FRAWLEY CORP
Form 10-Q
October 01, 2001

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 March 31, 2001

OR

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXHCANGE 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 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 March 31, 2001
Common stock, par value $1	1,222,905

Total Number of Pages 11

FRAWLEY CORPORATION AND SUBSIDIARIES

INDEX

2

ITEM I: FINANCIAL STATEMENTS

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	MARCH 31, 2001 (Unaudited)	DECEMBER 31, 2000
CURRENT ASSETS		
Cash	$ 54,000	$ 54,000

Accounts receivable, net	537,000	433,000
Prepaid expenses and other deposits	90,000	93,000
TOTAL CURRENT ASSETS	681,000	580,000
Long-term accounts receivable, net	0	95,000
Real estate investments, net	1,724,000	1,723,000
Property, plant and equipment, net	444,000	451,000
TOTAL ASSETS	$ 2,849,000	$ 2,849,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Notes payable to stockholders	$ 3,303,000	$ 3,277,000
Accounts payable and accrued expenses	1,298,000	1,230,000
Environmental reserve	78,000	78,000
Note Payable	70,000	70,000
Unearned revenue	93,000	30,000
TOTAL CURRENT LIABILITIES	4,842,000	4,685,000
LONG TERM LIABILITIES		
Environmental reserve	1,424,000	1,424,000
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	(21,056,000)	(20,899,000)
	(2,656,000)	(2,499,000)
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)
TOTAL STOCKHOLDERS' EQUITY	(3,417,000)	(3,260,000)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,849,000	$ 2,849,000

See notes to consolidated financial statements

3

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Three Months Ended
March 31,

	2001	2000
REVENUES:		
Net revenues	$ 665,000	$ 796,000
COSTS AND EXPENSES:		
Cost of operations	492,000	426,000
Selling, general and administrative expenses	246,000	288,000
Interest expense	84,000	77,000
TOTAL COSTS AND EXPENSES	822,000	791,000
NET (LOSS)/INCOME	$ (157,000)	$ 5,000
NET (LOSS)/INCOME PER SHARE:		
Continuing operations	$ (.13)	$ .004
	(.13)	.004
Weighted average number of common shares outstanding	1,222,905	1,222,905

See notes to consolidated financial statements

4

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

CASH FLOWS FROM OPERATING ACTIVITIES:
Net (Loss)/Income

Adjustments to reconcile net (Loss)/Income to net cash used in operating activities:
Depreciation

Changes in operating assets and liabilities:

Short- and long-term accounts
receivable, net
Prepaid expenses and deposits
Accounts payable and accrued expenses
Unearned revenue

TOTAL ADJUSTMENTS

Net cash used in operating activities

CASH FLOW FROM INVESTING ACTIVITIES:
Equipment purchases
Refunds received on real estate

Net cash used in investing activities

CASH FLOWS FROM FINANCING ACTIVITES:
Short-term debt borrowings

Net cash provided by financing activities

NET DECREASE IN CASH AND CASH
EQUIVALENTS

CASH, BEGINNING OF PERIOD

CASH, END OF PERIOD

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 at March 31, 2001, the results of operations and changes in cash flow for the three months then ended.

NOTE 2: The results of operations for the three months ended March 31, 2001 and 2000 are not necessarily indicative of results to be expected for the full year.

6

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 March 31, 2001, operating revenues were $668,260, which compared to revenue of the same period in 2000 of $780,060, resulted in a $111,800 decrease. In 2001, the health care operation loss was approximately $32,000 as compared to a $134,000 profit in 2000. The first quarter operating results are not necessarily an indication of the future quarters operating results. 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 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 currently is seeking an investor to fund marketing and expansion of the health care services or a purchaser for this subsidiary. No assurance can be made that an investor or purchaser will be found.

Real Estate

The real estate operating loss during the quarter ended March 31, 2001 was approximately $93,000 as compared to a loss of $77,000 for the same period in 2000. Real estate losses continue as the Company incurs carrying costs and improvements required to sell the property.

The undeveloped real estate market in Southern California is showing signs of improvement. The Company is actively advertising the undeveloped real estate for sale.

Los Angeles County Regional Planning Commission, which governs real estate development, recently had public hearings to review a plan to further restrict development of land in the Santa Monica Mountains. 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.

7

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 Seattle Hospital and outpatient treatment program reported approximately a $32,000 loss for the three months ended March 31, 2001 compared to a $134,000 profit for the three months ended March 31, 2000. Management expects that cash flow will further tighten as the Company continues to experience a transition from third party reimbursement to direct payment from patients. Debt secured by the Seattle Hospital in the amount of $1,022,000 was due December 31, 2000. This date has been informally extended.

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 and selling real estate. The sale of real estate may require further expenditures to prepare the land for sale which would be financed through borrowings. 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. The limited resources available to the Company will be directed at revitalization of the health care business and the continued reduction of non-producing assets, as the Company seeks to find a buyer or investor for the health care business.

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 PRPs for the purpose of negotiating with the DTSC and for undertaking remediation of the site. 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 December 31, 2000, 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 First Quarter 2001, 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:

February 23rd, 2001	$21,000.00
March 25/th/, 2001	4,657.17

ITEM 6: Exhibits and Reports on Form 8-K

None

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: September 26, 2001

By: s/ Michael P. Frawley

Michael P. Frawley
(Authorized Officer and CEO
and Chairman of the Board)