

PUBLICARD INC  
Form 10-Q  
July 28, 2006

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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2006**

**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**

(State or other jurisdiction of incorporation or organization)

**23-0991870**

(I.R.S. Employer Identification No.)

**One Rockefeller Plaza, 14<sup>th</sup> Floor, New York,  
NY**

(Address of principal executive offices)

**10020**

(Zip code)

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

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes   
No

Number of shares of Common Stock outstanding as of July 28, 2006: **24,940,902**

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES****CONDENSED CONSOLIDATED BALANCE SHEETS AS OF  
JUNE 30, 2006 AND DECEMBER 31, 2005  
(in thousands, except share data)**

	<b>June 30, 2006</b> (unaudited)	<b>December 31, 2005</b>
<b>ASSETS</b>		
Current assets:		
Cash, including short-term investments of \$280 and \$989 in 2006 and 2005, respectively	\$ 549	\$ 1,072
Trade receivables, less allowance for doubtful accounts of \$18 and \$16 in 2006 and 2005, respectively	531	647
Inventories	276	303
Other current assets	132	573
<b>Total current assets</b>	<b>1,488</b>	<b>2,595</b>
Equipment and leasehold improvements, net	35	47
	\$ 1,523	\$ 2,642
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
Current liabilities:		
Overdraft payable	\$ 549	\$ 406
Trade accounts payable	579	592
Accrued liabilities	738	1,067
<b>Total current liabilities</b>	<b>1,866</b>	<b>2,065</b>
Note payable	7,501	7,501
Other non-current liabilities	222	227
<b>Total liabilities</b>	<b>9,589</b>	<b>9,793</b>
Commitments and contingencies (Note 3)		
Shareholders' deficiency:		
Class A Preferred Stock, Second Series, no par value: 1,000 shares authorized; 465	2,325	2,325

shares issued and outstanding as of June 30, 2006  
and December 31, 2005

Common shares, \$0.10 par value: 40,000,000 shares  
authorized; 24,940,902

shares issued and outstanding as of June 30, 2006  
and December 31, 2005

	2,494	2,494
Additional paid-in capital	108,594	108,594
Accumulated deficit	(121,389)	(120,507)
Accumulated other comprehensive loss	(90)	(57)
Total shareholders' deficiency	(8,066)	(7,151)
	\$ 1,523	\$ 2,642

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

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**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
(in thousands, except share data)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 799	\$ 909	\$ 1,548	\$ 1,660
Cost of revenues	404	424	731	792
Gross margin	395	485	817	868
Operating expenses:				
General and administrative	448	492	909	1,022
Sales and marketing	258	284	520	682
Product development	138	163	286	339
	844	939	1,715	2,043
Loss from operations	(449)	(454)	(898)	(1,175)
Other income (expenses):				
Interest income	4	7	11	14
Interest expense	(9)	(6)	(16)	(11)
Other income	21	-	21	-
	16	1	16	3
Net loss	\$ (433)	\$ (453)	\$ (882)	\$ (1,172)
Basic and diluted loss per common share	\$ (.02)	\$ (.02)	\$ (.04)	\$ (.05)
Basic and diluted weighted average common shares outstanding	24,940,902	24,690,902	24,940,902	24,690,902

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

**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY  
FOR THE SIX MONTHS ENDED JUNE 30, 2006  
(in thousands, except share data)  
(unaudited)**

	Class A Preferred Stock	Common Shares Issued	Common Shares Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehen- sive Loss	Total Share- holders' Deficiency
Balance - January 1, 2006	\$ 2,325	24,940,902	\$ 2,494	\$ 108,594	\$ (120,507)	\$ (57)	\$ (7,151)
Comprehensive loss:							
Net loss	—	—	—	—	(882)	—	(882)
Foreign currency translation adjustment	—	—	—	—	—	(33)	(33)
Comprehensive loss							(915)
Balance - June 30, 2006	\$ 2,325	24,940,902	\$ 2,494	\$ 108,594	\$ (121,389)	\$ (90)	\$ (8,066)

The accompanying notes to unaudited condensed consolidated financial statements are an integral part of this statement.

**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

(in thousands)  
(unaudited)

	2006		2005
<b>Cash flows from operating activities:</b>			
Net loss	\$ (882)	\$	(1,172)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on insurance recovery	(21)		—
Depreciation and amortization	19		43
Changes in assets and liabilities:			
Trade receivables	150		73
Inventories	44		165
Prepaid insurance and other current assets	46		107
Trade accounts payable	(36)		(264)
Accrued liabilities	(238)		9
Other non-current liabilities	(5)		(9)
Net cash used in operating activities	(923)		(1,048)
<b>Cash flows from investing activities:</b>			
Proceeds from insurance recoveries	289		68
Capital expenditures	(5)		—
Other	—		(1)
Net cash provided by investing activities	284		67
<b>Cash flows from financing activities:</b>			
Increase in overdraft payable	115		210
Effect of exchange rate changes on cash and cash equivalents	1		1
Net (decrease) in cash	(523)		(770)
Cash - beginning of period	1,072		1,943
Cash - end of period	\$ 549	\$	1,173
<b>Cash paid for interest</b>			
Cash paid for interest	\$ 16	\$	11
<b>Cash paid for taxes</b>			
Cash paid for taxes	\$ 5	\$	—

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





**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND LIQUIDITY AND GOING CONCERN CONSIDERATIONS**

**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. 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.

**Liquidity and Going Concern Considerations**

The consolidated financial statements included in this Form 10-Q contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of the factors described below, it is unlikely that the Company will be able 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, 2005, 2004, 2003 and 2002 contain emphasis paragraphs concerning substantial doubt about the Company's ability to continue as a going concern.

Infineer has continued to incur operating losses and negative cash flow. During 2003, 2004 and 2005, the Company contributed additional capital to Infineer of \$70,000, \$225,000 and \$150,000, respectively. It is likely that Infineer will require additional capital and the Company does not have the financial resources to provide such support. Given the Company's lack of available resources, continued operating losses and debt position, the Company has begun to consider various alternatives. In 2006, with the assistance of an investment banker, the Company commenced an assessment of the value of Infineer, developed an information memorandum and obtained offers for Infineer's potential for sale. This process has recently concluded without a viable offer for the business. The Board of Directors has not decided whether to continue with the disposition effort. It is therefore uncertain whether an acceptable offer will materialize or whether any such sale will ultimately be consummated. Any such determination to dispose of Infineer would depend upon, among other things, the amount of potential proceeds of any such sale and require the approval of the Company's shareholders.

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 ("PBGC") seeking a "distress termination" of that 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. 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.

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. 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, Incorporated ("TecSec") owned by 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. "Net Recoveries," as defined in the Settlement Agreement, means 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

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**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

TecSec, real property in Louisiana and any other real or personal property assets and (b) any recoveries from the Company's historic insurance program. 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). As of June 30, 2006, Net Recoveries was approximately \$3.9 million.

Pursuant to an agreement dated July 27, 2006 between the PBGC and the Company, the Company paid the PBGC \$256,000 and the Note was retired in full. The Company has a further obligation to pay the PBGC 50% of all future net proceeds in excess of \$250,000 realized from (a) the sale of the Company's interest in Infineer and TecSec and (b) any recoveries from the Company's historic insurance program. The future payment to the PBGC, if any, cannot be estimated at this time.

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 \$549,000 at June 30, 2006. The Company also had a shareholders' deficiency of \$8.1 million as of June 30, 2006.

Management believes that existing cash and short-term investments will not be sufficient to permit the Company to continue operating past the third quarter of 2006 and the Company will likely cease operations. If a sale of Infineer is consummated, the Company will not thereafter have any ongoing business operations. In either case, the Company does not expect that any funds will be available for distribution to its shareholders.

**Principles of consolidation**

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

**Basis of presentation**

The accompanying unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position of the Company and its subsidiary companies as of June 30, 2006 and the results of their operations and cash flows for the three and six months ended June 30, 2006. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

**Earnings (loss) per common share**

Basic net income (loss) per common share is based on net income (loss) divided by the weighted average number of common shares outstanding during each period. Diluted net income (loss) per common share assumes issuance of the net incremental shares from stock options and convertible preferred stock at the later of the beginning of the year or date of issuance. For the six months ended June 30, 2006, diluted net income (loss) per share was the same as basic net income (loss) per share since the effect of stock options and convertible preferred stock were antidilutive. Shares issuable pursuant to stock options and convertible preferred stock were 3,429,850 and 3,749,850 as of June 30, 2006 and 2005, respectively.

**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.

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**PUBLICARD, INC.**  
**AND SUBSIDIARY COMPANIES**

**NOTES TO UNAUDITED CONDENSED 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.

**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 as of June 30, 2006 and December 31, 2005 consisted of the following (in thousands):

	2006	2005
Raw materials and work-in-process	\$ 239	\$ 262
Finished goods	37	41
	\$ 276	\$ 303

**Stock-Based Compensation**

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), "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 is recognized over the requisite service period, generally as the award vests. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. The Company has elected the modified prospective transition method as permitted by SFAS No. 123(R), in which compensation cost is recognized beginning with the effective date based on the requirements of SFAS No. 123(R) for all share-based payments granted after January 1, 2006, and based on the requirements of SFAS No. 123 for all awards granted to employees prior to that date that remained unvested upon adoption of SFAS No. 123(R). Compensation expense related to share-based awards is recognized over the requisite service period, which is generally the vesting period. The adoption of SFAS No. 123(R) had no impact on the Company's consolidated financial statements since there were no previously granted awards unvested as of the adoption date. In addition, there were no awards during the six months ended June 30, 2006.

Prior to the adoption of SFAS No. 123(R), the Company accounted for employee share-based compensation awards using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under APB No. 25, no share-based compensation expense was reflected in the statement of operations as a result of stock option grants because each option granted pursuant to the Company's plans had an exercise price equal to the market price of the Company's common stock on the date of grant. There were no stock option grants impacting compensation cost for the six months ended June 30, 2005. As such, there is no difference between the Company's reported net loss and loss per share and pro forma net loss and loss

per share computed consistent with the method prescribed by SFAS No. 123 for the three and six months ended June 30, 2005.

**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.

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**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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 June 30, 2006 was approximately \$2.5 million. See above for discussion regarding the retirement of the Note to the PBGC at which time the fair market value of the Note was reduced to \$256,000.

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 six months ended June 30, 2006, no single customer accounted for 10% or more of revenues. Balances due from one customer accounted for approximately 17% of the accounts receivable balance as of June 30, 2006.

**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 the Company's 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 and estimates of reserves for receivables and inventories to be critical policies due to the estimation processes involved. While all available information has been considered, actual amounts could differ from those reported.

**Recent Accounting Pronouncements**

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 did not have a material effect on the Company's consolidated financial position, 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 did not have a material effect on the Company's consolidated financial position, results of operations and cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the

newly adopted accounting principle. This statement also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company currently does not contemplate any voluntary changes in accounting principles.

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**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Reclassifications**

For the six months ended June 30, 2005, the Company reported the change in the overdraft facility as a component of operating activities in the Condensed Consolidated Statement of Cash Flows. In order to conform to the current period presentation, the Company has reclassified the increase in the overdraft for the six months ended June 30, 2005 of \$210,000 to a component of financing activities. This was a correction of an error which management believes was not material to the Company's Condensed Consolidated Statement of Cash Flows.

**Note 2 - 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. Sales by geographical areas for the three and six months ended June 30, 2006 and 2005 are as follows (in thousands):

	<b>Three months ended June 30</b>		<b>Six months ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
United Kingdom	\$ 446	\$ 545	\$ 963	\$ 1,061
United States	217	151	257	238
Europe (excluding United Kingdom)	134	183	254	315
Rest of world	2	30	74	46
	\$ 799	\$ 909	\$ 1,548	\$ 1,660

The Company has operations in the United States and United Kingdom. Identifiable tangible assets by country as of June 30, 2006 and December 31, 2005 are as follows (in thousands):

	<b>2006</b>	<b>2005</b>
United States	\$ 652	\$ 1,647
United Kingdom	871	995
	\$ 1,523	\$ 2,642

**Note 3 - COMMITMENTS AND CONTINGENCIES**

**Leases**

The Company leases certain office space, vehicles and office equipment under operating leases that expire over the next three years. Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year aggregate approximately \$378,000.

**Grants and bank financing**

Infiner 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 Infiner to maintain certain levels of operations and employment in Northern Ireland. As of June 30, 2006, Infiner has a contingent liability to repay, in whole or in part, grants received of approximately \$222,000 in

the event Infineer becomes insolvent or otherwise violates the terms of such grants. As of June 30, 2006, Infineer is in compliance with the terms of the grants.

Infineer has an overdraft facility with a bank in Northern Ireland, which allows for the maximum borrowing of 320,000 British pounds. This facility is secured by all of Infineer's assets and bears an interest rate at the bank's base rate plus 2% (approximately 6.50% at June 30, 2006). As of June 30, 2006, Infineer had borrowings outstanding under this facility totaling 300,000 British pounds (or the equivalent of approximately \$549,000).

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**PUBLICARD, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Legal**

Various legal proceedings are pending against the Company. The Company considers all such 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 approximately \$449,000 each would be made to the Chairman and Vice Chairman of the Company's Board of Directors. 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.

**Note 4- COMPREHENSIVE LOSS**

Comprehensive loss for the Company includes foreign currency translation adjustments, as well as the net loss reported in the Company's Condensed Consolidated Statements of Operations. Comprehensive loss for the three and six months ended June 30, 2006 and 2005 was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net loss	\$ (433)	\$ (453)	\$ (882)	\$ (1,172)
Foreign currency translation adjustments	(28)	16	(33)	27
Comprehensive loss	\$ (461)	\$ (437)	\$ (915)	\$ (1,145)

**Note 5- SUBSEQUENT EVENTS**

Pursuant to an agreement dated July 27, 2006 between the PBGC and the Company, the Company paid the PBGC \$256,000 and the Note describe in Note 1 was retired in full. The Company has a further obligation to pay the PBGC 50% of all future net proceeds in excess of \$250,000 realized from (a) the sale of the Company's interest in Infeiner and TecSec and (b) any recoveries from the Company's historic insurance program. The future payment to the PBGC, if any, cannot be estimated at this time.

Antonio L. DeLise resigned from the Company's Board of Directors. Mr. DeLise will resign as President, Chief Executive Officer, Chief Financial Officer and Corporate Secretary of the Company, as well as all positions held at the Company's subsidiaries, effective July 30, 2006. Mr. DeLise is leaving the Company to pursue other opportunities.

On July 21, 2006, the Company entered into an Engagement Agreement (as amended, the "Agreement") with

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**PUBLICARD, INC.  
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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Joseph Sarachek. Pursuant to the Agreement, Mr. Sarachek was appointed to the Company's Board of Directors on July 21, 2006. Also pursuant to the Agreement, Mr. Sarachek was appointed as the Company's Chief Executive Officer, which appointment will be effective July 31, 2006.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this Form 10-Q contain forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations of PubliCARD preceded by, followed by or that include the words “believes,” “expects,” “anticipates,” “estimates,” “may,” “should,” “would,” “could,” “intends,” “plans” or similar expressions. For those 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 such statements made under the caption “Risk Factors” 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.

### Overview

PubliCARD’s sole operating activities are conducted through its wholly-owned Infineer Ltd. subsidiary. Infineer designs smart card solutions for educational and corporate sites.

Infineer has continued to incur operating losses and negative cash flow. During 2003, 2004 and 2005, the Company contributed additional capital to Infineer of \$70,000, \$225,000 and \$150,000, respectively. It is likely that Infineer will require additional capital and the Company does not have the financial resources to provide such support. Given the Company’s lack of available resources, continued operating losses and debt position, the Company has begun to consider various alternatives. In 2006, with the assistance of an investment banker, the Company commenced an assessment of the value of Infineer, developed an information memorandum and obtained offers for Infineer’s potential for sale. This process has recently concluded without a viable offer for the business. The Board of Directors has not decided whether to continue with the disposition effort. It is therefore uncertain whether an acceptable offer will materialize or whether any such sale will ultimately be consummated. Any such determination to dispose of Infineer would depend upon, among other things, the amount of potential proceeds of any such sale and require the approval of the Company’s shareholders.

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. 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.

Under the terms of the Settlement Agreement, effective September 23, 2004, between the PBGC and the Company, 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 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.

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. “Net Recoveries,” as defined in the Settlement Agreement, means 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. 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). As of June 30, 2006, Net Recoveries was approximately \$3.9 million.

Pursuant to an agreement dated July 27, 2006, between the PBGC and the Company, the Company paid the PBGC \$256,000 and the Note was retired in full. The Company has a further obligation to pay the PBGC 50% of all future net proceeds in excess of \$250,000 realized from (a) the sale of the Company's interest in Infineer and

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TecSec and (b) any recoveries from the Company's historic insurance program. The future payment to the PBGC, if any, cannot be estimated at this time.

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 \$549,000 at June 30, 2006. The Company also had a shareholders' deficiency of \$8.1 million as of June 30, 2006.

Management believes that existing cash and short-term investments will not be sufficient to permit the Company to continue operating past the third quarter of 2006 and the Company will likely cease operations. If a sale of Infeiner is consummated, the Company will not thereafter have any ongoing business operations. In either case, the Company does not expect that any funds will be available for distribution to its shareholders.

The consolidated financial statements included in this Form 10-Q contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of the factors described above, it is unlikely that the Company will be able 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, 2005, 2004, 2003 and 2002 contain emphasis paragraphs concerning substantial doubt about the Company's ability to continue as a going concern.

### Results of Operations

The following table is derived from the Unaudited Condensed Consolidated Financial Statements and sets forth the Company's consolidated results of operations for the three and six months ended June 30, 2006 and 2005 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 799	\$ 909	\$ 1,548	\$ 1,660
Cost of revenues	404	424	731	792
Gross margin	395	485	817	868
Gross margin percentage	49%	53%	53%	52%
Operating expenses:				
General and administrative	448	492	909	1,022
Sales and marketing	258	284	520	682
Product development	138	163	286	339
	844	939	1,715	2,043
Loss from operations	(449)	(454)	(898)	(1,175)
Other income (expenses):				
Interest income	4	7	11	14
Interest expense	(9)	(6)	(16)	(11)
Other income	21	—	21	—
	16	1	16	3
Net loss	\$ (433)	\$ (453)	\$ (882)	\$ (1,172)

### Results of Operations

#### Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005



**Revenues.** Revenues are generated from product sales, technology and software license fees, installation and maintenance contracts. Consolidated revenues were \$799,000 in 2006 compared to \$909,000 for 2005. Foreign currency changes had the effect of decreasing revenues by 2%. Excluding the impact of foreign currency changes, sales in 2006 decreased by 11% driven by a decline of \$99,000 in direct sales to customers located in the United Kingdom as well as a \$77,000 decline in shipments to distribution partners located outside of the United Kingdom (other than the U.S.).

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**Gross margin.** Cost of sales consists primarily of material, personnel costs and overhead. Gross margin, as a percentage of net revenues, was 49% in 2006 compared to 53% in 2005. Margins decreased by approximately 3% for both direct and export sales in the second quarter of 2006 compared to 2005 principally due to price reductions.

**Sales and marketing expenses.** Sales and marketing expenses consist primarily of personnel and travel costs, public relations, trade shows and marketing materials. Sales and marketing expenses were \$258,000 in 2006 compared to \$284,000 in 2005. The decrease is primarily attributable to a \$25,000 reduction in wages and benefits resulting from headcount reductions in 2005. In the first several months of 2005, Infineer reduced sales and customer support headcount by a total of eight people to reduce operating expenses and reflect lower revenue expectations.

**Product development expenses.** Product development expenses include costs associated with the development of new products and enhancements to existing products. Product development expenses consist primarily of personnel and travel costs and contract engineering services. Product development expenses amounted to \$138,000 in 2006 compared to \$163,000 in 2005. The decrease in expenses is mainly attributable to a \$19,000 decline in wages and benefits associated with headcount reductions in 2005 and contract costs.

**General and administrative expenses.** General and administrative expenses consist primarily of personnel and related costs for general corporate activities, including finance and accounting, risk management and legal. General and administrative expenses were \$448,000 in 2006 compared to \$492,000 in 2005. The decrease in expenses is mainly attributable to a \$17,000 reduction in directors fees and lower legal and insurance expenses of \$28,000 at corporate.

#### **Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005**

**Revenues.** Consolidated revenues decreased to \$1.5 million in 2006 compared to \$1.7 million for 2005. Foreign currency changes had the effect of decreasing revenues by 4%. Excluding the impact of foreign currency changes, sales in 2005 decreased by 2% driven by a decline of \$98,000 in direct sales to customers located in the United Kingdom.

**Cost of revenues.** Gross margin, as a percentage of net sales, was 53% in 2006 compared to 52% in 2005.

**Sales and marketing expenses.** Sales and marketing expenses were \$520,000 in 2006 compared to \$682,000 in 2005. The decrease is primarily attributable to a \$150,000 reduction in wages, benefits and employee business expense resulting from headcount reductions in 2005.

**Product development expenses.** Product development expenses amounted to \$286,000 in 2006 compared to \$339,000 in 2005. The decrease is primarily attributable to a \$39,000 reduction in wages and benefits resulting from headcount reductions in 2005.

**General and administrative expenses.** General and administrative expenses for the six months ended June 30, 2006 decreased to \$909,000 from \$1.0 million for 2005. The decrease in expenses is mainly attributable to lower outside services (primarily legal, insurance and shareholder reporting) of \$73,000 at corporate and lower professional fees, depreciation and other expenses of \$58,000 at Infineer.

#### **Liquidity**

The consolidated financial statements included in this Form 10-Q contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of the factors described above, it is unlikely that the Company will be able 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, 2005, 2004, 2003 and 2002 contain emphasis

paragraphs concerning substantial doubt about the Company's ability to continue as a going concern.

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 and other recoveries in 2003, 2004 and 2005. For the six months ended June 30, 2006, cash, including short-term investments, decreased by \$523,000 to \$549,000 as of June 30, 2006.

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Operating activities utilized cash of \$923,000 for the six months ended June 30, 2006 and principally consisted of the net loss of \$882,000, an increase in assets and liabilities of \$39,000 and a gain on insurance recoveries of \$21,000 offset by depreciation and amortization of \$19,000.

Investing activities generated cash of \$284,000 for the six months ended June 30, 2006 and principally consisted of the release of \$289,000 held in escrow pursuant to a 2003 insurance settlement. The Company does not expect to generate any significant amounts from non-recurring sources during the balance of 2006.

Financing activities generated cash of \$115,000 for the six months ended June 30, 2006 and consisted of an increase in the overdraft facility at Infineer.

The Company has experienced negative cash flow from operating activities in the past and expects to experience negative cash flow in the future.

Infineer has continued to incur operating losses and negative cash flow. During 2003, 2004 and 2005, the Company contributed additional capital to Infineer of \$70,000, \$225,000 and \$150,000, respectively. It is likely that Infineer will require additional capital and the Company does not have the financial resources to provide such support. Given the Company's lack of available resources, continued operating losses and debt position, the Company has begun to consider various alternatives. In 2006, with the assistance of an investment banker, the Company commenced an assessment of the value of Infineer, developed an information memorandum and obtained offers for Infineer's potential for sale. This process has recently concluded without a viable offer for the business. The Board of Directors has not decided whether to continue with the disposition effort. It is therefore uncertain whether an acceptable offer will materialize or whether any such sale will ultimately be consummated. Any such determination to dispose of Infineer would depend upon, among other things, the amount of potential proceeds of any such sale and require the approval of the Company's shareholders.

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. 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.

Under the terms of the Settlement Agreement, effective September 23, 2004, between the PBGC and the Company, 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 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.

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. "Net Recoveries," as defined in the Settlement Agreement, means 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. 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). As of June 30, 2006, Net Recoveries was approximately \$3.9 million.

Pursuant to an agreement dated July 27, 2006 between the PBGC and the Company, the Company paid the PBGC \$256,000 and the Note was retired in full. The Company has a further obligation to pay the PBGC 50% of all future net proceeds in excess of \$250,000 realized from (a) the sale of the Company's interest in Infineer and TecSec and (b) any recoveries from the Company's historic insurance program. The future payment to the PBGC, if any, cannot be estimated at this time.

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

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short term investments, which declined from \$17.0 million at December 31, 2000 to \$549,000 at June 30, 2006. The Company also had a shareholders' deficiency of \$8.1 million as of June 30, 2006.

Management believes that existing cash and short-term investments will not be sufficient to permit the Company to continue operating past the third quarter of 2006 and the Company will likely cease operations. If a sale of Infineer is consummated, the Company will not thereafter have any ongoing business operations. In either case, the Company does not expect that any funds will be available for distribution to its shareholders.

### Contractual Obligations

The following is a summary of the Company's commitments as of June 30, 2006 (in thousands):

Contractual Obligation Years	Total	Payments Due by Period			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating lease obligations	\$ 378	\$ 241	\$ 136	\$ 1	\$ —
Other long-term liabilities:					
Note payable to PBGC (a)	7,501	—	—	—	7,501
Other long-term liabilities	222	9	58	58	97
Total	\$ 8,101	\$ 250	\$ 194	\$ 59	\$ 7,598

(a) The Note payable to the PBGC was retired on July 27, 2006. See Note 1 to the Unaudited Condensed Consolidated Financial Statements.

### Critical Accounting Policies

The Company's significant accounting policies are more fully described in the Notes to the Company's Unaudited Condensed Consolidated Financial Statements included herein and the Notes to the Consolidated Financial Statements included the Company's Form 10-K for the year ended December 31, 2005. 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 and estimates of reserves for receivables and inventories 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.

**Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment". This statement requires

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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 is recognized over the requisite service period, generally as the award vests. The Company adopted SFAS No. 123(R) in the first quarter of 2006. There were no previously-granted awards unvested as of the adoption date. The adoption of the statement had no impact on the Company's consolidated financial position, 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 did not have a material effect on the Company's consolidated financial position, 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 did not have a material effect on the Company's consolidated financial position, results of operations and cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. This statement also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company currently does not contemplate any voluntary changes in accounting principles.

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### **ITEM 3. 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 June 30, 2006, short-term investments (a money market account) were \$280,000 and borrowing under the overdraft facility amounted to \$549,000. 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 4. 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**

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

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## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Various legal proceedings are pending against the Company. The Company considers all such proceedings to be ordinary litigation incident to the character of its business. Certain claims are covered by liability insurance.

### **ITEM 1A. RISK FACTORS**

*We do not expect to continue as a going concern.* We have incurred losses, a substantial decline in working capital and negative cash flow from operations for a number of years. We have also experienced a substantial reduction in our cash and short term investments, which declined from \$17.0 million at December 31, 2000 to \$549,000 at June 30, 2006. We also had a shareholders' deficiency of \$8.1 million as of June 30, 2006.

Infiner has continued to incur operating losses and negative cash flow. During 2003, 2004 and 2005, we contributed additional capital to Infiner of \$70,000, \$225,000 and \$150,000, respectively. It is likely that Infiner will require additional capital and we do not have the financial resources to provide such support. Given our lack of available resources, continued operating losses and debt position, we have begun to consider various alternatives. In 2006, with the assistance of an investment banker, we commenced an assessment of the value of Infiner, developed an information memorandum and obtained offers for Infiner's potential for sale. This process has recently concluded without a viable offer for the business. The Board of Directors has not decided whether to continue with the disposition effort. It is therefore uncertain whether an acceptable offer will materialize or whether any such sale will ultimately be consummated. Any such determination to dispose of Infiner would depend upon, among other things, the amount of potential proceeds of any such sale and require the approval of our shareholders.

We believe that existing cash and short-term investments will not be sufficient to permit us to continue operating past the third quarter of 2006 and we will likely cease operations. If a sale of Infiner is consummated, we will not thereafter have any ongoing business operations. In either case, we do not expect that any funds will be available for distribution to its shareholders.

Accordingly, it is unlikely that we will be able to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The independent auditors' reports on the our consolidated financial statements for the years ended December 31, 2005, 2004, 2003 and 2002 contain emphasis paragraphs concerning substantial doubt about the Company's ability to continue as a going concern.

### **ITEM 5. OTHER INFORMATION**

On July 27, 2006, the Company entered into a Payment, Retirement and Release Agreement (the "Payment Agreement") with the PBGC pursuant to which the PBGC and the Company provided for the settlement and discharge of the Company's obligations under the Settlement Agreement and the Note. Pursuant to the Payment Agreement, the Company paid the \$256,391.31 on July 27, 2006, and agreed that if, between July 27, 2006 and July 27, 2011, the Company receives Net Proceeds in excess of \$250,000, the Company will pay to the PBGC 50% of the amount of such excess. As defined in the Payment Agreement, "Net Proceeds" means the amount received by the Company in cash or marketable securities, less the amount of reasonable transaction costs and expenses and debt paid, retained or assumed, from any of (i) the sale by the Company of any or all capital stock of Infiner; (ii) the sale by Infiner of all or substantially all of its assets and a distribution of the proceeds of such sale to the Company; (iii) the sale by the Company of any or all capital stock of Tecsec; and (iv) proceeds received by the Company from settlements, buyouts or assignments of claims with respect to insurance policies covering environmental liabilities for which claims were made prior to July 27, 2006. The Payment Agreement further provides that if, on July 27, 2011, the Company exists as a going concern and holds capital stock of Infiner (and Infiner exists as a going concern) or Tecsec (and Tecsec

exists as a going concern), the Company will be deemed to have sold such capital stock for its fair market value, which shall be added to Net Proceeds for purposes of determining the amount of additional payments to the PBGC, if any.

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Pursuant to the Payment Agreement, the PBGC released the Company, Infineer and certain other persons from all liabilities arising from the Plan, unfunded liabilities and unpaid contributions thereunder, the Settlement Agreement and the Note, and the Settlement Agreement and the Note were terminated.

A copy of the Payment Agreement has been filed as Exhibit 10.6 hereto and is incorporated herein by reference.

**ITEM 6. EXHIBITS**

- (a) Exhibits
- 10.1 Engagement Agreement, dated as of July 21, 2006, between PubliCARD, Inc. and Joseph Sarachek. Incorporated by reference from PubliCARD, Inc.'s Current Report on Form 8-K filed on July 27, 2006.
- 10.2 Addendum to Engagement Agreement, dated as of July 26, 2006, between PubliCARD, Inc. and Joseph E. Sarachek. Incorporated by reference from PubliCARD, Inc.'s Current Report on Form 8-K filed on July 27, 2006.
- 10.3 Indemnification Agreement, dated as of July 21, 2006, between PubliCARD, Inc. and Joseph E. Sarachek. Incorporated by reference from PubliCARD, Inc.'s Current Report on Form 8-K filed on July 27, 2006.
- 10.4 Stock Option Agreement, dated as of July 21, 2006, between PubliCARD, Inc. and Joseph E. Sarachek. Incorporated by reference from PubliCARD, Inc.'s Current Report on Form 8-K filed on July 27, 2006.
- 10.5 Non-Plan Stock Option Agreement, dated as of July 21, 2006, between PubliCARD, Inc. and Joseph E. Sarachek. Incorporated by reference from PubliCARD, Inc.'s Current Report on Form 8-K filed on July 27, 2006.
- 10.6 Payment, Retirement and Release Agreement dated as of July 27, 2006 by and between the Pension Benefit Guaranty Corporation and PubliCARD, Inc. Filed herewith.
- 31.1 Certification of the Chief Executive Officer and Chief Financial Officer filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer filed herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements 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: July 28, 2006

By: /s/ Antonio L. DeLise

\_\_\_\_\_  
Name: Antonio L. DeLise  
Title: President, Chief Executive Officer and  
Chief Financial Officer

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EXHIBIT INDEX

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