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FRAWLEY CORP
Form 10-Q
January 15, 2002

U.S. 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 September 30, 2001.

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 OR ORGANIZATION)
(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 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.

Class Outstanding at September 30, 2001

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Common stock, par value \$1

1,222,905

Total Number of Pages 12

FRAWLEY CORPORATION AND SUBSIDIARIES

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ITEM I: FINANCIAL STATEMENTS
FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| ASSETS | SEPTEMBER 30, 2001 | DECEMBER 31, 2000 |
|----------------|-----------------------|----------------------|
| ----- | ----- | ----- |
| | (Unaudited) | |
| CURRENT ASSETS | | |
| Cash | \$ 103,000 | \$ 54,00 |

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| | | |
|-------------------------------------|--------------|--------------|
| Accounts receivable, net | 333,000 | 433,000 |
| Prepaid expenses and other deposits | 90,000 | 93,000 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 526,000 | 580,000 |
| Long-term accounts receivable, net | 167,000 | 95,000 |
| Real estate investments, net | 1,575,000 | 1,723,000 |
| Property, plant and equipment, net | 428,000 | 451,000 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 2,696,000 | \$ 2,849,000 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|--------------|--------------|
| CURRENT LIABILITIES | | |
| Notes payable to stockholders | \$ 3,422,000 | \$ 3,277,000 |
| Accounts payable and accrued expenses | 1,498,000 | 1,230,000 |
| Environmental reserve | 78,000 | 78,000 |
| Note Payable | 70,000 | 70,000 |
| Unearned revenue | 26,000 | 30,000 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 5,094,000 | 4,685,000 |
| LONG TERM LIABILITIES | | |
| Environmental Reserve | 1,424,000 | 1,424,000 |
| | ----- | ----- |
| TOTAL LIABILITIES | 6,518,000 | 6,109,000 |
| STOCKHOLDERS' EQUITY: | | |
| 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 | 1,414,000 | 1,414,000 |
| Capital surplus | 16,986,000 | 16,986,000 |
| Accumulated deficit | (21,461,000) | (20,899,000) |
| | ----- | ----- |
| | (3,061,000) | (2,499,000) |
| Less common stock in treasury, | | |
| 191,312 shares (at cost) | (761,000) | (761,000) |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | (3,822,000) | (3,260,000) |
| | ----- | ----- |
| 1TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,696,000 | \$ 2,849,000 |
| | ===== | ===== |

See notes to consolidated financial statements.

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| | Three Months Ended September 30, | |
|--|-------------------------------------|---------------|
| | 2001 | 2000 |
| REVENUES: | | |
| Net revenue | \$ 547,000 | \$ 707,000 |
| COSTS AND EXPENSES: | | |
| Cost of operations | 418,000 | 449,000 |
| Selling, general and administrative expenses | 294,000 | 356,000 |
| Interest expense | 88,000 | 84,000 |
| Loss from sale of real estate | 27,000 | 125,000 |
| TOTAL COSTS AND EXPENSES | 827,000 | 1,014,000 |
| NET LOSS | (280,000) | \$ (307,000) |
| NET LOSS PER SHARE: | | |
| Continuing operations | \$ (.23) | \$ (.25) |
| Weighted average number of common shares outstanding | 1,222,905 | 1,222,905 |

See notes to consolidated financial statements.

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FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------------|
| | 2001 | 2000 |
| REVENUES: | | |
| Net Revenues | \$ 1,906,000 | \$ 2,122,000 |
| TOTAL REVENUES | 1,906,000 | 2,122,000 |
| COSTS AND EXPENSES: | | |
| Cost of operations | 1,356,000 | 1,324,000 |
| Selling, general and administrative expenses | 823,000 | 951,000 |
| Interest expense | 258,000 | 240,000 |
| Loss from sale of real estate | 31,000 | 125,000 |

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| | | |
|---|--------------|--------------|
| TOTAL COST AND EXPENSES | 2,468,000 | 2,640,000 |
| | ----- | ----- |
| NET LOSS | \$ (562,000) | \$ (518,000) |
| | ===== | ===== |
| NET LOSS PER SHARE: | | |
| Continuing operations | \$ (0.46) | \$ (0.42) |
| | ===== | ===== |
| Weighted average number of common shares outstanding | 1,222,905 | 1,222,905 |
| | ===== | ===== |

See notes to consolidated financial statements.

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FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------------|
| | 2001 | 2000 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | \$ (562,000) | \$ (518,000) |
| | ----- | ----- |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on sale of real estate investment | 31,000 | 125,000 |
| Depreciation | 23,000 | 23,000 |
| Changes in operating assets and liabilities: | | |
| Short and long-term accounts receivable, net | 28,000 | (34,000) |
| Prepaid expenses and deposits | 3,000 | 6,000 |
| Accounts payable and accrued expenses | 268,000 | 117,000 |
| Unearned revenue | (4,000) | 18,000 |
| | ----- | ----- |
| TOTAL ADJUSTMENTS | 349,000 | 255,000 |
| | ----- | ----- |
| Net cash used in operating activities | (213,000) | (263,000) |
| | ----- | ----- |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Equipment purchases | - | - |
| Environmental reserve paydown | - | - |
| Payments for real estate improvements | (5,000) | (291,000) |
| | ----- | ----- |
| Net cash used in investing activities | (5,000) | (291,000) |
| | ----- | ----- |

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| | | |
|---|------------|-----------|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term debt borrowings | 145,000 | 332,000 |
| Proceeds from sale of real estate | 122,000 | 465,000 |
| Repayment of borrowings | - | (200,000) |
| | ----- | ----- |
| Net cash provided by financing activities | 267,000 | 597,000 |
| | ----- | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | |
| | 49,000 | 43,000 |
| CASH, BEGINNING OF PERIOD | | |
| | 54,000 | 29,000 |
| | ----- | ----- |
| CASH, END OF PERIOD | | |
| | \$ 103,000 | \$ 72,000 |
| | ===== | ===== |

See notes to consolidated financial statements.

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FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position at September 30, 2001, the results of operations and changes in cash flows for the nine months then ended.

NOTE 2: The results of operations for the nine months ended September 30, 2001 as compared to the results of 2000 are not necessarily indicative of results to be expected for the full year.

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FRAWLEY CORPORATION AND SUBSIDIARIES

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

Specialized Health Services

During the quarter ended September 30, 2001, operating revenues from Specialized Health Services decreased by \$160,000 when compared to the same period in 2000. For the three months ending September 30, 2001, the health care operation reported a \$99,000 loss compared to a \$38,000 profit for the same period in 2000. For the nine months ended September 30, 2001 the Net Revenue was \$1,899,000 compared to \$2,104,000 in 2000 and the loss of \$117,000 compared unfavorably to the 2000 profit of \$121,000. The Company continues to face serious difficulties in attracting patients. There is a decreasing number of insurance carriers providing benefits for inpatient treatment and in many HMO plans there is little coverage for chemical dependency treatment. Emphasis by insurance carriers on less expensive outpatient treatment programs makes the Company's inpatient treatment less accessible to many potential patients. The

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Company continues to present a strong argument for the success rate of the Schick program, compared to other programs, but a more prevalent theme in health care today is the cost of a program not the efficacy of the treatment. The Company will continue to explore more effective ways of attracting patients to the inpatient program.

The Company is currently seeking an investor to fund marketing and expansion of the health care services or a purchaser for this subsidiary. No assurances can be made that an investor will be found.

Real Estate

For the quarter ending September 30, 2001 Real Estate Operations loss was \$143,000 compared to a loss in 2000 of \$301,000. During the nine months ended September 30, 2001 the real estate losses were \$324,000 as compared to a loss of \$489,000 for the same period in 2000. Real estate losses continue as the company incurs carrying costs and costs of improvements required to sell the properties.

In the third quarter, the Company sold a 40 Acre parcel for \$122,500 to a third party and recorded a loss on the sale in the amount of \$27,000.

The undeveloped real estate market remains uncertain due to the down turns of the economy. The Company is actively advertising the undeveloped real estate for sale.

The County of Los Angeles has adopted more stringent rules covering the development of raw land. These revised regulations will make it more difficult to develop the Company's property.

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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.

The Health Services reported a net operating loss of \$117,000 for the nine months ended September 30, 2001 compared to a profit of \$121,000 in 2000. Debt secured by the Seattle Hospital in the amount of \$1,022,000 was due December 31, 2000. The Company has been unable to make its interest payments since February 2001. The Company has informed the lender that they are actively trying to obtain financing for the business.

The Company continues to incur legal expenses and has an obligation in 2001 to contribute to the Chatham Brothers toxic waste cleanup lawsuit.

Servicing outstanding debt continues to be a significant burden on the Company's operations.

The Company intends to raise capital for the Health Care business by seeking partners in health care. The sale of real estate may require further expenditure to prepare the land for sale. The sale of the property is unpredictable and highly uncertain and there is no assurance that the improvements will increase the marketability of the property.

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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 many "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 involved 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. 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 September 30, 2001, the Company had paid over \$570,000 into the PRP group and had a cash call contribution payable of \$131,000. In addition, they carried accrued short-term and long-term liabilities of \$78,000 and \$1,424,000 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

In the third quarter 2001, Frances Swanson, Trustee of the Frawley Family Trust, loaned the Corporation funds to meet operating expenses. The loans were secured by the Company's real estate. The following loans were made in the third quarter:

| | | |
|--------|--------------|--------------|
| July | 6/th/, 2001 | \$ 4,018.00 |
| July | 16/th/, 2001 | \$ 11,589.06 |
| August | 17/th/, 2001 | \$ 23,000.00 |

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| | | |
|-----------|--------------|--------------|
| September | 26/th/, 2001 | \$ 10,000.00 |
|-----------|--------------|--------------|

ITEM 6: Exhibits and Reports on Form 8-K

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No reports on form 8-K were filed during the quarter ended September 30, 2001

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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: January 15, 2002

By: /S/ MICHAEL P. FRAWLEY

Michael P. Frawley, President
Authorized Officer and Chief
financial Officer)

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