FRAWLEY CORP
Form 10-Q
August 21, 2002

U.S. 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, 2002

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 **(State or other jurisdiction of incorporation)**	**95-2639686** **(I.R.S. Emp I.D. No)**
5737 Kanan Rd. PMB # 188, Agoura Hills, California **(Address of principal executive offices)**	**91301** **(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.

Class	Outstanding at June 30, 2002
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

	June 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Current assets		
Cash	$ 162,000	$ 135,000
Accounts receivable, net	6,000	
Prepaid expenses and other deposits	69,000	66,000
Current assets of discontinued operations	473,000	542,000
Total current assets	710,000	743,000
Real estate investments, net	1,291,000	1,276,000
Non-current assets of discontinued operations	2,000	416,000
Total assets	$ 2,003,000	$ 2,435,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities		
Notes payable to stockholders	$ 2,638,000	$ 2,416,000
Accounts payable and accrued expenses	1,166,000	962,000
Environmental reserve	78,000	209,000
Current liabilities of discontinued operations	436,000	1,481,000
Total current liabilities	4,318,000	5,068,000
Long term liabilities		
Environmental reserve	1,424,000	1,424,000
Total liabilities	5,742,000	6,492,000
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	1,414,000	1,414,000
Capital surplus	16,986,000	16,986,000
Accumulated deficit	(21,378,000)	(21,696,000)
	(2,978,000)	(3,296,000)
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)
Total stockholders deficit	(3,739,000)	(4,057,000)
Total liabilities and stockholders deficit	$ 2,003,000	$ 2,435,000

See notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,	
	2002	**2001**
	(Unaudited)	
Revenues:		
Net revenues	$	$ 690,000
Costs and expenses:		
Cost of operations		446,000
Selling, general and administrative expenses	67,000	283,000
Interest expense	63,000	86,000
Total costs and expenses	130,000	815,000
Loss from continuing operations	(130,000)	(125,000)
Loss from discontinued operations	(105,000)	
Net income/(loss)	$ (235,000)	$ (125,000)
Loss per share from continuing operations	$ (0.11)	$ (0.10)
Net loss per share, common	$ (0.19)	$ (0.10)
Fully diluted	$ (0.19)	$ (0.10)
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 OPERATIONS

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(Unaudited)	
Revenues:		
Net operating revenues	$ 10,000	$ 1,415,000
Costs and expenses:		
Cost of operations		875,000
Selling, general and administrative expenses	120,000	595,000
Interest expense	123,000	156,000
Total cost and expenses	243,000	1,626,000
Loss from continuing operations	(233,000)	(211,000)
Income from discontinued operations	551,000	
Net income/(loss)	$ 318,000	$ (211,000)
Loss per share from continuing operations	$ (0.11)	$ (0.17)
Net income/(loss) per share, common	$ 0.26	$ (0.17)
Fully diluted	$ 0.26	$ (0.17)
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

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ 318,000	$ (282,000)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Gain on sale of assets	(781,000)	
Depreciation		16,000
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	(6,000)	106,000
Prepaid expenses and deposits	(3,000)	(8,000)
Accounts payable and accrued expenses	71,000	147,000
Unearned revenue		(55,000)
Total adjustments	(498,000)	206,000
Net cash used in operating activities	(180,000)	(76,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Real estate investments	(15,000)	4,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt borrowings	222,000	95,000
Net change in cash and cash equivalents	27,000	23,000
Cash, beginning of period	135,000	54,000
Cash, end of period	$ 162,000	$ 77,000

See notes to consolidated financial statements.

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 as of June 30, 2002, and the results of operations and changes in cash flows for the six months then ended.

NOTE 2: The results of operations for the six months ended June 30, 2002 as compared to the results of 2001 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, 2002, the real estate operating loss was $95,000 compared to a loss in 2001 of $88,000. During the first six months of this year, real estate losses were $167,000 as compared to a loss of $181,000 for the same period in 2001. Real estate losses continue as the Company incurs carrying costs and costs of improvements required to sell the property.

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 has unanimously voted to sell or close this business in 2002. The Company is currently negotiating with a group of non-related former patients who are interested in purchasing the Schick program. If these negotiations are not successful, the Company will seek another purchaser.

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.

During the quarter ended June 30, 2002, the health care discontinued operations loss was approximately $105,000. For the six months ended June 30, 2002, the health care discontinued operations net income was approximately $551,000. 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 $230,000 for the six months ended June 30, 2002 as compared to a loss of $17,000 for the same period in 2001.

These results are not necessarily an indication of the future quarters operating results.

Liquidity and Capital Resources

The Company s recurring losses from continuing operations led to its decision to discontinue the hospital operations. Difficulties in generating cash flow sufficient to meet its obligations raise substantial doubt about the

Company s ability to continue as a going concern.

Real estate and corporate overhead continue to produce losses that the operating business is unable to absorb. The required investments in real estate are currently funded by loans.

The Company continues to incur legal expenses and has an obligation in 2002 to contribute to the Chatham Brothers toxic waste cleanup lawsuit.

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

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 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, 2002, the Company had paid over $570,000 into the PRP group 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 $1,424,000, 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 second quarter of 2002, Michael Frawley, Chairman of the Board, loaned to Shadel Hospital Inc. DBA Schick Shadel Hospital of Seattle $55,000 to meet short term operating cash flows. The loan was secured by the hospital s assets.

In the second quarter of 2002, Frances Swanson, Trustee of the Frawley Family Trust, loaned the Corporation funds to meet short term operating expenses. The loans were secured by the Company s real estate.

The following loans were made:

April 3rd, 2002	$ 37,043.00
June 14th, 2002	17,000.00
June 21st, 2002	105,000.00

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, 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.

FRAWLEY CORPORATION
(Registrant)

Date:	August 20, 2002	By:	/s/ MICHAEL P. FRAWLEY

Michael P. Frawley
President
(Authorized Officer and
Chief Financial Officer