FRAWLEY CORP
Form 10-Q
December 12, 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 June 30, 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___
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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, 2001
Common stock, par value $1	1,222,905

Total Number of Pages 12

FRAWLEY CORPORATION AND SUBSIDIARIES

INDEX

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

ASSETS	JUNE 30, 2001 (Unaudited)	DECEMBER 31, 2000
CURRENT ASSETS		

Cash	$ 77,000	$ 54,000
Accounts receivable, net	518,000	433,000
Prepaid expenses and other deposits	121,000	93,000
TOTAL CURRENT ASSETS	716,000	580,000
Long-term accounts receivable, net	------	95,000
Real estate investments, net	1,723,000	1,723,000
Property, plant and equipment, net	436,000	451,000
TOTAL ASSETS	$ 2,875,000	$ 2,849,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable to stockholders	$ 3,373,000	$ 3,277,000
Accounts payable and accrued expenses	1,388,000	1,230,000
Environmental Reserve	78,000	78,000
Note Payable	70,000	70,000
Unearned revenue	84,000	30,000
TOTAL CURRENT LIABILITIES	4,993,000	4,685,000
LONG TERM LIABILITIES		
Environmental Reserve	1,424,000	1,424,000
TOTAL LIABILITIES	6,417,000	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	(21,181,000)	(20,899,000)
	(2,781,000)	(2,499,000)
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)
TOTAL STOCKHOLDERS' EQUITY	(3,542,000)	(3,260,000)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,875,000	$ 2,849,000

See notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000
REVENUES:		
Net revenues	$ 690,000	$ 619,000
COSTS AND EXPENSES:		
Cost of operations	446,000	449,000
Selling, general and administrative expenses	283,000	307,000
Interest expense	86,000	79,000
TOTAL COSTS AND EXPENSES	815,000	835,000
NET LOSS	$ (125,000)	$ (216,000)
NET LOSS PER SHARE:		
Continuing operations	$ (.10)	$ (.18)
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 STATMENTS OF OPERATIONS
(UNAUDITED)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
REVENUES:		
Net Revenues	$1,359,000	$1,415,000
Loss from sale of real estate	(4,000)	-
TOTAL REVENUES	1,355,000	1,415,000
COSTS AND EXPENSES:		
Cost of operations	938,000	875,000
Selling, general and administrative expenses	529,000	595,000
Interest expense	170,000	156,000
TOTAL COST AND EXPENSES	1,637,000	1,626,000
NET LOSS	$ (282,000)	(211,000)

NET LOSS PER SHARE:		
Continuing operations	$ (0.23)	$ (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
(UNAUDITED)

	Six Months Ended June 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$(282,000)	$(211,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	16,000	15,000
Changes in operating assets and liabilities:		
Short- and long-term accounts receivable, net	106,000	74,000
Prepaid expenses and deposits	(8,000)	(21,000)
Accounts payable and accrued expenses	147,000	108,000
Unearned revenue	(55,000)	
TOTAL ADJUSTMENTS	206,000	176,000
Net cash used in operating activities	(76,000)	(35,000)
Payments for real estate investments	4,000	(104,000)
Net cash used in investing activities	4,000	104,000)
CASH FLOWS FROM FINANCING ACTIVITES:		
Short-term debt borrowings	95,000	161,000
Net cash provided by financing activities	95,000	161,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,000	23,000

CASH, BEGINNING OF PERIOD	54,000	29,000
CASH, END OF PERIOD	$ 77,000	$ 51,000

6

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, 2001, 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, 2001 as compared to the results of 2000 are not necessarily indicative of results to be expected for the full year.

7

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 June 30, 2001, operating revenues from Specialized Health Services increased by $68,000 when compared to the same period in 2000. For the three months ending June 30, 2001 the health care operation reported a $12,000 profit compared to a $50,000 loss for the same period in 2000. For the six months ended June 30, 2001 Net Revenue was $1,355,000 compared to $1,398,000 in 2000 a reduction of $43,000 and the loss of $20,000 compared disfavorably to the 2000 profit of $84,000. Although revenue decreased slightly, 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 is currently seeking an investor to fund marketing and expansion of the health care services or a purchaser for the subsidiary. No assurances can be made that an investor will be found.

Real Estate

For the quarter ended June 30, 2001, Real Estate Operations loss was $88,000 compared to a loss in 2000 of $111,000. During the first six months of this year Real Estate losses were $181,000 as compared to a loss of $188,000 for the same period in 2000. Real estate losses continue as the Company incurs carrying costs and costs of improvements required to sell the property.

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

The 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.

8

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 a $17,000 loss for the six months ended June 30, 2001 compared to a $84,000 profit for the six months ended June 30, 2000. Management expects that cash flow will further tighten as the Company continues to experience a transition from the 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. 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 and selling real estate. The sale of real estate may require further expenditure 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 towards the health care business and the continued reduction of non-producing assets.

9

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. 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, 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 Second 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:

April 10/th/ ,2001	$14,000.00
April 13/th/ ,2001	6,200.00
May 8/th/ ,2001	8,295.20

10

June 5/th/ ,2001	14,974.21
June 27/th/ ,2001	27,489.00

ITEM 6: Exhibits and Reports on Form 8-K

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

11

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: December 12, 2001 By /s/ Michael P. Frawley

MICHAEL P. FRAWLEY, President
(Authorized Officer and Chief
Financial Officer)