FRAWLEY CORP
Form 10-Q
July 22, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

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 1-6436

FRAWLEY CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**95-2639686**
(STATE OR OTHER JURISDICTION OF INCORPORATION)	**(I.R.S. EMP I.D. NO)**
5737 Kanan Rd. PMB # 188, Agoura Hills, California	**91301**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	**(ZIP CODE)**

(818)735-6640

(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

(FORMER NAME, ADDRESS AND FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

Indicated 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 x NO ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the close of the latest practicable date.

Common stock, par value $1	**1,222,905**
(Class)	**(Outstanding at June 30, 2003)**

Total Number of Pages 12

FRAWLEY CORPORATION AND SUBSIDIARIES

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ITEM I: FINANCIAL STATEMENTS

FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2003	DECEMBER 31, 2002
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash	32,000	$ 38,000
Prepaid expenses and other assets	6,000	46,000
Current assets of discontinued operations		
TOTAL CURRENT ASSETS	38,000	84,000
Real estate investments, net	1,052,000	1,052,000
Investment in partnership	16,000	16,000
TOTAL ASSETS	$ 1,106,000	$ 1,152,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Notes payable to stockholders	$ 2,437,000	$ 2,437,000
Accounts payable and accrued expenses	326,000	280,000
Environmental reserve	78,000	209,000
Interest payable to related parties	1,070,000	949,000
Deposits	172,000	
TOTAL CURRENT LIABILITIES	4,083,000	3,875,000
LONG TERM LIABILITIES		
Environmental reserve	1,174,000	1,174,000
STOCKHOLDERS DEFICIT:		
Preferred stock, par value $1 per share:		
Authorized, 1,000,000 shares; none issued		
Common stock, par value $1 per share;		
Authorized, 6,000,000 shares, issued 1,414,217 shares outstanding	1,414,000	1,414,000
Capital surplus	17,095,000	17,056,000
Accumulated deficit	(21,899,000)	(21,606,000)
	(3,390,000)	(3,136,000)
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)
TOTAL STOCKHOLDERS DEFICIT	(4,151,000)	(3,897,000)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 1,106,000	$ 1,152,000

See notes to consolidated financial statements.

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,	
	2003	2002
REVENUES:		
Net revenues	$ 14,000	$
COSTS AND EXPENSES:		
Selling, general and administrative expenses	99,000	67,000
Interest expense	61,000	63,000
TOTAL COSTS AND EXPENSES	160,000	130,000
LOSS FROM CONTINUING OPERATIONS	(146,000)	(130,000)
LOSS FROM DISCONTINUED OPERATIONS		(105,000)
NET LOSS	$ (146,000)	$ (235,000)
LOSS PER SHARE FROM CONTINUING OPERATIONS	$ (0.12)	$ (0.11)
NET LOSS PER SHARE, COMMON	$ (0.12)	$ (0.19)
FULLY DILUTED	$ (0.12)	$ (0.19)
Weighted average number of common shares outstanding	1,222,905	1,222,905

See notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATMENTS OF OPERATIONS

(UNAUDITED)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
REVENUES:		
Net operating revenues	$ 14,000	$ 10,000
COSTS AND EXPENSES:		
Cost of operations		
Selling, general and administrative expenses	186,000	120,000
Interest expense	121,000	123,000
TOTAL COST AND EXPENSES	307,000	243,000
LOSS FROM CONTINUING OPERATIONS	(293,000)	(233,000)
INCOME FROM DISCONTINUED OPERATIONS		551,000
NET LOSS	$ (293,000)	$ 318,000
LOSS PER SHARE FROM CONTINUING OPERATIONS	$ (0.24)	$ (0.19)
NET (LOSS)/INCOME PER SHARE, COMMON	$ (0.24)	$ 0.26
FULLY DILUTED	$ (0.24)	$ 0.26
Weighted average number of common shares outstanding	1,222,905	1,222,905

See notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	$ (293,000)	$ 318,000
Adjustments to reconcile net (loss)/income to net cash used in operating activities:		
Gain on sale of assets		(781,000)
Change in net assets of discontinued operations		70,000
Change in net liabilities of discontinued operations		151,000
Changes in operating assets and liabilities:		
Short and long-term accounts receivable, net	1,000	(6,000)
Prepaid expenses and other assets	39,000	(3,000)
Accounts payable and accrued expenses	208,000	71,000
TOTAL ADJUSTMENTS	248,000	(498,000)
NET CASH USED IN OPERATING ACTIVITIES	(45,000)	(180,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Real estate investments		(15,000)
CASH FLOWS FROM FINANCING ACTIVITES:		
Capital contributions	39,000	
Short-term debt borrowings		222,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	39,000	222,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,000)	27,000
CASH, BEGINNING OF PERIOD	38,000	135,000
CASH, END OF PERIOD	$ 32,000	$ 162,000

See notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE1: In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position as of June 30, 2003, and the results of operations and changes in cash flows for the six months then ended.

NOTE2: The results of operations for the six months ended June 30, 2003 as compared to the results of 2002 are not necessarily indicative of results to be expected for the full year.

FRAWLEY CORPORATION AND SUBSIDIARIES

ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Real Estate

For the quarter ended June 30, 2003, the real estate operating loss was $77,000 compared to a loss in 2002 of $95,000. During the first six months of this year, real estate losses were $156,000 as compared to a loss of $167,000 for the same period in 2002. Real estate losses continue as the Company incurs carrying costs and costs of improvements required to sell the property.

Although the Company is actively seeking a buyer for its undeveloped real estate, the County of Los Angeles has adopted more stringent rules covering the development of raw land. These revised regulations have made it more difficult to develop the Company s property. Management believes that these regulations could have a material adverse effect on the property s value. Management is not able to reasonably estimate the costs involved in complying with these regulations at this time. Accordingly, these financial statements do not reflect any adjustments that might result from these regulations.

Discontinued Operations

Specialized Health Services

Due to the Hospital s continued losses and its inability to pay interest on its secured $1,022,000 loan on the Hospital property for more than a year, the Board of Directors of the Company had unanimously voted to sell or close this business in 2002.

Effective February 1, 2002, the Company entered into a Settlement Agreement with a related party holding outstanding notes payable in the amount of $1,022,000, secured by the Hospital property in Seattle, Washington. Under the terms of the agreement, the Company sold the Hospital land, building and related property and equipment to the related party for a purchase price in the amount of the principal of the notes ($1,022,000) and accrued interest ($174,000). Also effective February 1st, 2002, the Company entered into a lease agreement with the related party whereby the Company is permitted to lease the Hospital facility for 36 months, with an option to repurchase the property from the related party at an amount equal to the original principal indebtedness plus accumulated interest and attorney s fees.

The original principal amount of indebtedness of $1,022,000 was owed to Frances Swanson, individually, and Frances Swanson Successor Trustee of the Frawley Family Trust. Frances Swanson is the Chairman s sister.

Prior to the sale of the Schick Program on October 1, 2002, for the nine months ended September 30, 2002, the health care discontinued operations net income was approximately $506,000. The net income reflects a gain from

the Settlement Agreement of $781,000, which resulted from the reduction of debt in the amount of $1,022,000 and accrued interest of $174,000 less the net book value of assets sold for $415,000. If the Company had not entered into the Settlement Agreement, the net loss for the Hospital would have been $275,000 for the nine months ended September 30, 2002.

On October 1st 2002, the Company entered into asset sale of the Schick Program to a non-related third party group of former patients of the Hospital program in the amount of $316,000 plus various assumed liabilities. The sales price comprised of $50,000 in cash, a note receivable for $250,000 for a term of five years at an interest rate of 8% per annum and a 5% interest in the new owner s limited partnership. The Company recorded a gain on the sale of approximately $158,000. The Hospital incurred legal expenses of approximately $81,000 related to the sale. As part of the asset sale, the new owners acquired the same option to purchase the Hospital real estate as the Company had. In addition, the Company allowed the new owners to operate the Hospital program under the existing state and federal permits until such time the new owners could obtain their own. In January 2003, the Company was informed that the new owners had obtained all the necessary permits to operate the Hospital and ceased using the Company s permits.

During the first six months of 2002, Michael Frawley, the Company s Chairman, loaned the Hospital $55,000 to meet operating expenses.

To complete the sale, the Company s Chairman agreed to release the Company from its indebtedness to him in the amount of $55,000 and agreed to a new note of $55,000 to be paid by the new owners at the end of 2003.

The proceeds from the sale were distributed as follows: $50,000 was deposited into Karr Tuttle & Campbell Trust account, Schick s attorney s, and used as partial payment of outstanding legal fees. The $250,000 note was assigned to the Chatham Brothers Barrel Yard PRP Trust as a reduction of the amount owed related to the toxic waste cleanup lawsuit.

Liquidity and Capital Resources

The Company s recurring losses from continuing operations and difficulties in generating cash flow sufficient to meet its obligations raise substantial doubt about its ability to continue as a going concern.

Real Estate and Corporate overhead are producing losses that the real-estate business is unable to absorb. The required investments in real estate are currently funded from loans.

The Company intends to meet its obligations through real estate sales. The limited resources available to the Company will be directed at reducing operating expenses and selling real estate.

Company continues to incur legal expenses and has an obligation in 2003 to contribute to the Chatham Brothers toxic waste cleanup lawsuit.

PART II OTHER INFORMATION

ITEM 1: Legal Proceedings

The Company is named as a defendant in the Chatham Brothers toxic waste Cleanup lawsuit. In February 1991, the Company was identified as one of any Potentially Responsible Parties (PRPs) in the Chatham Brothers Toxic Waste cleanup site case, filed by the State of California Environmental Protection Agency, Department of Toxic Substances Control (DTSC) and involving the Hartley Pen Company previously owned by the Company.

On December 31, 1991, the Company and approximately 90 other companies were named in a formal complaint. The Company joined a group of defendants, each of whom was so notified and which are referred to as Potentially Responsible Parties (PRPs) for the purpose of negotiating with the DTSC and for undertaking remediation of the site. Between 1995 and 1998, the State of California adjusted the estimated cost of remediation on several occasions. As a result, the Company has increased their recorded liability to reflect their share of the changes. In January of 1998, the final remediation plan was approved by the State and in January of 1999, the PRP s consented to it, as well as the allocation of costs, and the consent decree was approved by the Court. As of June 30, 2003, the Company had paid over $820,000 into the PRP group, which includes the assignment of the $250,000 note receivable, and had a cash call contribution payable of $131,000. In addition, the Company carried accrued short-term and long-term liabilities of $78,000 and $1,174,000, respectively.

The Company is in dispute with its 1988 licensee over the trademark Classics Illustrated. In 1998, the Company terminated its license agreement for breach of contract. The licensee has objected to the termination stating that the Company failed to notify the licensee of a potential problem with the trademark in Greece. A Greek court has ruled against a sublicensee in Greece. The Company believes that the license agreement supports that it adequately notified the licensee but would have to investigate the international trademark involving Classics Illustrated. Management believes that there is no probable risk of loss related to this dispute.

ITEM 5: Other Information

Related Party Transactions

During the Second Quarter ended June 30, 2003 the Company received approximately $71,500 from the Frawley Family Trust as an advance on property that they intend to purchase. The specific property has not been identified and the terms of the purchase have not been finalized. The advance is included in accounts payable and accrued expenses.

The Company has charged its principal stockholder for any employee time spent on non-corporate matters. The Company has received $20,000 for the quarter ended June 30, 2003 from the Frawley Family Trust as reimbursement for payroll expenses. The funds do not have to be repaid and are accounted for as capital contributions.

ITEM 6: Exhibits and Reports on Form 8-K

Exhibit 99.1 Certification of CEO and CFO

No reports on form 8-K were filed during the quarter ended June 30, 2003.

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.

FRAWLEY CORPORATION

(REGISTRANT)

Date: July 22, 2003

By: /s/ MICHAEL P. FRAWLEY

MICHAEL P. FRAWLEY,

President (Authorized Officer and

Chief Financial Officer)