this action has been given to our directors and officers liability insurance carriers. Our directors and officers liability insurance carriers are funding the additional costs of defending this action, subject to the carriers' reservation of rights.

WE FACE RISKS ASSOCIATED WITH ACQUISITIONS. An important element of our

Edgar Filing: PUBLICARD INC - Form 10-K

strategic plan involves the acquisition of businesses in areas outside the technology sectors in which we have recently been engaged, so as to diversify our asset base. However, we will only be able to engage in future acquisitions if we are successful in obtaining additional funding, as to which no assurance

21

can be given. Acquisitions would require us to invest financial resources and may have a dilutive effect on our earnings or book value per share of common stock. We cannot assure you that we will consummate any acquisitions in the future, that any financing required for such acquisitions will be available on acceptable terms or at all, or that any past or future acquisitions will not materially adversely affect our results of operations and financial condition.

Our acquisition strategy generally presents a number of significant risks and uncertainties, including the risks that:

- o we will not be able to retain the employees or business relationships of the acquired company;
- o we will fail to realize any synergies or other cost reduction objectives expected from the acquisition;
- o we will not be able to integrate the operations, products, personnel and facilities of acquired companies;
- o management's attention will be diverted to pursuing acquisition opportunities and integrating acquired products, technologies or companies and will be distracted from performing its regular responsibilities;
- o we will incur or assume liabilities, including liabilities that are unknown or not fully known to us at the time of the acquisition; and
- o we will enter markets in which we have no direct prior experience.

We cannot assure you that any of the foregoing will not materialize, which could have an adverse effect on our results of operations and financial condition.

THE MARKET'S ACCEPTANCE OF OUR PRODUCTS IS UNCERTAIN. Demand for, and market acceptance of, our software solutions and products are subject to a high level of uncertainty due to rapidly changing technology, new product introductions and changes in customer requirements and preferences. The success of our products or any future products depends upon our ability to enhance our existing products and to develop and introduce new products and technologies to meet customer requirements. We face the risk that our current and future products will not achieve market acceptance.

Our future revenues and earnings depend in large part on the success of these products, and if the benefits are not perceived sufficient or if alternative technologies are more widely accepted, the demand for our solutions may not grow and our business and operating results would be materially and adversely affected.

WE DEPEND ON A RELATIVELY SMALL NUMBER OF CUSTOMERS FOR A MAJORITY OF OUR REVENUES. We rely on a limited number of customers in our business. We expect to continue to depend upon a relatively small number of customers for a majority of the revenues in our business. For the years ended December 31, 2003 and 2004, no one customer accounted for more than 10% of our revenues. Amounts due from two customers represented approximately 21% and 13%, respectively, of the accounts receivable balance as of December 31, 2004.

We generally do not enter into long-term supply commitments with our customers. Instead, we bid on a project basis. Significant reductions in sales

Edgar Filing: PUBLICARD INC - Form 10-K

to any of our largest customers would have a material adverse effect on our business. In addition, we generate significant accounts receivable and inventory balances in connection with providing products to our customers. A customer's inability to pay for our products could have a material adverse effect on our results of operations.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO KEEP PACE WITH TECHNOLOGICAL CHANGES AND INTRODUCE NEW PRODUCTS IN A TIMELY MANNER. The rate of technological change currently affecting the smart card market is particularly rapid compared to other industries. Our ability to anticipate these trends and adapt to new technologies is critical to our success. Because new product development commitments must be made well in advance of actual sales, new product decisions must anticipate future demand as well as the speed and direction of technological change. Our ability to remain competitive will depend upon our ability to develop in a timely and cost effective manner new and enhanced products at competitive prices. New product introductions or enhancements by our competitors could cause a decline in sales or loss of market acceptance of our existing products and lower profit margins.

Our success in developing, introducing and selling new and enhanced products depends upon a variety of factors, including:

- o product selections;
- o timely and efficient completion of product design and development;
- o timely and efficient implementation of manufacturing processes;
- o effective sales, service and marketing;
- o price; and
- o product performance in the field.

22

Our ability to develop new products also depends upon the success of our research and development efforts. We may need to devote additional resources to our research and development efforts in the future. We cannot assure you that funds will be available for these expenditures or that these funds will lead to the development of viable products.

THE HIGHLY COMPETITIVE MARKETS IN WHICH WE OPERATE COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND OPERATING RESULTS. The markets in which we operate are intensely competitive and characterized by rapidly changing technology. We compete against numerous companies, many of which have greater resources than we do, and we believe that competition is likely to intensify.

We believe that the principal competitive factors affecting us are:

- o the extent to which products support industry standards and are capable of being operated or integrated with other products;
- o technical features and level of security;
- o strength of distribution channels;
- o price;
- o product reputation, reliability, quality, performance and customer support;
- o product features such as adaptability, functionality and ease of use; and
- o competitor reputation, positioning and resources.

We cannot assure you that competitive pressures will not have a material adverse effect on our business and operating results. Many of our current and potential competitors have longer operating histories and significantly greater financial, technical, sales, customer support, marketing and other resources, as

Edgar Filing: PUBLICARD INC - Form 10-K

well as greater name recognition and a larger installed base of their products and technologies than our company. Additionally, there can be no assurance that new competitors will not enter our markets. Increased competition would likely result in price reductions, reduced margins and loss of market share, any of which could have a material adverse effect on our business and operating results.

Our primary competition currently comes from companies offering closed environment solutions, including small value electronic cash systems and database management solutions, such as Moneybox (Girovend), Counter Solutions, Uniware, Cunninghams, Plastic Card Services, MARS, Diebold and Schlumberger.

Many of our current and potential competitors have broader customer relationships that could be leveraged, including relationships with many of our customers. These companies also have more established customer support and professional services organizations than we do. In addition, a number of companies with significantly greater resources than we have could attempt to increase their presence by acquiring or forming strategic alliances with our competitors, resulting in increased competition.

OUR LONG PRODUCT SALES CYCLES SUBJECT US TO RISK. Our products fall into two categories; those that are standardized and ready to install and use and those that require significant development efforts to implement within the purchasers' own systems. Those products requiring significant development efforts tend to be newly developed technologies and software applications that can represent major investments for customers. We are subject to potential customers' internal review processes and systems requirements. The implementation of some of our products involves deliveries of small quantities for pilot programs and significant testing by the customers before firm orders are received, or lengthy beta testing of software solutions. For these more complex products, the sales process may take one year or longer, during which time we may expend significant financial, technical and management resources, without any certainty of a sale.

WE MAY BE LIMITED IN OUR USE OF OUR FEDERAL NET OPERATING LOSS CARRYFORWARDS. As of December 31, 2004, we had federal net operating loss carryforwards, subject to review by the Internal Revenue Service, totaling approximately \$67.6 million for federal income tax purposes. The federal net operating loss carryforwards begin to expire in 2005. We do not expect to earn any significant taxable income in the next several years, and may not do so until much later, if ever. A federal net operating loss can generally be carried back two, three or five years and then forward fifteen or twenty years (depending on the year in which the loss was incurred), and used to offset taxable income earned by a company (and thus reduce its income tax liability).

Section 382 of the Internal Revenue Code provides that when a company undergoes an "ownership change," that company's use of its net operating losses is limited in each subsequent year. An "ownership change" occurs when, as of any testing date, the sum of the increases in ownership of each shareholder that owns five percent or more of the value of a company's stock as compared to that shareholder's lowest percentage ownership during the preceding three-year period exceeds fifty percentage points. For purposes of this rule, certain shareholders who own less than five percent of a company's stock are aggregated and treated

as a single five-percent shareholder. We may issue a substantial number of shares of our stock in connection with public and private offerings, acquisitions and other transactions in the future, although no assurance can be

Edgar Filing: PUBLICARD INC - Form 10-K

given that any such offering, acquisition or other transaction will be effected. In addition, the exercise of outstanding options to purchase shares of our common stock may require us to issue additional shares of our common stock. The issuance of a significant number of shares of stock could result in an "ownership change." If we were to experience such an "ownership change," we estimate that virtually all of our available federal net operating loss carryforwards would be effectively unavailable to reduce our taxable income.

The extent of the actual future use of our federal net operating loss carryforwards is subject to inherent uncertainty because it depends on the amount of otherwise taxable income we may earn. We cannot give any assurance that we will have sufficient taxable income in future years to use any of our federal net operating loss carryforwards before they would otherwise expire.

OUR PROPRIETARY TECHNOLOGY IS DIFFICULT TO PROTECT AND MAY INFRINGE ON THE INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES. Our success depends significantly upon our proprietary technology. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect our proprietary rights. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. We cannot assure you that any of our applications will be approved, that any new patents will be issued, that we will develop proprietary products or technologies that are patentable, that any issued patent will provide us with any competitive advantages or will not be challenged by third parties. Furthermore, we cannot assure you that the patents of others will not have a material adverse effect on our business and operating results.

If our technology or products is determined to infringe upon the rights of others, and we were unable to obtain licenses to use the technology, we could be required to cease using the technology and stop selling the products. We may not be able to obtain a license in a timely manner on acceptable terms or at all. Any of these events would have a material adverse effect on our financial condition and results of operations.

Patent disputes are common in technology related industries. We cannot assure you that we will have the financial resources to enforce or defend a patent infringement or proprietary rights action. As the number of products and competitors in the smart card market grows, the likelihood of infringement claims also increases. Any claim or litigation may be time consuming and costly, cause product shipment delays or require us to redesign our products or enter into royalty or licensing agreements. Any of these events would have a material adverse effect on our business and operating results. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to use our proprietary information and software. In addition, the laws of some foreign countries do not protect proprietary and intellectual property rights as effectively as do the laws of the United States. Our means of protecting our proprietary and intellectual property rights may not be adequate. There is a risk that our competitors will independently develop similar technology, duplicate our products or design around patents or other intellectual property rights.

We believe that establishing, maintaining and enhancing the Infineer brand name is essential to our business. We filed an application for a United States trademark registration and an application for service mark registration of our name and logo. We are aware of third parties that use marks or names that contain similar sounding words or variations of the "infi" prefix. In July 2002, we received a claim from a third party challenging the use of the Infineer name. Upon reaching an agreement with this third party in 2004 to amend our trademark application, we believe that this claim has been resolved. As a result of this claim and other challenges which may occur in the future, we may incur significant expenses, pay substantial damages and be prevented from using the

Edgar Filing: PUBLICARD INC - Form 10-K

Infiner name. Use of a similar name by third parties may also cause confusion to our clients and confusion in the market, which could decrease the value of our brand and harm our reputation. We cannot assure you that our business would not be adversely affected if we are required to change our name or if confusion in the market did occur.

THE NATURE OF OUR PRODUCTS SUBJECTS US TO PRODUCT LIABILITY RISKS. Our customers may rely on certain of our current products and products in development to prevent unauthorized access to digital content for financial transactions, computer networks, and real property. A malfunction of or design defect in certain of our products could result in tort or warranty claims. Although we attempt to reduce the risk of exposure from such claims through warranty disclaimers and liability limitation clauses in our sales agreements and by maintaining product liability insurance, we cannot assure you that these measures will be effective in limiting our liability for any damages. Any liability for damages resulting from security breaches could be substantial and could have a material adverse effect on our business and operating results. In addition, a well-publicized actual or perceived security breach involving our conditional access or security products could adversely affect the market's perception of our products in general, regardless of whether any breach is attributable to our products. This could result in a decline in demand for our products, which could have a material adverse effect on our business and operating results.

24

WE MAY HAVE DIFFICULTY RETAINING OR RECRUITING PROFESSIONALS FOR OUR BUSINESS. Our future success and performance is dependent on the continued services and performance of our senior management and other key personnel. If we fail to meet our operating and financial objectives this may make it more difficult to retain and reward our senior management and key personnel. The loss of the services of any of our executive officers or other key employees could materially adversely affect our business.

Our business requires experienced software and hardware engineers, and our success depends on identifying, hiring, training and retaining such experienced, knowledgeable professionals. If a significant number of our current employees or any of our senior technical personnel resign, or for other reasons are no longer employed by us, we may be unable to complete or retain existing projects or bid for new projects of similar scope and revenues. In addition, former employees may compete with us in the future.

Even if we retain our current employees, our management must continually recruit talented professionals in order for our business to grow. Furthermore, there is significant competition for employees with the skills required to perform the services we offer. We cannot assure you that we will be able to attract a sufficient number of qualified employees in the future to sustain and grow our business, or that we will be successful in motivating and retaining the employees we are able to attract. If we cannot attract, motivate and retain qualified professionals, our business, financial condition and results of operations will suffer.

OUR INTERNATIONAL OPERATIONS SUBJECT US TO RISKS ASSOCIATED WITH OPERATING IN FOREIGN MARKETS, INCLUDING FLUCTUATIONS IN CURRENCY EXCHANGE RATES, WHICH COULD ADVERSELY AFFECT OUR OPERATIONS AND FINANCIAL CONDITION. Our operations are located in the United Kingdom and sales to customers outside the U.S. represented approximately 82% and 88% of total sales for the years ended December 31, 2003 and 2004, respectively. Because we derive a substantial portion of our business outside the United States, we are subject to certain

Edgar Filing: PUBLICARD INC - Form 10-K

risks associated with operating in foreign markets including the following:

- o tariffs and other trade barriers;
- o difficulties in staffing and managing foreign operations;
- o currency exchange risks;
- o export controls related to encryption technology;
- o unexpected changes in regulatory requirements;
- o changes in economic and political conditions;
- o seasonal reductions in business activities in the countries where our customers are located;
- o longer payment cycles and greater difficulty in accounts receivable collection;
- o potentially adverse tax consequences; and
- o burdens of complying with a variety of foreign laws.

Any of the foregoing could adversely impact the success of our operations. We cannot assure you that such factors will not have a material adverse effect on our future sales and, consequently, on our business, operating results and financial condition. In addition, fluctuations in exchange rates could have a material adverse effect on our business, operating results and financial condition. To date, we have not engaged in currency hedging.

CHANGES WE MAY NEED OR BE REQUIRED TO MAKE IN OUR INSURANCE COVERAGE MAY EXPOSE US TO INCREASED LIABILITIES AND MAY INTERFERE WITH OUR ABILITY TO RETAIN OR ATTRACT QUALIFIED OFFICERS AND DIRECTORS. We renew or replace various insurance policies on an annual basis, including those that cover directors and officers liability. Given the current climate of rapidly increasing insurance premiums and erosions of coverage, we may need or be required to reduce our coverage and increase our deductibles in order to afford the premiums. To the extent we reduce our coverage and increase our deductibles, our exposure and the exposure of our directors and officers for liabilities that either become excluded from coverage or underinsured will increase. As a result, we may lose or may experience difficulty in attracting qualified directors and officers.

WE ARE SUBJECT TO GOVERNMENT REGULATION. Federal, state and local regulations impose various environmental controls on the discharge of chemicals and gases, which have been used in our past assembly processes and may be used in future processes. Moreover, changes in such environmental rules and regulations may require us to invest in capital equipment and implement compliance programs in the future. Any failure by us to comply with environmental rules and regulations, including the discharge of hazardous substances, could subject us to liabilities and could materially adversely affect our operations.

25

RECENTLY ENACTED AND PROPOSED REGULATORY CHANGES WILL CAUSE US TO INCUR INCREASED COSTS. Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, will increase our expenses as we evaluate the implications of new rules and devote resources to respond to the new requirements. In particular, we expect to incur significant additional administrative expense as we implement Section 404 of the Sarbanes-Oxley Act, which requires management to report on, and our independent registered public accounting firm to attest to, our internal controls. The compliance of these new rules could also result in continued diversion of management's time and attention, which could prove to be disruptive to business operations. Further, we may lose or may experience difficulty in attracting qualified directors and officers.

Edgar Filing: PUBLICARD INC - Form 10-K

There can be no assurance that we will timely complete the management certification and auditor attestation requirements of Section 404 of Sarbanes-Oxley Act. Possible consequences of failure to complete such actions include sanction or investigation by regulatory authorities, such as the Securities and Exchange Commission. Any such action could harm our stock price and also have a material adverse effect on our cash flow and financial position.

OUR ARTICLES OF INCORPORATION AND BY-LAWS, CERTAIN CHANGE OF CONTROL AGREEMENTS, OUR RIGHTS PLAN AND PROVISIONS OF PENNSYLVANIA LAW COULD DETER TAKEOVER ATTEMPTS.

Blank check preferred stock. Our board of directors has the authority to issue preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares without any further vote or action by the holders of our common stock. The rights of the holders of any preferred stock that may be issued in the future may adversely affect the rights of the holders of our common stock. The issuance of preferred stock could make it more difficult for a third party to acquire a majority of our outstanding voting stock, thereby delaying, deferring or preventing a change of control. Such preferred stock may have other rights, including economic rights, senior to our common stock, and as a result, the issuance of the preferred stock could limit the price that investors might be willing to pay in the future for shares of our common stock and could have a material adverse effect on the market value of our common stock.

Rights plan. Our rights plan entitles the registered holders of rights to purchase shares of our class A preferred stock upon the occurrence of certain events, and may have the effect of delaying, deferring or preventing a change of control.

Change of control agreements. We are a party to change of control agreements, which provide for payments to certain of our directors under certain circumstances following a change of control. Since the change of control agreements require large cash payments to be made by any person effecting a change of control, these agreements may discourage takeover attempts.

The change of control agreements provide that, if the services of any person party to a change of control agreement are terminated within three years following a change of control, that individual will be entitled to receive, in a lump sum within 10 days of the termination date, a payment equal to 2.99 times that individual's average annual compensation for the shorter of the five years preceding the change of control and the period the individual received compensation from us for personal services. Assuming a change of control were to occur at the present time, payments would be made of approximately \$633,000 to each of Mr. Harry I. Freund and Mr. Jay S. Goldsmith. If any such payment, either alone or together with others made in connection with the individual's termination, is considered to be an excess parachute payment under the Internal Revenue Code, the individual will be entitled to receive an additional payment in an amount which, when added to the initial payment, would result in a net benefit to the individual, after giving effect to excise taxes imposed by Section 4999 of the Internal Revenue Code and income taxes on such additional payment, equal to the initial payment before such additional payment and we would not be able to deduct these initial or additional payments for income tax purposes.

Pennsylvania law. We are a Pennsylvania corporation. Anti-takeover provisions of Pennsylvania law could make it difficult for a third party to acquire control of us, even if such change of control would be beneficial to our shareholders.

OUR STOCK WAS DELISTED FROM THE NASDAQ SYSTEM. On February 14, 2002, we

Edgar Filing: PUBLICARD INC - Form 10-K

received a notice from The Nasdaq Stock Market that our common stock had failed to maintain a minimum closing bid price of \$1.00 over the last 30 consecutive trading days as required by the Nasdaq National Market rules. We received a second notice on February 27, 2002, that our common stock also failed to maintain a market value of public float of \$5 million.

In accordance with the Nasdaq rules, we were required to regain compliance with the National Market minimum bid price requirement and with the market value of public float requirement by May 2002. Since our common stock continued to trade significantly below \$1.00, in April 2002, we filed an application to transfer the listing of our common stock to the SmallCap Market. The application was approved and our common stock listing was transferred to the SmallCap Market effective May 2, 2002. The SmallCap Market also has a minimum bid price requirement of \$1.00. We qualified for an extended grace period to comply with the SmallCap Market's \$1.00 minimum bid price requirement, which extended the delisting determination by Nasdaq until February 10, 2003.

26

On March 19, 2003, we received a Nasdaq Staff Determination letter indicating that we failed to comply with the minimum bid price requirement for continued listing on the SmallCap Market and that our common stock was therefore subject to delisting. Our board of directors decided not to appeal the delisting determination. Effective March 28, 2003, our common stock no longer traded on the SmallCap Market. On March 28, 2003, our common stock began trading on the OTC Bulletin Board.

As a result of the delisting, the liquidity of our common stock may be materially adversely affected. This could impair our ability to raise capital in the future. There can be no assurance that we will be able to obtain additional funding, on acceptable terms or at all. If we cannot raise additional capital to continue at our present level of operations we may not be able to meet our obligations, take advantage of future acquisition opportunities or further develop or enhance our product offering, any of which could have a material adverse effect on our business and results of operations and could lead us to seek bankruptcy protection.

OUR STOCK PRICE IS EXTREMELY VOLATILE. The stock market has recently experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. The market price of our common stock has been highly volatile and is likely to continue to be volatile. The future trading price for our common stock will depend on a number of factors, including:

- o delisting of our common stock from the Nasdaq SmallCap Market effective March 28, 2003 (see "Our stock has been delisted from the Nasdaq System" above);
- o the volume of activity for our common stock is minimal and therefore a large number of shares placed for sale or purchase could increase its volatility;
- o our ability to effectively manage our business, including our ability to raise capital;
- o variations in our annual or quarterly financial results or those of our competitors;
- o general economic conditions, in particular, the technology service sector;
- o expected or announced relationships with other companies;
- o announcements of technological advances innovations or new products by us or our competitors;

Edgar Filing: PUBLICARD INC - Form 10-K

- o patents or other proprietary rights or patent litigation; and
- o product liability or warranty litigation.

We cannot be certain that the market price of our common stock will not experience significant fluctuations in the future, including fluctuations that are adverse and unrelated to our performance.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange rate risk

We conduct operations in the United Kingdom and sell products in several different countries. Therefore, our operating results may be impacted by the fluctuating exchange rates of foreign currencies, especially the British pound, in relation to the U.S. dollar. We do not currently engage in hedging activities with respect to our foreign currency exposure. We continually monitor our exposure to currency fluctuations and may use financial hedging techniques when appropriate to minimize the effect of these fluctuations. Even so, exchange rate fluctuations may still have a material adverse effect on our business and operating results.

Market Risk

We are exposed to market risk primarily through short-term investments and an overdraft facility. Our investment policy calls for investment in short-term, low risk instruments. As of December 31, 2004, short-term investments (principally U.S. Treasury bills) were \$1.8 million and borrowing under the overdraft facility amounted to \$347,000. Due to the nature of these investments and the amount of the overdraft facility, any change in rates would not have a material impact on our financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements, the report of independent registered public accounting firm thereon and related schedules appear beginning on page F-2. See Index to Consolidated Financial Statements on page F-1.

27

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the SEC is recorded, processed, summarized and reported on a timely basis. With the participation of management, the Company's chief executive officer and chief financial officer has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon this evaluation, the chief executive officer and chief financial officer has concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Edgar Filing: PUBLICARD INC - Form 10-K

There has not been any change in the Company's internal controls over financial reporting during the fiscal year to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company is not an "accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934. Accordingly, pursuant to SEC Release No. 33-8545, the Company is not required to include in this Annual Report on Form 10-K a management report on internal control over financial reporting or the related registered public accounting firm attestation imposed by Section 404 of the Sarbanes-Oxley Act of 2002.

ITEM 9B. OTHER INFORMATION

In the fourth quarter of 2004, the Company reported all required disclosures on Form 8-K.

28

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company currently has six directors, all of whom were elected at the Annual Meeting of Shareholders held on December 8, 2003. All directors serve until the next election of directors or until their successors have been elected and have qualified. There is no family relationship between any of the directors and executive officers of the Company.

Set forth below as to each director of the Company is information regarding age (as of March 24, 2005), position with the Company, principal occupation, business experience, period of service as a director of the Company and directorships currently held.

HARRY I. FREUND: Age 65; Director of PubliCARD since April 12, 1985, Chairman of the Board of Directors since December 1985 and Chairman of PubliCARD from October 1998 to January 1, 2005. Mr. Freund has been Chairman of Balfour Investors Inc., a merchant-banking firm that had previously been engaged in a general brokerage business ("Balfour"), since 1975. Mr. Freund is also Vice Chairman of Glasstech, Inc.

JAY S. GOLDSMITH: Age 61; Director of PubliCARD since April 12, 1985, Vice Chairman of the Board of Directors since December 1985 and Vice Chairman of PubliCARD from October 1998 to January 1, 2005. Mr. Goldsmith has been President of Balfour since 1975. Mr. Goldsmith is also Chairman of Glasstech, Inc.

ANTONIO L. DELISE: Age 43; Director of PubliCARD since July 9, 2001. Mr. DeLise joined the Company in April 1995 as Vice President, Chief Financial Officer and Secretary. He was appointed to the Board of Directors in July 2001 and was elected to the additional posts of President in February 2002 and Chief Executive Officer in August 2002. Prior to joining the Company, Mr. DeLise was employed as a senior manager with the firm of Arthur Andersen LLP from July 1983 through March 1995.

CLIFFORD B. COHN: Age 53; Director of PubliCARD since July 31, 1980, and was Vice President of Government Affairs of PubliCARD from April 1, 1982 to

Edgar Filing: PUBLICARD INC - Form 10-K

November 20, 1984. Mr. Cohn is the principal of Cohn & Associates, a law firm in Philadelphia, Pennsylvania. Mr. Cohn was an attorney for Grayson & Goldin P.C., a law firm in Philadelphia, Pennsylvania, during 2002.

L. G. SCHAFRAN: Age 66; Director of PublicARD since December 3, 1986. Mr. Schafran is the Managing General Partner of L.G. Schafran & Associates, an investment and development firm established in 1984. Mr. Schafran is a Director of Tarragon Realty Investors, Inc., Chairman of the Board and Co-Chief Executive Officer of Delta-Omega Technologies, Inc., Co-Liquidating Trustee of the Banyan Strategic Realty Trust and Director of Worldspace, Inc.

EMIL VOGEL: Age 61; Director of PublicARD since October 5, 2001. Mr. Vogel has been the Senior Partner and founder of Tarnow Associates ("Tarnow") since 1982. Prior to founding Tarnow, Mr. Vogel spent nine years with an executive search firm in the New York City metropolitan area conducting senior level search assignments. Mr. Vogel is also a director of Q.E.P. Co., Inc.

The information with respect to the executive officers of the Company required by this item is set forth in Item 1A of this Form 10-K.

AUDIT COMMITTEE

The present members of the Audit Committee are Mr. Schafran (Chairman), Mr. Cohn and Mr. Vogel. The Company's Board of Directors has adopted a written charter for the Audit Committee, which can be found on the Corporate Governance section of the Company's website at www.publicard.com. The Board of Directors of the Company has determined that Mr. Schafran qualifies as an "audit committee expert" as defined by the Securities and Exchange Commission.

CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to the chief executive officer and senior financial officers. The Code of Ethics can be found on the Corporate Governance section of the Company's website at www.publicard.com. Changes to and waivers granted with respect to the Code of Ethics that are required to be disclosed pursuant to the applicable rules and regulations of the Securities and Exchange Commission will be posted to the Company's website.

29

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors and officers and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely upon the Company's review of the copies of such forms received by it during the fiscal year ended December 31, 2004 and representations that no other reports were required, the Company believes that each person who, at any time during such fiscal year, was a director, officer or, to the Company's knowledge, beneficial owner of more than 10% of the Company's common stock complied with all Section 16(a) filing requirements during such fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Edgar Filing: PUBLICARD INC - Form 10-K

The following tables set forth information concerning the cash compensation, stock options and retirement benefits provided to the Company's executive officers. The notes to these tables provide more specific information concerning compensation.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM
		SALARY (\$)	BONUS (\$) (1)	COMPENSATION
				SECURITIES UNDERLYING
				OPTIONS/ SARS (#) (2)
Antonio L. DeLise (3).....	2004	275,000	115,168	--
President, Chief Executive	2003	275,000	84,832	--
Officer, Chief Financial Officer	2002	262,500	40,000	--
and Secretary				
Harry I. Freund (5).....	2004	150,000	--	--
Chairman of the Board of	2003	150,000	--	--
Directors and Chairman	2002	170,833	--	--
Jay S. Goldsmith (5).....	2004	150,000	--	--
Vice Chairman of the Board of	2003	150,000	--	--
Directors and Vice Chairman	2002	170,833	--	--

-
- (1) Reflects bonus earned during the fiscal year. In some instances, all or a portion of the bonus was paid during the following fiscal year.
 - (2) Options to acquire shares of Common Stock.
 - (3) Mr. DeLise has served as Chief Financial Officer since April 1995 and was appointed to the additional posts of President in February 2002 and Chief Executive Officer in August 2002.
 - (4) Consists of \$5,500, \$6,000 and \$6,500 in contributions to PublicARD's 401(k) plan for 2002, 2003 and 2004, respectively, and \$2,880, \$2,706 and \$2,559 for term life and disability insurance payments paid on behalf of Mr. DeLise for 2002, 2003 and 2004, respectively.
 - (5) Effective January 1, 2005, Mr. Freund and Mr. Goldsmith resigned their officer positions as Chairman and Vice Chairman, respectively. Mr. Freund and Mr. Goldsmith remain as Chairman and Vice Chairman of the Board of Directors. Beginning January 1, 2005, Mr. Freund and Mr. Goldsmith will each receive compensation of \$100,000 per year in their capacity as Chairman and Vice Chairman of the Board of Directors.

OPTION GRANTS IN LAST FISCAL YEAR

During the fiscal year ended December 31, 2004, there were no options granted to the named executive officers.

Edgar Filing: PUBLICARD INC - Form 10-K

AGGREGATE STOCK OPTION EXERCISES IN FISCAL YEAR 2004 AND FISCAL YEAR-END OPTION VALUES

The following table sets forth certain information as of December 31, 2004 concerning exercisable and unexercisable stock options held by the following persons:

NAME	ACQUIRES ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE MON
			EXERCISABLE	UNEXERCISABLE	
Antonio L. DeLise	--	--	282,500	--	
Harry I. Freund	--	--	500,000	--	
Jay S. Goldsmith	--	--	500,000	--	

(1) These values are based on the December 31, 2004 closing price for PublicARD's common stock on the Over-the-counter Bulletin Board of \$.04 per share.

STOCK OPTION PLANS

Under the 1993 Long-Term Incentive Plan and the 1993 Non-employee Director Stock Option Plan adopted by shareholders of the Company in 1994 and the 1999 Long-Term Incentive Plan and 1999 Stock Option Plan for Non-employee Directors adopted by shareholders of the Company in 1999, the Company may grant stock options, restricted stock options, stock appreciation rights, performance awards and other stock-based awards equivalent to up to 7,300,000 shares of common stock. As of December 31, 2004, a total of 2,041,525 shares of Common Stock in the aggregate were available for grant under the stock option plans.

The plans are administered by the Board of Directors and/or the Compensation Committee of the Board of Directors of the Company. Subject to the express provisions of the plans, the Compensation Committee or the Board of Directors, as applicable, has full and final authority to determine the terms of all awards granted under the plans including (a) the purchase price of the shares covered by each award, (b) whether any payment will be required upon grant of the award, (c) the individuals to whom, and the time at which, awards shall be granted, (d) the number of shares to be subject to each award, (e) when an award can be exercised and whether in whole or in installments, (f) whether the exercisability of the awards is subject to risk of forfeiture or other condition and (g) whether the stock issued upon exercise of an award is subject to repurchase by the Company, and the terms of such repurchase.

STOCK OPTION AGREEMENTS

In January 1996, PublicARD issued options to Messrs. Cohn and Schafran to buy a total of 200,000 shares of PublicARD's Common Stock at an exercise price of \$2.50 per share for five years. In 2000, a total of 40,000 of such options were exercised. The expiration date on the remaining options was subsequently extended by five years to January 2006.

Edgar Filing: PUBLICARD INC - Form 10-K

EMPLOYMENT AND CHANGE IN CONTROL AGREEMENTS

In August 1987, the Company entered into change of control agreements with each of Messrs. Freund and Goldsmith, which provide for payments to them under certain circumstances following a change of control of the Company. These agreements were not adopted in response to any specific acquisition of shares of PublicARD or any other event threatening to bring about a change of control of the Company. For purposes of the agreements, a change of control is defined as any of the following: (a) the Company ceasing to be a publicly owned corporation having at least 2,000 shareholders, (b) any person or group acquiring in excess of 30% of the voting power of the Company's securities, (c) Messrs. Freund, Goldsmith, Cohn, DeLise, Schafran and Vogel and any other director designated as a "Continuing Director" prior to his election as a director by a majority of the foregoing persons (the "Continuing Directors") ceasing for any reason to constitute at least a majority of the board of directors, (d) the Company merging or consolidating with any entity, unless approved by a majority of the Continuing Directors or (e) the sale or transfer of a substantial portion of PublicARD's assets to another entity, unless approved by a majority of the Continuing Directors.

31

In the event one of the above-named individuals (a) is terminated as an employee of the Company for any reason other than conviction of a felony or any act of fraud or embezzlement, (b) is disabled for six consecutive months or dies, (c) is not elected and maintained in the office which he now occupies, (d) is not included by the board of directors in the slate of directors recommended to shareholders, (e) receives a reduction in his salary or fringe benefits, (f) experiences a change in his place of employment or is required to travel excessively or (g) experiences other substantial, material and adverse changes in conditions under which the individual's services are to be rendered, within three years following a change of control, the individual will be entitled to receive in a lump sum within 10 days of the date of discontinuance, a payment equal to 2.99 times the individual's average annual compensation for the shorter of (a) the five years preceding the change of control, or (b) the period the individual received compensation from PublicARD for personal services. Assuming a change of control of the Company and the discontinuance of an individual's services were to occur at the present time, payments in the amounts, assuming there are no "excess parachute payments" as defined in the Internal Revenue Code of 1986 (the "Code"), would be made pursuant to the change of control agreements of approximately \$633,000 to each of Mr. Freund and Mr. Goldsmith. In the event any such payment, either alone or together with others made in connection with the individual's discontinuance, is considered to be an excess parachute payment, the individual is entitled to receive an additional payment in an amount which, when added to the initial payment, results in a net benefit to the individual, after giving effect to excise taxes imposed by Section 4999 of the Code and income taxes on such additional payment, equal to the initial payment before such additional payment. Since the change of control agreements would require large cash payments to be made by any person or group effecting a change of control of PublicARD, absent the assent of a majority of the Continuing Directors, these agreements may discourage hostile takeover attempts of PublicARD.

The change of control agreements would have expired on December 1, 2004 but have been and will continue to be automatically extended for a period of one year on each December 1, unless terminated by either party prior to any December 1. In the event a change of control occurs while the change of control agreements are in effect, the term of such agreements will automatically be

Edgar Filing: PUBLICARD INC - Form 10-K

extended to three years from the date of the change of control and the foregoing renewal option will become inapplicable.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

Through September 30, 2000, directors who were not officers of the Company were paid \$2,500 per month for services as directors and, in addition, \$750 per day for each meeting of the board or of shareholders that they attend without regard to the number of meetings attended each day. Effective October 1, 2000, the monthly retainer and per diem fees were suspended. Pursuant to the 1999 Stock Option Plan for Non-employee Directors adopted by shareholders of the Company in 1999, non-employee directors receive 30,000 options to purchase common stock of the Company in August of each year.

From October 1998 through December 2004, Mr. Freund and Mr. Goldsmith received compensation as Chairman and Vice Chairman of the Company. For the year ended December 31, 2004, annual compensation in such capacity was \$150,000 each. On January 1, 2005, Mr. Freund and Mr. Goldsmith resigned their officer positions. Mr. Freund and Mr. Goldsmith remain as Chairman and Vice Chairman of the Board of Directors, respectively. Pursuant to informal arrangements with the Company, effective January 1, 2005, Mr. Freund and Mr. Goldsmith each receive annual compensation at the rate of \$100,000 per year as Chairman and Vice Chairman of the Board, respectively, and for providing certain services described below. The arrangements have indefinite terms and are terminable at any time by either party. The compensation received by them is approved from time to time by the Directors Compensation Committee of the Board of Directors.

Mr. Freund and Mr. Goldsmith provide advice and counsel to the Company on a variety of strategic and financial matters, including business acquisitions and divestitures, raising capital and shareholder relations. Mr. Freund and Mr. Goldsmith do not render any services in connection with the day-to-day operations of the Company. Services are provided on a less than full time basis, with the amount of time varying depending on the activities in which the Company is engaged from time to time. The arrangements with the Company do not provide for a minimum amount of time to be spent on Company matters.

Mr. Freund and Mr. Goldsmith are each party to an agreement with the Company providing for payments to them under certain circumstances following a change in control of the Company. See "Employment and Change in Control Agreements."

Balfour occupies a portion of the office space leased by the Company in New York City. The Chairman and Vice Chairman of the Company's Board of Directors are the only shareholders of Balfour. Balfour pays to the Company 50% of the rent and occupancy costs paid by the Company under its lease, including base rent, electricity, water, real estate tax escalations and operation and maintenance escalations. The base rent payable by Balfour is approximately \$9,500 per month.

32

Directors of the Company are elected at each annual meeting of shareholders to hold office until the next annual meeting of shareholders and until their respective successors are duly elected and qualified. Executive officers are elected to hold office until the first meeting of directors following the next annual meeting of shareholders or until their successors are sooner elected by the Board and qualified.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Edgar Filing: PUBLICARD INC - Form 10-K

The Compensation Committee of the Board of Directors, which consists entirely of outside directors, reviews the compensation of key employees of the Company. The present members of the Compensation Committee are Clifford B. Cohn (Chairman) and L.G. Schafran. See Item 13-"Certain Relationships and Related Transactions".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following information is furnished as of March 24, 2005 with respect to each class of equity securities of the Company beneficially owned by each person who owns of record or is known by the Company to own beneficially more than 5% of the common stock of the Company and by all directors, nominees and officers and by all directors, nominees and officers as a group. All information with respect to beneficial ownership has been furnished to the Company by the respective shareholders of the Company and the directors, nominees and officers.

NAME	POSITION	BENEFICIAL OWNERSHIP OF SHARES OF COMMON STOCK AS OF MARCH 24, 2005 (1)	PERCENT CLASS
Taube Hodson Stonex Partners Limited 27 St. James Place London SW1A 1NR United Kingdom	N/A	2,735,500 (2)	11.1
Harry I. Freund	Director, Chairman of the Board of Directors	1,024,957 (3)	4.1
Jay S. Goldsmith	Director, Vice Chairman of the Board of Directors	1,236,553 (4)	4.9
Antonio L. DeLise	Director, President, Chief Executive Officer, Chief Financial Officer and Secretary	309,500 (5)	1.2
Clifford B. Cohn	Director	210,314 (6)	Less t
L.G. Schafran	Director	364,050 (7)	1.5
Emil Vogel	Director	168,800 (8)	Less t
All directors, nominees and officers as a group (6 persons)		3,301,174 (9)	12.4

(1) Calculated in accordance with Rule 13d-3 adopted by the SEC under the Exchange Act.

(2) Based on statements on Schedule 13G filed with the SEC on October 11, 1999

Edgar Filing: PUBLICARD INC - Form 10-K

and on Form 4 Amendment No. 2 filed with the SEC on January 15, 2004. Taube Hodson Stonex Partners Limited is a discretionary investment advisor to J. Rothschild Assurance Life Fund, St. James Place International Unit Trust, J. Rothschild Assurance Pension Fund, J. Rothschild International Assurance Managed Fund, J. Rothschild International Assurance US\$ Managed Fund, TDG Funds Limited, GAM Worldwide Fund and The Partners Fund. Taube Hodson Stonex Partners Limited has power to vote and direct the vote and power to dispose and direct the disposition of shares held by such funds.

- (3) Includes 500,000 shares of Common Stock which may be acquired by Mr. Freund within 60 days. Also includes 5,454 shares of Common Stock held by Mr. Freund's spouse over which Mr. Freund has shared voting and investment power but as to which he disclaims any beneficial interest. Also includes 13,000 shares that may be deemed to be owned beneficially by Mr. Freund which are held by the Balfour Defined Benefit Pension Plan (the "Plan"), for which Mr. Freund is a Trustee and Plan Administrator and in which he participates. Mr. Freund disclaims ownership of 5,850 shares of such 13,000 shares.
- (4) Includes 500,000 shares of Common Stock which may be acquired by Mr. Goldsmith within 60 days. Also includes 13,000 shares that may be deemed to be owned beneficially by Mr. Goldsmith which are held by the Plan, of which Mr. Goldsmith is a Trustee and Plan Administrator and in which he participates. Mr. Goldsmith disclaims ownership of 7,280 shares of Common Stock held by the Plan.
- (5) Includes 282,500 shares which may be acquired by Mr. DeLise within 60 days through the exercise of stock options.
- (6) Includes 210,000 shares which may be acquired by Mr. Cohn within 60 days through the exercise of stock options.
- (7) Includes 250,000 shares which may be acquired by Mr. Schafran within 60 days through the exercise of stock options. Also includes 114,050 shares of Common Stock held by Mr. Schafran's spouse as to which Mr. Schafran disclaims any beneficial interest.
- (8) Includes 110,000 shares which may be acquired by Mr. Vogel within 60 days through the exercise of stock options.
- (9) Includes 1,852,500 shares of Common Stock which may be acquired by such persons within 60 days.

The following table sets forth certain equity compensation plan information for the Company as of December 31, 2004.

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b)	NUMBER OF SE AVAILABLE F UNDER EQUITY (EXCLUDING SEC CO
Equity compensation plans approved by security holders	2,269,475	\$.51	
Equity compensation plans not approved by security holders	160,000	\$ 2.50	
Total	2,429,475 =====	\$.64	

See Item 11-"Executive Compensation" for a description of the Company's

Edgar Filing: PUBLICARD INC - Form 10-K

equity compensation plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Employment and Change in Control Agreements" and "Information Concerning the Board of Directors" in Item 11 and the notes to the table under Security Ownership of Certain Beneficial Owners in Item 12 for information with respect to information required by this Item.

34

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes the aggregate fees billed to the Company by Deloitte & Touche LLP, the Company's independent auditor:

	2004	2003
	-----	-----
Audit fees	\$ 177,041	\$ 179,758
Audit-related fees	15,645	11,038
Tax fees	--	--
All other fees	--	--

Audit-related fees consist of retirement plan audit fees. The Audit Committee requires that all services performed by Deloitte & Touche LLP are pre-approved prior to the services being performed. All services were pre-approved by the Audit Committee in 2004 and 2003. The Audit Committee has considered whether the provision of non-audit services by the Company's principal auditor are compatible with maintaining auditor independence. Deloitte & Touche LLP did not perform any non-audit services for the Company during 2004 and 2003.

35

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules.

- 1) Financial Statements - See accompanying Index to Consolidated Financial Statements, Page F-1.
- 2) Financial Statement Schedules - See accompanying Index to Consolidated Financial Statements, Page F-1.

(b) Exhibits:

- 3.1 Amended and Restated Articles of Incorporation, amended and restated through November 2, 1998, of PublicARD. Incorporated by reference to PublicARD's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, dated November 9, 1998.
- 3.2 By-laws of PublicARD. Incorporated by reference to PublicARD's Annual Report on Form 10-K for the fiscal year ended December 31,

Edgar Filing: PUBLICARD INC - Form 10-K

1990, dated March 28, 1991.

- 4.1 Certificate of Designation, Preferences and Rights of Class A Preferred Stock, First Series. Incorporated by reference from PublicARD's Registration Statement on Form 8-A, dated September 26, 1988.
- 4.2 Amended and Restated Rights Agreement, dated as of August 7, 1998, between PublicARD and Continental Stock Transfer & Trust Company, as Rights Agent. Incorporated by reference from PublicARD's Current Report on Form 8-K, filed on September 17, 1998.
- 4.3 Certificate of Designation, Preferences and Rights of Class A Preferred Stock, Second Series as filed with the Department of State of the Commonwealth of Pennsylvania on November 29, 2000. Incorporated by reference from PublicARD's Current Report on Form 8-K filed on December 18, 2000.
- 4.4 Rights Plan, adopted November 1, 2000. Incorporated by reference from PublicARD's Current Report on Form 8-K filed on December 18, 2000.
- 10.1 Agreements, dated as of August 1987, between PublicARD and each of Harry I. Freund and Jay S. Goldsmith concerning a change of control of PublicARD. Incorporated by reference from PublicARD's Form 8 Amendment to PublicARD's Quarterly Report on Form 10-Q for the quarter ended September 30, 1987, filed on December 18, 1987.
- 10.2 PublicARD's 1993 Long Term Incentive Plan. Incorporated by reference from PublicARD's Annual Report on Form 10-K for the year ended December 31, 1993, dated March 29, 1994.
- 10.3 PublicARD's Non-employee Director Stock Option Plan. Incorporated by reference from PublicARD's Annual Report on Form 10-K for the year ended December 31, 1993, dated March 29, 1994.
- 10.4 PublicARD's 1999 Stock Option Plan for Non-Employee Directors. Incorporated by reference from PublicARD's Annual Report on Form 10-K for the year ended December 31, 1999, dated March 30, 2000.
- 10.5 PublicARD's 1999 Long-Term Incentive Plan. Incorporated by reference from PublicARD's Annual Report on Form 10-K for the year ended December 31, 1999, dated March 30, 2000.
- 10.6 Settlement Agreement, dated as of September 23, 2004, by and between the Pension Benefit Guaranty Corporation and PublicARD, Inc. Incorporated by reference from PublicARD's Current Report on Form 8-K filed on October 14, 2004.
- 10.7 Promissory Note, dated as of September 23, 2004 made by PublicARD, Inc. to the Pension Benefit Guaranty Corporation. Incorporated by reference from PublicARD's Current Report on Form 8-K filed on October 14, 2004.
- 10.8 Security Agreement, dated as of September 23, 2004, made by PublicARD, Inc. to the Pension Benefit Guaranty Corporation. Incorporated by reference from PublicARD's Current Report on Form

Edgar Filing: PUBLICARD INC - Form 10-K

8-K filed on October 14, 2004.

- 10.9 Pledge Agreement, dated as of September 23, 2004, made by PubliCARD, Inc. in favor of the Pension Benefit Guaranty Corporation. Incorporated by reference from PubliCARD's Current Report on Form 8-K filed on October 14, 2004.
- 21.1 Subsidiaries of PubliCARD. Filed herewith.
- 23.1 Consent letter from Independent Registered Public Accounting Firm. Filed herewith.
- 31(i).1 Rule 13a-14(a)/15d-14(a) certification. Filed herewith.
- 32.1 Section 1350 certification. Filed herewith.

37

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PUBLICARD, INC.
(Registrant)

Date: March 30, 2005

By: /s/ ANTONIO L. DELISE

Antonio L. DeLise, President,
Chief Executive Officer, Chief
Financial Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 30, 2005

By: /s/ ANTONIO L. DELISE

Antonio L. DeLise, President,
Chief Executive Officer, Chief
Financial Officer and Director

Date: March 30, 2005

By: /s/ CLIFFORD B. COHN

Clifford B. Cohn, Director

Date: March 30, 2005

By: /s/ HARRY I. FREUND

Harry I. Freund, Chairman and
Director

Date: March 30, 2005

By: /s/ JAY S. GOLDSMITH

Edgar Filing: PUBLICARD INC - Form 10-K

Jay S. Goldsmith, Vice Chairman
and Director

Date: March 30, 2005

By: /s/ L. G. SCHAFRAN

L. G. Schafran, Director

Date: March 30, 2005

By: /s/ EMIL VOGEL

Emil Vogel, Director

38

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Financial Statements

Report of Independent Registered Public Accounting Firm.....F-2
Consolidated balance sheets as of December 31, 2004 and 2003.....F-3
Consolidated statements of operations for the years ended
December 31, 2004, 2003 and 2002.....F-4
Consolidated statements of shareholders' equity (deficiency) for the
years ended December 31, 2004, 2003 and 2002.....F-5
Consolidated statements of cash flows for the years ended
December 31, 2004, 2003 and 2002.....F-6
Notes to consolidated financial statements.....F-7 through F-23

Schedule

Report of Independent Registered Public Accounting Firm on schedule.....F-24
Schedule II - Valuation and qualifying accounts.....F-25

All other schedules required by Regulation S-X have been omitted because they are not applicable or because the required information is included in the financial statements or notes thereto.

F-1

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

Edgar Filing: PUBLICARD INC - Form 10-K

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PubliCARD, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of PubliCARD, Inc. and subsidiary companies (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity (deficiency), and cash flows for the three years ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PubliCARD, Inc. and subsidiary companies as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced recurring losses from operations, a substantial decline in working capital and negative cash flows from operations, and requires additional capital to meet its obligations, which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 24, 2005

F-2

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

Edgar Filing: PUBLICARD INC - Form 10-K

	2004

	(in thousands)
ASSETS	
Current assets:	
Cash, including short-term investments of \$1,837 and \$3,501 in 2004 and 2003, respectively	\$ 1,9
Trade receivables, less allowance for doubtful accounts of \$48 and \$115 in 2004 and 2003, respectively	8
Inventories	5
Prepaid insurance and other	4

Total current assets	3,7
Equipment and leasehold improvements, net	1
Goodwill and intangibles	7
Other assets	3

	\$ 5,0
	=====
LIABILITIES AND SHAREHOLDERS' DEFICIENCY	
Current liabilities:	
Trade accounts payable and overdraft	\$ 1,3
Accrued liabilities	1,0

Total current liabilities	2,3
Note payable	7,5
Other non-current liabilities	3

Total liabilities	10,2

Commitments and contingencies (Note 7)	
Shareholders' deficiency:	
Class A Preferred Stock, Second Series, no par value: 1,000 shares authorized; 565 shares issued and outstanding as of December 31, 2004 and 2003, respectively	2,8
Common shares, \$0.10 par value: 40,000,000 shares authorized; 24,690,902 shares issued and outstanding as of December 31, 2004 and 2003, respectively	2,4
Additional paid-in capital	108,1
Accumulated deficit	(118,4
Other comprehensive loss	(

Total shareholders' deficiency	(5,1

	\$ 5,0
	=====

The accompanying notes to consolidated financial statements are an integral part of these statements.

Edgar Filing: PUBLICARD INC - Form 10-K

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
	-----	-----	-----
	(in thousands, except share data)		
Revenues	\$ 4,395	\$ 4,781	\$ 4,600
Cost of revenues	2,010	2,316	2,450
	-----	-----	-----
Gross margin	2,385	2,465	2,150
	-----	-----	-----
Operating expenses:			
General and administrative	2,330	2,708	3,230
Sales and marketing	1,671	1,844	1,870
Product development	716	584	600
Amortization of intangibles	40	40	57
Impairment of goodwill and intangibles	--	--	1,360
	-----	-----	-----
	4,757	5,176	7,650
	-----	-----	-----
Loss from operations	(2,372)	(2,711)	(5,500)
	-----	-----	-----
Other income (expenses):			
Interest income	27	15	70
Interest expense	(22)	(12)	(30)
Cost of retirement benefits - non-operating	(405)	(903)	(790)
Loss on pension settlement	(2,739)	--	--
Write-down of minority investment	--	(3,000)	(2,060)
Gain on insurance recoveries	647	4,590	--
Other income	5	428	80
	-----	-----	-----
	(2,487)	1,118	(2,750)
	-----	-----	-----
Loss from continuing operations	(4,859)	(1,593)	(8,250)
Income from discontinued operations	--	--	1,060
	-----	-----	-----
Net loss	\$ (4,859)	\$ (1,593)	\$ (7,190)
	=====	=====	=====
Basic and diluted earnings (loss) per common share:			
Continuing operations	\$ (.20)	\$ (.07)	\$ (.30)
Discontinued operations	--	--	.00
	-----	-----	-----
	\$ (.20)	\$ (.07)	\$ (.30)
	=====	=====	=====
Weighted average common shares outstanding	24,690,902	24,469,748	24,179,360
	=====	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these statements.

F-4

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Class A Preferred Stock		Common Shares		Additional Paid-in Capital	Accumulated Deficiency
	Shares Issued	Amount	Shares Issued	Amount		
(in thousands, except share data)						
Balance - January 1, 2002	780	\$ 3,900	24,153,402	\$ 2,415	\$ 107,098	\$ (10,000)
Conversion of preferred stock	(15)	(75)	37,500	4	71	
Comprehensive loss:						
Net loss	--	--	--	--	--	(10,000)
Foreign currency translation adjustment	--	--	--	--	--	
Minimum pension liability	--	--	--	--	--	
Total comprehensive loss						
Balance - December 31, 2002	765	3,825	24,190,902	2,419	107,169	(11,000)
Conversion of preferred stock	(200)	(1,000)	500,000	50	950	
Comprehensive loss:						
Net loss	--	--	--	--	--	(11,000)
Foreign currency translation adjustment	--	--	--	--	--	
Minimum pension liability	--	--	--	--	--	
Total comprehensive						

Edgar Filing: PUBLICARD INC - Form 10-K

Net cash used in operating activities	(2,325)	(2,190)	(5,
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(48)	(11)	
Proceeds from insurance recoveries, net of funds held in escrow	727	4,118	
Proceeds from discontinued operations and sale of property and fixed assets	5	371	1,
Other	2	(3)	
Net cash provided by investing activities	686	4,475	1,
CASH FLOWS FROM FINANCING ACTIVITIES			
Effect of exchange rate changes on cash and cash equivalents	2	5	
Net increase (decrease) in cash	(1,637)	2,290	(3,
Cash - beginning of period	3,580	1,290	4,
Cash - end of period	\$ 1,943	\$ 3,580	\$ 1,
Cash paid for interest	\$ 22	\$ 12	\$

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

F-6

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE BUSINESS

PublicARD, Inc. ("PublicARD" or the "Company") was incorporated in the Commonwealth of Pennsylvania in 1913. PublicARD entered the smart card industry in early 1998, and began to develop solutions for the conditional access, security, payment system and data storage needs of industries utilizing smart card technology. In 1998 and 1999, the Company made a series of acquisitions to enhance its position in the smart card industry. In March 2000, PublicARD's Board of Directors (the "Board"), together with its management team, determined to integrate its operations and focus on deploying smart card solutions, which facilitate secure access and transactions. To effect this new business strategy, in March 2000, the Board adopted a plan of disposition pursuant to which the Company divested its non-core operations. See Note 9 for a discussion on the disposition plan.

In July 2001, after evaluating the timing of potential future revenues, PublicARD's Board decided to shift the Company's strategic focus. While the Board remained confident in the long-term prospects of the smart card business, the timing of public sector and corporate initiatives in wide-scale, broadband

Edgar Filing: PUBLICARD INC - Form 10-K

environments utilizing the Company's smart card reader and chip products had become more uncertain. Given the lengthened time horizon, the Board did not believe it would be prudent to continue to invest the Company's current resources in the ongoing development and marketing of these technologies. Accordingly, the Board determined that shareholders' interests would be best served by pursuing strategic alliances with one or more companies that have the resources to capitalize more fully on the Company's smart card reader and chip-related technologies. In connection with this shift in the Company's strategic focus, workforce reductions and other measures were implemented to achieve cost savings.

At present, PublicARD's sole operating activities are conducted through its Infineer Ltd. subsidiary ("Infineer"), which designs smart card solutions for educational and corporate sites. The Company's future plans revolve around a potential acquisition strategy that would focus on businesses in areas outside the high technology sector while continuing to support the expansion of the Infineer business. However, the Company will not be able to implement such plans unless it is successful in obtaining funding, as to which no assurance can be given.

LIQUIDITY AND GOING CONCERN CONSIDERATIONS

These consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred operating losses, a substantial decline in working capital and negative cash flow from operations for a number of years. The Company has also experienced a substantial reduction in its cash and short term investments, which declined from \$17.0 million at December 31, 2000 to \$1.9 million at December 31, 2004. The Company also had a shareholders' deficiency of \$5.2 million December 31, 2004.

The Company sponsored a defined benefit pension plan (the "Plan") that was frozen in 1993. In January 2003, the Company filed a notice with the Pension Benefit Guaranty Corporation (the "PBGC") seeking a "distress termination" of the Plan. In September 2004, the PBGC proceeded to terminate the Plan and was appointed as the Plan's trustee. See Note 5 for further information on the Plan termination. As a result of the Plan termination, the Company's 2003 and 2004 funding requirements due to the Plan amounting to \$3.4 million through September 15, 2004 were eliminated. As such, management believes that existing cash and short term investments may be sufficient to meet the Company's operating and capital requirements at the currently anticipated levels through December 31, 2005. However, additional capital will be necessary in order to operate beyond December 31, 2005 and to fund the current business plan and other obligations. While the Company is considering various funding alternatives, the Company has not secured or entered into any arrangements to obtain additional funds. There can be no assurance that the Company will be able to obtain additional funding on acceptable terms or at all. If the Company cannot raise additional capital to continue its present level of operations it is not likely to be able to meet its obligations, take advantage of future acquisition opportunities or further develop or enhance its product offering, any of which would have a material

F-7

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

adverse effect on its business and results of operations and is likely to lead the Company to seek bankruptcy protection. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The

Edgar Filing: PUBLICARD INC - Form 10-K

consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of PublicARD and its wholly-owned subsidiaries. All intercompany transactions are eliminated in consolidation.

SHORT-TERM INVESTMENTS

Short-term investments consist of certain liquid instruments with original maturities of three months or less including U.S. Treasury obligations and money market funds.

INVENTORIES

Inventories are stated at lower of cost (first-in, first-out method) or market. The Company periodically evaluates the need to record adjustments for impairment of inventory. Inventory in excess of the Company's estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are management's estimates related to the Company's production schedules, customer demand, possible alternative uses and the ultimate realization of potentially excess inventory. Inventories at December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
	----	----
Raw materials and work-in-process	\$468	\$486
Finished goods	90	149
	----	----
	\$558	\$635
	=====	=====

DEPRECIATION AND AMORTIZATION

Equipment and leasehold improvements are stated at cost. Improvements and replacements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation for equipment is computed using the straight-line method over estimated useful lives of three to five years. Amortization for leasehold improvements is computed using the lesser of the estimated useful life or the life of the lease. Equipment and leasehold improvements at December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
	-----	-----
Equipment, furniture and fixtures	\$ 1,123	\$ 1,093
Leasehold improvements	58	224
Accumulated depreciation and amortization	(1,054)	(1,126)
	-----	-----
	\$ 127	\$ 191
	=====	=====

Depreciation and amortization expense was \$116,000, \$153,000 and \$205,000 in 2004, 2003 and 2002, respectively.

GOODWILL AND INTANGIBLES

Goodwill is the excess of the purchase price and related costs over the value assigned to the net tangible and intangible assets relating to the November 1999 acquisition of Infineer. Through December 31, 2001, goodwill had been amortized over a five year life. Effective January 1, 2002, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). In accordance with the guidelines of this statement, goodwill and indefinite lived intangible assets are no longer amortized but will be

Edgar Filing: PUBLICARD INC - Form 10-K

assessed for impairment on at least an annual basis. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment.

F-8

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company determines the fair value of its sole reporting unit primarily using two approaches: a market approach technique and a discounted cash flow valuation technique. The market approach relies primarily on the implied fair value using a multiple of revenues for several entities with comparable operations and economic characteristics. Significant assumptions used in the discounted cash valuation included estimates of future cash flows, future short-term and long-term growth rates and estimated cost of capital for purposes of arriving at a discount factor. The Company performs its annual goodwill impairment test during the fourth quarter absent any interim impairment indicators. The carrying value of goodwill as of December 31, 2004 and 2003 was \$782,000.

In performing its annual goodwill impairment test at the end of the fourth quarter of 2002, the Company determined that goodwill had been impaired. Based on comparing the values derived from the two techniques described above to the carrying value of the reporting unit, the Company recorded a goodwill impairment loss of \$364,000 in the fourth quarter of 2002. The Company attributed the impairment loss to the value of a comparable entity that was sold in a transaction in late 2002, the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital available to invest in the reporting unit.

Intangible assets consist of completed technology identified as of the Infineer acquisition date and are amortized over a five year life. Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the net realizable of the asset. In the fourth quarter of 2002, the Company determined that its intangible assets had been impaired and recorded an impairment loss of \$1.0 million. The Company attributes the impairment loss to the significant 2002 operating loss for the reporting unit and lower forecasted revenue growth due to a continued overall decline in technology spending and a shortage of capital available to invest in the reporting unit.

The gross carrying amount and accumulated amortization of intangible assets at December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
	-----	-----
Gross carrying amount	\$ 1,881	\$ 1,881
Accumulated amortization	(1,881)	(1,841)
	-----	-----
	\$ --	\$ 40

Edgar Filing: PUBLICARD INC - Form 10-K

=====

Amortization of intangibles for 2004, 2003 and 2002 was \$40,000, \$40,000 and \$576,000, respectively.

VALUATION OF INVESTMENTS

The Company periodically assesses the carrying value of its minority-owned investments for impairment. This assessment is based upon a review of operations and indications of continued viability, such as subsequent rounds of financing.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

Revenue from product sales and technology and software license fees is recorded upon shipment if a signed contract exists, the fee is fixed and determinable, the collection of the resulting receivable is probable and the Company has no obligation to install the product or solution. If the Company is responsible for installation, revenue from product sales and license fees is deferred and recognized upon client acceptance or "go live" date. Maintenance and support fees are deferred and recognized as revenue ratably over the contract period. Provisions are recorded for estimated warranty repairs and returns at the time the products are shipped. Should changes in conditions cause management to determine that revenue recognition criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

F-9

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's credit worthiness. The Company continually monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within management's expectations and the provisions established, there is no assurance that the Company will continue to experience the same credit loss rates as in the past.

STOCK-BASED COMPENSATION

The Company accounts for employee stock-based compensation cost using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure".

At December 31, 2004, the Company had four fixed stock-based compensation plans, which are described more fully in Note 6. The exercise price of each option granted pursuant to these plans is equal to the market price of the Company's common stock on the date of grant. Accordingly, pursuant to APB No. 25, no compensation cost has been recognized for such grants. Had compensation cost been determined based on the fair value at the grant dates for such awards consistent with the method prescribed by SFAS No. 123, the Company's net loss and loss per share would have been as follows (in thousands, except per share data):

2004	2003	2002
-----	-----	-----

Edgar Filing: PUBLICARD INC - Form 10-K

Net loss, as reported	\$ (4,859)	\$ (1,593)	\$ (7,193)
Deduct: Total stock-based compensation expense determined under fair value based method	(126)	(490)	(172)
	-----	-----	-----
Pro forma net loss	\$ (4,985)	\$ (2,083)	\$ (7,365)
	=====	=====	=====
Basic and diluted loss per share:			
As reported	\$ (.20)	\$ (.07)	\$ (.30)
	=====	=====	=====
Pro forma	\$ (.20)	\$ (.09)	\$ (.30)
	=====	=====	=====

For purposes of the pro forma disclosure, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used to estimate the value of the options included in the pro forma amounts and the weighted average estimated fair value of an option granted are as follows:

	2004	2003	2002
	-----	-----	-----
Expected option term (years)	5.0	5.0	5.0
Expected volatility	353.0%	93.0%	75.0%
Risk-free interest rate	3.7%	3.4%	3.5%
Weighted average fair value per option	\$.06	\$.05	\$.16

USE OF ESTIMATES

The preparation of these financial statements required the use of certain estimates by management in determining the Company's assets, liabilities, revenues and expenses. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company considers certain accounting policies related to revenue recognition, estimates of reserves for receivables and inventories and valuation of goodwill and intangibles to be critical policies due to the estimation processes involved. While all available information has been considered, actual amounts could differ from those reported.

F-10

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EARNINGS (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is based on net income divided by the weighted average number of common shares outstanding during each year. Diluted net income (loss) per common share assumes issuance of the net incremental shares from stock options, warrants and convertible preferred stock at the later of the beginning of the year or date of issuance. Diluted net income (loss) per share was the same as basic net income (loss) per share in 2004, 2003 and 2002 since the effect of stock options and convertible preferred stock were anti-dilutive. Shares issuable pursuant to stock options and convertible preferred stock were 3,841,975, 4,057,475 and 5,215,635 as of December 31, 2004, 2003 and 2002, respectively.

Edgar Filing: PUBLICARD INC - Form 10-K

FOREIGN CURRENCY TRANSLATION

The local currency of the Company's foreign (United Kingdom) subsidiary is its functional currency. Assets and liabilities of the Company's foreign subsidiary are translated into U.S. dollars at the current exchange rate. Statement of operations accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are a component of accumulated comprehensive loss included in shareholders' equity.

FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

The carrying amount of financial instruments, including cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, approximates fair value. The fair value of long-term debt is estimated based on current rates which could be offered to the Company for debt of the same remaining maturity. The estimated fair value of the Company's long term debt as of December 31, 2004 was as follows (in thousands):

	CARRYING AMOUNT	FAIR VALUE
	-----	-----
Long-term debt	\$ 7,501	\$1,860

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and short-term investments and accounts receivable. The Company maintains all of its cash and short-term investments with high-credit quality financial institutions. The Company's customer base consists of businesses principally in Europe (with a concentration in the United Kingdom) and the United States. For the years ended December 31, 2004 and 2003, no one customer accounted for more than 10% of revenues. Amounts due from two customers represented approximately 21% and 13%, respectively, of the accounts receivable balance as of December 31, 2004.

RESEARCH AND DEVELOPMENT AND SOFTWARE DEVELOPMENT COSTS

Research and development costs are expensed as incurred. In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", the Company capitalizes eligible computer software costs upon achievement of technological feasibility subject to net realizable value considerations. Through December 31, 2004, such costs eligible for capitalization were insignificant. Accordingly, all such costs have been charged to product development expenses.

INCOME TAXES

The Company follows SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Since the Company has no recent history of profits, management cannot assess the likelihood that the future benefit of these losses will be recognized. Thus, a full valuation allowance has been recorded.

F-11

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RECENT ACCOUNTING PRONOUNCEMENTS

Edgar Filing: PUBLICARD INC - Form 10-K

In December 2004, the FASB issued SFAS No. 123R (revised 2004), "Share-Based Payment" This statement requires compensation costs related to share-based payment transactions to be recognized in financial statements. Generally, compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the requisite service period, generally as the award vests. The Company will adopt SFAS No. 123R in the third quarter of 2005. SFAS No. 123R applies to all awards granted after June 30, 2005 and to previously-granted awards unvested as of the adoption date. The adoption of the statement is not expected to have a material impact on Company's consolidated financial positions, results of operations and cash flows.

In November 2004, the FASB issued SFAS No. 151, "Inventory Cost, an amendment of ARB No. 43, Chapter 4." This statement amends Accounting Research Bulletin No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). The provision of the statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of the statement is not expected to have a material effect on the Company's consolidated financial positions, results of operations and cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." This statement amends APB No. 29, "Accounting for Nonmonetary Transactions," to eliminate the exception for nonmonetary exchanges of similar productive assets under APB No. 29 and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The statement is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of the statement is not expected to have a material effect on the Company's consolidated financial positions, results of operations and cash flows.

NOTE 2 - INVESTMENTS

In December 2000, the Company acquired an ownership interest in TecSec, Incorporated, a Virginia corporation ("TecSec"), for \$5.1 million. TecSec develops and markets encryption products and solutions, which are designed to enable the next generation information security for the enterprise, multi-enterprise e-business and other markets. The TecSec investment, amounting to a 5% ownership interest on a fully diluted basis, has been accounted for at cost. The Company has certain anti-dilutive rights whereby its ownership interest may be increased following contributions of additional third-party capital. In the third quarter of 2002, the Company determined that the investment in TecSec had been impaired and recorded a charge of \$2.1 million. The Company attributed the impairment to a general decline in valuations of technology entities, the difficulties in raising capital and TecSec's recurring operating losses. In the fourth quarter of 2003, the Company determined that the investment had been further impaired and recorded a charge of \$3.0 million. The Company attributed this further impairment to the delay in anticipated government sector awards involving information security technology and TecSec's ongoing operating losses and liquidity issues. The impairment charges are included in "Other income (expenses)". TecSec is currently evaluating alternative sources of financing to meet ongoing capital and operating needs, although there is no assurance that it will be able to obtain financing or continue in operations. Future recoveries, if any, from the Company's ownership interest in TecSec will be recorded as income upon receipt.

In conjunction with the decision to exit the smart card reader and chip business, in September 2001, the Company formed a new minority-owned affiliate, Mako Technologies LLC ("Mako"), to market its smart card reader and chip technologies. The Company contributed certain inventories and equipment valued at \$238,000, in exchange for a 31% fully diluted ownership interest in Mako. The

Edgar Filing: PUBLICARD INC - Form 10-K

Company also granted a license of its reader and chip technology to Mako in exchange for royalties based on sales over the next two years. After reducing headcount and reassessing business potential, a decision was made in April 2002 to liquidate Mako and terminate the license agreement. Pending the final

F-12

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

wind-down of this venture, the Company wrote-off the entire investment in Mako in 2002. During 2002, the Company also realized proceeds of \$224,000 from the sale of smart card reader and chip inventory, which had been previously written-off. The Mako write-off and inventory proceeds are reflected in "Other income (expenses)".

NOTE 3 - SHAREHOLDERS' EQUITY

On December 6, 2000, the Company completed the private placement of 525,000 shares of common stock and 790 shares of Class A Preferred Stock, Second Series ("Class A Preferred Stock"), a newly designated series of convertible preferred stock, resulting in aggregate proceeds of \$5.0 million to PublicARD. The securities were sold to institutional investors and other accredited investors in the U.S. and Europe. Each share of Class A Preferred Stock is convertible into 2,500 shares of common stock. Therefore, the shares of common stock issued plus the shares of common stock issuable upon conversion of the Class A Preferred Stock aggregate 2.5 million common shares. The proceeds from the private placement were used to acquire the ownership interest in TecSec. In 2003 and 2002, 200 shares and 15 shares of Class A Preferred Stock were converted into 500,000 shares and 37,500 shares, respectively, of PublicARD's common stock. As of December 31, 2004 and 2003 there were 565 shares of Class A Preferred Stock outstanding. The Class A Preferred Stock has a liquidation preference of \$5,000 per share.

In connection with the December 2000 private placement, the Company issued 100 rights equally to the participants in the private placement. These rights entitle the participating holders of common stock and Class A Preferred Stock to receive an aggregate of ten percent of any increase in value of the TecSec investment realized by the Company. The Company performed an internal valuation of the participation rights and concluded their value on the issuance date to be de minimus.

On August 9, 1988, the Company declared a dividend of one right ("Right") for each outstanding share of its common stock. Each Right entitles the holder to purchase one one-hundredth of a share of a new series of Class A Preferred Stock, First Series, at an exercise price of \$7.50, subject to adjustment to prevent dilution. The Rights become exercisable 10 days after a person or group acquires 20% or more of the Company's common stock or announces a tender or exchange offer for 30% or more of the Company's common stock. If, after the Rights become exercisable, the Company is party to a merger or similar business combination transaction, each Right not held by a party to such transaction may be used to purchase common stock having a market value of two times the exercise price. The Rights, which have no voting power, may be redeemed by the Company at \$.01 per Right. In July 1998, the Company's Board of Directors approved the extension of the rights plan to August 8, 2008.

NOTE 4 - INCOME TAXES

Edgar Filing: PUBLICARD INC - Form 10-K

The loss from continuing operations consisted of the following (in thousands):

	2004	2003	2002
	-----	-----	-----
United States	\$ (3,927)	\$ (508)	\$ (4,686)
Foreign	(932)	(1,085)	(3,573)
	-----	-----	-----
	\$ (4,859)	\$ (1,593)	\$ (8,259)
	=====	=====	=====

F-13

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of taxes computed at the U.S. Federal statutory tax rate to income tax expense for continuing operations follows (in thousands):

	2004	2003	2002
	-----	-----	-----
Federal taxes, at statutory rate	\$ (1,701)	\$ (558)	\$ (2,890)
Effect of domestic and foreign losses with no tax benefit	1,686	543	2,204
Amortization of goodwill and other non-deductible expenses	15	15	686
	-----	-----	-----
Income tax expense	\$ --	\$ --	\$ --
	=====	=====	=====

The components of net deferred taxes are as follows (in thousands):

	2004	2003
	-----	-----
Net operating loss carryforward	\$ 23,671	\$ 24,583
Pension expense	2,540	1,417
Other, net	(51)	(26)
	-----	-----
Less valuation allowance	26,160 (26,160)	25,974 (25,974)
	-----	-----
Net deferred taxes	\$ --	\$ --
	=====	=====

As of December 31, 2004, approximately \$67.6 million of U.S. tax loss carryforwards (subject to review by the Internal Revenue Service), expiring from 2005 through 2024, were available to offset future taxable income. The carryforwards expire as follows (in thousands):

YEAR ENDING DECEMBER 31,	AMOUNT
-----	-----
2005	\$ 6,700
2006	2,400
2007	4,300

Edgar Filing: PUBLICARD INC - Form 10-K

2008	5,000
2009	2,300
2010 - 2024	46,900

	\$ 67,600
	=====

Due to the "change of ownership" provisions of the Internal Revenue Code of 1986, the availability of net operating loss carryforwards to offset federal taxable income in future periods could be subject to an annual limitation if a change in ownership for income tax purposes occurs. If such change in ownership were to occur, management estimates that virtually all of the available net operating loss carryforwards would be unavailable to reduce its income tax liability. Furthermore, the extent of the actual future use of the net operating loss carryforwards is subject to inherent uncertainty, because it depends on the amount of otherwise taxable income the Company may earn. No assurance can be given that the Company will have sufficient taxable income in future years, if any, to use the net operating losses before they would otherwise expire.

At December 31, 2004, the Company's foreign subsidiary had a net operating loss carryforward for income tax purposes of approximately \$4.6 million. The operating loss carryforward has no expiration period. For financial reporting purposes, a valuation allowance of \$1.4 million has been recognized to offset the deferred tax asset relating to this carryforward.

F-14

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PLAN

The Company maintains a 401(k) plan for its U.S. employees. The assets of the Company's 401(k) plan are held by an outside fund manager and are invested in accordance with the instructions of the individual plan participants. The Company's matching contributions totaled \$10,000, \$9,000 and \$14,000 in 2004, 2003 and 2002, respectively.

DEFINED BENEFIT PLAN

The Company sponsored a defined benefit pension plan that was frozen in 1993. In January 2003, the Company filed a notice with the PBGC seeking a "distress termination" of the Plan. Pursuant to the Agreement for Appointment of Trustee and Termination of Plan between the PBGC and the Company, effective September 30, 2004, the PBGC proceeded to terminate the Plan and was appointed as the Plan's trustee. As a result, the PBGC has assumed responsibility for paying the obligations to Plan participants. Under the terms of the Settlement Agreement, effective September 23, 2004, between the PBGC and the Company (the "Settlement Agreement"), the Company is liable to the PBGC for the unfunded guaranteed benefit payable by the PBGC to Plan participants in the amount of \$7.5 million. The Company satisfied this liability by issuing a non-interest bearing note (the "Note"), dated September 23, 2004, payable to the PBGC with a face amount of \$7.5 million. A loss on the termination of the Plan of \$2.7 million was recorded in the third quarter of 2004.

Pursuant to the Security Agreement and Pledge Agreement, both dated September 23, 2004, the Note is secured by (a) all presently owned or hereafter acquired real or personal property and rights to property of the Company and (b)

Edgar Filing: PUBLICARD INC - Form 10-K

the common and preferred stock of Infineer and TecSec owned by the Company.

The Note matures on September 23, 2011. The first payment will be equal to \$1.0 million and will become due 30 days after the Company has received a total of \$4.0 million in Net Recoveries (as defined below). Thereafter, on each anniversary of the first payment, the Company is required to pay the PBGC an amount equal to 25% of the Net Recoveries in excess of \$4.0 million (less the sum of all prior payments made in accordance with this sentence in prior years). Net Recoveries, as defined in the Settlement Agreement, is the net cash proceeds received by the Company with respect to transactions consummated after March 31, 2003 from (a) the sale of the Company's interest in Infineer and TecSec, real property in Louisiana and any other real or personal property assets and (b) any recoveries from the Company's historic insurance program. As of December 31, 2004, Net Recoveries was approximately \$3.4 million.

In the event of default by the Company under the Settlement Agreement, the PBGC may declare the outstanding amount of the Note to be immediately due and payable, proceed with foreclosure of the liens granted in favor of the PBGC and exercise any other rights available under applicable law.

Information regarding the Plan, measured as of December 31, 2003, was as follows (in thousands):

Change in benefit obligation:		
Benefit obligation at beginning of year	\$	9,354
Interest cost		531
Benefit payments		(916)
Actuarial (gain) or loss		778

Benefit obligation at end of year		9,747

F-15

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Change in plan assets:	
Fair value of plan assets at beginning of year	3,210
Actual return on plan assets	542
Employer contributions	--
Benefit payments and plan expenses	(947)

Fair value of plan assets at end of year	2,805

Funded status	(6,942)
Unrecognized transition obligation	--
Unrecognized prior service cost	2
Unrecognized net loss	2,649

	\$(4,291)
	=====

Amounts recognized in statement of financial position consist of:

Accrued benefit liability	\$(6,942)
Intangible asset	2

Edgar Filing: PUBLICARD INC - Form 10-K

Accumulated comprehensive loss	2,649

Net amount recognized	\$ (4,291)
	=====

Cost of retirement benefits - non-operating of \$405,000, \$903,000 and \$795,000 in 2004, 2003 and 2002, respectively, includes the net periodic pension cost and other Plan related expenses. The components of the net periodic pension cost were as follows (in thousands):

	2004	2003	2002
	-----	-----	-----
Interest cost	\$ 348	\$ 531	\$ 611
Expected return on plan assets	(87)	(162)	(268)
Amortization of transition obligation	--	293	293
Amortization of net (gain) loss	83	86	--
	-----	-----	-----
Net periodic pension cost	\$ 344	\$ 748	\$ 636
	=====	=====	=====

The unrecognized transition obligation was zero at December 31, 2003 and, accordingly, there was no further amortization expense related to this component of net periodic pension cost in 2004. As a result of the termination of the Plan, net periodic pension cost will be zero prospectively.

The change in the minimum liability included in other comprehensive income was as follows (in thousands):

	2004	2003	2002
	-----	-----	-----
Other comprehensive income	\$ (2,649)	\$ 343	\$ 1,405

The assumptions used to determine the net periodic pension cost for the years ending December 31, 2004, 2003 and 2002 and the benefit obligation as of December 31, 2003 were as follows:

	NET PERIODIC PENSION COST			BENEFIT OBLIGATION
	2004	2003	2002	2003
	-----	-----	-----	-----
Discount rate	5.0%	6.0%	7.25%	5.0%
Long-term rate of return	5.0%	6.0%	8.0%	N/A

F-16

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As discussed above, in January 2003 the Company filed a notice with the PBGC seeking a distress termination of the Plan. The discount rate and long-term rate of return assumptions were decreased in 2004 and 2003 to reflect the Plan's short time horizon due to the pending termination request.

The Plan's asset allocation at December 31, 2003, by asset category was as follows:

Edgar Filing: PUBLICARD INC - Form 10-K

	2003
Equity securities	64%
Government bonds	23%
Corporate bonds	4%
Money market and accrued income	9%
	100%
	=====

The investment objectives of the Plan was to diversify assets in order to reduce the risk of wide swings in market value from year-to-year, to provide asset growth at a rate in excess of the rate of inflation and to achieve a positive rate of return over the long term that significantly contributes to meeting the Plan's obligations. The target asset mix guidelines were 60% equity securities and 40% investment grade debt securities. Equity securities included PublicARD common stock in the amount of approximately \$9,000 at December 31, 2003 (less than 1% of total plan assets).

Prior to 2003, the Company's funding policy had been to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws. Contributions to the Plan were \$1.1 million in 2002.

NOTE 6 - STOCK OPTIONS AND WARRANTS

The Company has issued stock options pursuant to four fixed stock-based compensation plans and made special stock option awards to certain directors, consultants and employees. A summary of shares purchasable upon the exercise of stock options as of December 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
Fixed stock-based compensation plans	2,269,475	2,292,975	2,939,175
Special stock options	160,000	352,000	363,960
	2,429,475	2,644,975	3,303,135
	=====	=====	=====

FIXED STOCK-BASED COMPENSATION PLANS

The Company has four stock-based compensation plans that provide for the granting of incentive and non-qualified stock options, restricted stock, stock appreciation rights, performance awards and other stock-based awards to employees, non-employee directors and consultants. Under these plans adopted by shareholders of the Company, the Company may grant up to 7,300,000 shares of common stock. The plans are administered by either the Board of Directors of the Company or the Compensation Committee of the Board of Directors. The exercise price of each option granted was equal to the market price of the Company's common stock on the date of grant. Stock options granted to non-employee directors expire five years from the date of grant and vest immediately. Stock options granted to employees generally expire five or ten years from the date of grant. Prior to 1999, stock options granted to employees vested immediately. Grants subsequent to 1998 generally vest over three or four years. As of December 31, 2004, there were 2,041,525 shares available for grant under the fixed stock-based compensation plans.

Edgar Filing: PUBLICARD INC - Form 10-K

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the stock options issued pursuant to the fixed stock-based compensation plans as of December 31, 2004, 2003 and 2002 and changes during the years then ended is presented below:

	2004		2003		2002	
	SHARES	AVERAGE EXERCISE PRICE	SHARES	AVERAGE EXERCISE PRICE	SHARES	AVERAGE EXERCISE PRICE
Balance at January 1	2,292,975	\$.79	2,939,175	\$ 1.01	4,608,450	\$ 1.01
Granted	90,000	.05	90,000	.07	90,000	.07
Exercised	--	--	--	--	--	--
Canceled	(113,500)	5.67	(736,200)	1.58	(1,759,275)	1.58
Balance at December 31	2,269,475	.51	2,292,975	.79	2,939,175	1.01

A summary of the Company's stock options outstanding and exercisable issued pursuant to the fixed stock-based compensation plans as of December 31, 2004, is as follows:

RANGE OF EXERCISE PRICE	OUTSTANDING			EXERCISABLE	
	SHARES	CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
\$.05 to \$.07	180,000	4.1	\$.06	180,000	\$.06
\$.25 to \$.40	1,952,350	4.4	.38	1,952,350	.38
\$2.06 to \$4.00	137,125	.6	2.98	137,125	2.98
\$\$.05 to \$4.00 (all options)	2,269,475	4.1	.51	2,269,475	.51

SPECIAL STOCK OPTIONS AND STOCK AWARDS

The Company has issued special stock options outside of the fixed stock option plans. As of December 31, 2004, there are a total of 160,000 special stock options outstanding. All of such options are currently exercisable. No special stock options were granted or exercised in 2004, 2003 or 2002.

In January 1996, the Company issued options to two members of the Company's Board of Directors to purchase 200,000 shares of the Company's common stock at a price of \$2.50 per share for five years. In 2000, a total of 40,000 options were exercised. The expiration date of the remaining 160,000 options was subsequently extended by five years to January 2006.

COMMON STOCK PURCHASE WARRANTS

In December 1986, the Company issued \$30 million of 13% Subordinated Notes together with detachable warrants and underwriter's warrants to purchase a total of 4,800,000 shares of the Company's common stock for five years, which period

Edgar Filing: PUBLICARD INC - Form 10-K

was subsequently extended by five years. In 1997, the shareholders of the Company approved an additional five-year extension and certain modifications to the warrants. On July 2, 2002, the remaining warrants, entitling the warrant holders to purchase 1,523,573 shares of common stock, expired.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases certain office space, vehicles and office equipment under operating leases that expire over the next four years. Certain of these operating leases provide the Company with the option, after the initial lease term, to either purchase the property or renew the lease. Total rent expense for all operating leases amounted to approximately \$254,000 in 2004, \$241,000 in 2003 and \$221,000 in 2002.

F-18

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are as follows (in thousands):

YEAR ENDING DECEMBER 31, -----	MINIMUM LEASE PAYMENTS -----	SUBLEASE INCOME -----	NET -----
2005	\$ 350	\$ 114	\$ 236
2006	315	114	201
2007	148	38	110
2008	48	--	48
Remainder	--	--	--
	-----	-----	-----
Total minimum lease payments	\$ 861	\$ 266	\$ 595
	=====	=====	=====

Balfour Investors Inc. ("Balfour") occupies a portion of the office space leased by the Company in New York City. The Chairman and Vice Chairman of the Company's Board of Directors are the only shareholders of Balfour. Balfour pays to the Company 50% of the rent and occupancy costs paid by the Company under its lease, including base rent, electricity, water, real estate tax escalations and operation and maintenance escalations. The base rent payable by Balfour is approximately \$9,500 per month.

ENVIRONMENTAL

In April 1996, a consent decree (the "Consent Decree") among the Company, the United States Environmental Protection Agency ("EPA") and the Pennsylvania Department of Environmental Protection ("PADEP") was entered by the court which resolved all of the United States' and PADEP's claims against the Company for recovery of costs incurred in responding to releases of hazardous substances at a facility in Philadelphia previously owned and operated by the Company. Pursuant to the Consent Decree, the Company was obligated to pay a total of \$14.4 million plus interest to the United States and the Commonwealth of Pennsylvania. In January 2002, the Company and the EPA reached an agreement to extend the due date on the remaining unpaid balance through April 2004. In return, the EPA was granted a security interest in certain assets held in escrow ("Greenwald Escrow").

Edgar Filing: PUBLICARD INC - Form 10-K

As discussed in Note 9, in September 2002, the Company reached an agreement pursuant to which the Greenwald Escrow was terminated and net proceeds of approximately \$1.3 million were disbursed to the Company. Upon termination of the Greenwald Escrow in October 2002, the Company satisfied the remaining obligation to the EPA amounting to \$806,000, which included accrued interest.

GRANTS AND BANK FINANCING

The Company has received grants from several government agencies in the United Kingdom. These grants have been used for marketing, research and development and other governmental business incentives such as general employment. Such grants require the Company to maintain certain levels of operations and employment in Northern Ireland. As of December 31, 2004, the Company has a contingent liability to repay, in whole or part, grants received of approximately \$510,000 in the event the Company becomes insolvent or otherwise violates the terms of such grants. As of December 31, 2004, the Company is in compliance with the terms of the grants.

Infiner has an overdraft facility with a bank in Northern Ireland, which allows for the maximum borrowing of 240,000 British pounds. This facility is secured by all of Infiner's assets and bears an interest rate at the bank's base rate plus 2% (approximately 6.75% at December 31, 2004). As of December 31, 2004, Infiner had borrowings outstanding under this facility totaling 181,000 British pounds (or the equivalent of \$347,000).

LEGAL

On May 28, 2002, a lawsuit was filed against the Company in the Superior Court of the State of California, in the County of Los Angeles by Leonard M. Ross and affiliated entities alleging, among other things, misrepresentation and securities fraud. The lawsuit names the Company and four of its current and former executive officers and directors as the defendants. The plaintiffs seek monetary and punitive damages for alleged actions made by the defendants in

F-19

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

order to induce the plaintiff to purchase, hold or refrain from selling PublicARD common stock. The plaintiffs allege that the defendants made a series of material misrepresentations, misleading statements, omissions and concealments, specifically and directly to the plaintiffs concerning the nature, existence and status of contracts with certain purchasers, the nature and existence of investments in the Company by third parties, the nature and existence of business relationships and investments by the Company. The Company believes it has meritorious defenses to the allegations and intends to defend vigorously.

In November 2002, the Company and the individual defendants served with the action filed a demurrer seeking the dismissal of six of the plaintiffs' nine purported causes of action. In January 2003, the court ruled in favor of the demurrer and dismissed the entire complaint. The plaintiffs were granted the right to replead and subsequently filed an amended complaint in February 2003. The Company and individual defendants filed a second demurrer in March 2003. In June 2003, the court ruled in favor of the demurrer and dismissed, without leave to amend, six of the eleven purported causes of action in the amended complaint. Discovery has commenced and no trial date has been set. Consequently, at this time it is not reasonably possible to estimate the damages, or range of damages, if any, that the Company might incur in connection with this action. However, if

Edgar Filing: PUBLICARD INC - Form 10-K

the outcome of this lawsuit is unfavorable to the Company, it could have a material adverse effect on the Company's operations, cash flow and financial position.

The Company incurred approximately \$200,000 in defense costs in 2002. No additional costs have been incurred in 2003 and 2004. Notice of the commencement of this action has been given to the Company's directors and officers liability insurance carriers. The Company's directors and officers liability insurance carriers are funding the additional costs of defending this action, subject to the carriers' reservation of rights.

Various other legal proceedings are pending against the Company. The Company considers all such other proceedings to be ordinary litigation incident to the character of its businesses. Certain claims are covered by liability insurance. The Company believes that the resolution of those claims, to the extent not covered by insurance, will not, individually or in the aggregate, have a material adverse effect on the financial position or results of operations of the Company.

CHANGE OF CONTROL AGREEMENTS

The Company is a party to change of control agreements, which provide for payments to certain directors under certain circumstances following a change of control. Since the change of control agreements require large cash payments to be made by any person effecting a change of control, these agreements may discourage takeover attempts. The change of control agreements provide that, if the services of any person party to a change of control agreement are terminated within three years following a change of control, that individual will be entitled to receive, in a lump sum within 10 days of the termination date, a payment equal to 2.99 times that individual's average annual compensation for the shorter of the five years preceding the change of control and the period the individual received compensation from us for personal services. Assuming a change of control was to occur at the present time, payments of \$633,000 each would be made to the Company's Chairman and Vice Chairman. If any such payment, either alone or together with others made in connection with the individual's termination, is considered to be an excess parachute payment under the Internal Revenue Code, the individual will be entitled to receive an additional payment in an amount which, when added to the initial payment, would result in a net benefit to the individual, after giving effect to excise taxes imposed by Section 4999 of the Internal Revenue Code and income taxes on such additional payment, equal to the initial payment before such additional payment and the Company would not be able to deduct these initial or additional payments for income tax purposes.

INSURANCE AND OTHER RECOVERIES

During 2003, the Company entered into three binding settlements with various historical insurers that resolved certain claims (including certain future claims) under policies of insurance issued to the Company by those insurers. As a result of the settlements, after allowance for associated expenses, offsetting adjustments and amounts held in escrow, the Company received net proceeds of approximately \$4.1 million in 2003. Pursuant to one of the settlements, an additional net amount of approximately \$470,000 was placed in escrow to secure the payment of certain indemnification obligations. Absent

F-20

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: PUBLICARD INC - Form 10-K

any indemnity claims, amounts will be released from escrow beginning September 30, 2004 and ending June 30, 2006. During 2004, net cash released from escrow amounted to approximately \$84,000. The Company recognized a gain from these settlements of approximately \$4.6 million in 2003.

In February 2004, the Company entered into a binding agreement to assign to a third party certain insurance claims against a group of historic insurers. In July 2004, the assignment was supplemented to include several additional insurers. The claims involve several historic general liability policies of insurance issued to the Company. As a result of the assignment, after allowance for associated expenses and offsetting adjustments, the Company received net proceeds of approximately \$647,000 in 2004. The Company recognized a gain from this assignment of \$647,000 in 2004.

The Company is also in discussions with other insurance markets regarding the status of certain policies of insurance. It cannot be determined whether any additional amounts may be recovered from these other insurers nor can the timing of any such additional recoveries be determined.

In October 2003, the Company sold a parcel of land in Louisiana resulting in net proceeds of approximately \$370,000. The Company recognized a gain of approximately \$330,000 in 2003 relating to the land sale which is included in "Other income (expenses)".

NOTE 8 - SEGMENT DATA

The Company's sole operating activities involve the deployment of smart card solutions for educational and corporate sites. As such, the Company reports as a single segment. Revenues by geographical areas for the years ended December 31, 2004, 2003 and 2002 are as follows (in thousands):

	2004	2003	2002
	-----	-----	-----
United States	\$ 540	\$ 869	\$1,029
Europe	3,631	3,467	3,445
Rest of world	224	445	131
	-----	-----	-----
	\$4,395	\$4,781	\$4,605
	=====	=====	=====

The Company has operations in the United States and United Kingdom. Identifiable tangible assets by country as of December 31, 2004 and 2003 are as follows (in thousands):

	2004	2003
	-----	-----
United States	\$2,770	\$4,542
United Kingdom	1,521	2,035
	-----	-----
	\$4,291	\$6,577
	=====	=====

NOTE 9 - DISCONTINUED OPERATIONS

In March 2000, the Company's Board adopted a plan to dispose of the operations of the Company's Greenwald Industries Inc. ("Greenwald"), Greenwald Intellicard, Inc. ("Greenwald Intellicard"), Greystone Peripherals, Inc. ("Greystone") and Amazing Smart Card Technologies, Inc. ("Amazing") subsidiaries. These subsidiaries designed, manufactured and distributed mechanical and smart card laundry solutions, hard disk duplicators and smart

Edgar Filing: PUBLICARD INC - Form 10-K

cards. In the fourth quarter of 1999, the Company recorded a loss of \$2.0 million related to the disposition plan, net of the expected gain on the disposition of these businesses. The loss provision was based on estimates of the proceeds expected to be realized on the dispositions and the results of operations through the disposition or wind-down dates.

F-21

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On June 29, 2000, the Company completed the sale of substantially all of the assets of Greenwald and Greenwald Intellicard to The Eastern Company ("Eastern") for \$22.5 million in cash, less \$1.75 million held in escrow ("Greenwald Escrow") to secure the payment of certain indemnification obligations. As part of the transaction, Eastern assumed certain liabilities of Greenwald and Greenwald Intellicard, including certain contractual liabilities, accounts payable and accrued liabilities. In the third quarter of 2000, the Company recognized a gain of \$4.3 million principally related to the sale of Greenwald and Greenwald Intellicard.

In the second quarter of 2001, the Company revised its estimates of proceeds and expenses associated with the wind-down of Amazing and Greystone and recognized a gain of \$2.4 million, which had been previously deferred pending resolution of certain contingencies.

On September 30, 2002, the Company reached an agreement ("Escrow Termination Agreement") pursuant to which the Greenwald Escrow was terminated and net proceeds of approximately \$1.3 million were disbursed to the Company. Pursuant to the Escrow Termination Agreement, Eastern acknowledged that there were no indemnification claims outstanding under the applicable asset purchase agreement. A gain of \$1.1 million was recognized in the third quarter of 2002, principally relating to the release of reserves upon the resolution of the Greenwald Escrow. The amounts the Company will ultimately realize from its discontinued operations could differ from the amounts estimated and could therefore result in additional charges or gains in future periods.

NOTE 10 - SUPPLEMENTAL INFORMATION

Other assets as of December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
	----	----
Escrow deposit - non current	\$396	\$596
Intangible pension asset	--	2
	----	----
	\$396	\$598
	====	====

Accrued liabilities as of December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
	-----	-----
Pension liability	\$ --	\$3,866

Edgar Filing: PUBLICARD INC - Form 10-K

Payroll and other employee benefits	259	260
Deferred revenue	363	585
Other	383	495
	-----	-----
	\$1,005	\$5,206
	=====	=====

Other non-current liabilities as of December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
	-----	-----
Pension liability	\$ --	\$3,076
Other retiree benefits	135	180
Other	233	296
	-----	-----
	\$ 368	\$3,552
	=====	=====

F-22

PUBLICARD, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of other comprehensive loss as of December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
	-----	-----
Foreign currency translation adjustment	\$ 96	\$ 75
Minimum pension liability	--	2,649
	-----	-----
	\$ 96	\$2,724
	=====	=====

Comprehensive loss for the Company includes foreign currency translation adjustments and minimum pension liability, as well as net loss reported in the Company's Statements of Operations. Comprehensive loss for years ended December 31, 2004, 2003 and 2002 was as follows (in thousands):

	2004	2003	2002
	-----	-----	-----
Net loss	\$(4,859)	\$(1,593)	\$(7,193)
Minimum pension liability	2,649	(343)	(1,405)
Foreign currency translation adjustments	(21)	10	112
	-----	-----	-----
Comprehensive loss	\$(2,231)	\$(1,926)	\$(8,486)
	=====	=====	=====

NOTE 11 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The unaudited consolidated financial statements for each of the quarterly periods in the years ended December 31, 2004 and 2003 are as follows (in thousands, except per share data):

MAR. 31 JUN. 30 SEP. 30 DEC. 31

Edgar Filing: PUBLICARD INC - Form 10-K

	-----	-----	-----	-----
2004				
Net sales	\$ 828	\$ 1,028	\$ 1,260	\$ 1,279
Gross margin	422	548	730	685
Net income (loss)	(503)	(783)	(3,082)	(491)
Basic and diluted earnings (loss) per share	\$ (.02)	\$ (.03)	\$ (.12)	\$ (.02)
2003				
Net sales	\$ 1,413	\$ 1,193	\$ 1,417	\$ 758
Gross margin	794	581	772	318
Net income (loss)	1,000	(929)	(749)	(915)
Basic and diluted earnings (loss) per share	\$.04	\$ (.04)	\$ (.03)	\$ (.04)

F-23

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SCHEDULE II

To the Board of Directors and Shareholders of
PublicARD, Inc.
New York, New York

We have audited the consolidated financial statements of PublicARD, Inc. and subsidiary companies (the "Company") as of December 31, 2004 and 2003 and for each of the three years ended December 31, 2004, and have issued our report thereon dated March 24, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern). Our audits also included the consolidated financial statement schedule listed in Index at Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

The aforementioned financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced recurring losses from operations, a substantial decline in working capital and negative cash flows from operations, and requires additional capital to meet its obligations, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 24, 2005

F-24

Edgar Filing: PUBLICARD INC - Form 10-K

PUBLICARD, INC.
AND SUBSIDIARY COMPANIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	BALANCE JANUARY 1 -----	ADDITIONS -----		DEDUCTIONS (1) -----
		CHARGED TO COSTS AND EXPENSES -----	OTHER -----	
(in thousand of dollars)				
Year ended December 31, 2004:				
Allowance for doubtful accounts	115	(43)	2	(26)
Reserve for discontinued operations	406	--	--	(29)
Year ended December 31, 2003:				
Allowance for doubtful accounts	103	5	7	--
Reserve for discontinued operations	429	--	--	(23)
Year ended December 31, 2002:				
Allowance for doubtful accounts	216	--	--	(113)
Reserve for discontinued operations	1,245	(457)	--	(359)

(1) Deductions for allowance for doubtful accounts represent the write-offs of account receivab
for discontinued operations represent charges and payments to reserves net of gains and rec
to reserves.