

FRAWLEY CORP  
Form 10-Q  
May 15, 2007

**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 March 31, 2007

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  NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.):

YES  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.

Common stock, par value \$1  
(Class)

1,222,905  
Outstanding at March 31, 2007

Total Number of Pages 13

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FRAWLEY CORPORATION AND SUBSIDIARIES

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

	MARCH 31, 2007 (Unaudited)	DECEMBER 31, 2006
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 18,000	\$ 7,000
Accounts receivable, net	4,000	4,000
Prepaid expenses and other current assets	1,000	17,000
<b>TOTAL CURRENT ASSETS</b>	<b>23,000</b>	<b>28,000</b>
Real estate investments, net	457,000	457,000
Investment in partnership	16,000	16,000
<b>TOTAL ASSETS</b>	<b>\$ 496,000</b>	<b>\$ 501,000</b>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>		
<b>CURRENT LIABILITIES</b>		
Notes payable to stockholders	\$ 2,216,000	\$ 2,138,000
Accounts payable and accrued expenses	139,000	164,000
Environmental reserve	77,000	77,000
Interest payable to related parties	1,892,000	1,840,000
Deposits	378,000	374,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,702,000</b>	<b>4,593,000</b>
<b>LONG TERM LIABILITIES</b>		
Environmental reserve	1,120,000	1,120,000
<b>TOTAL LIABILITIES</b>	<b>5,822,000</b>	<b>5,713,000</b>
<b>STOCKHOLDERS' DEFICIT:</b>		
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	17,209,000	17,209,000
Accumulated deficit	(23,188,000)	(23,074,000)
	(4,565,000)	(4,451,000)
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)

TOTAL STOCKHOLDERS' DEFICIT	(5,326,000)	(5,212,000)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 496,000	\$ 501,000

See notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended MARCH 31,	
	2007	2006
REVENUES:		
Sale of real estate	\$ -	\$ 749,000
COSTS AND EXPENSES:		
Cost of real estate sold	-	441,000
Selling, general and administrative expenses	62,000	40,000
Interest expense	52,000	59,000
TOTAL COSTS AND EXPENSES	114,000	540,000
NET (LOSS)/INCOME	\$ (114,000)	\$ 209,000
NET (LOSS)/INCOME PER SHARE, COMMON	\$ (0.09)	\$ 0.17
FULLY DILUTED	\$ (0.09)	\$ 0.17
Weighted average number of Common shares outstanding	1,222,900	1,222,900

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss)/income	\$ (114,000)	\$ 209,000
Adjustments to reconcile net (loss)/income to net cash (used in)/provided by operating activities:		
Changes in operating assets and liabilities:		
Short and long-term accounts receivable, net	-	(4,000)
Prepaid expenses and other current assets	16,000	23,000
Real estate investments	-	441,000
Accounts payable and accrued liabilities	31,000	(95,000)
Environmental reserve	-	(150,000)
<b>TOTAL ADJUSTMENTS</b>	<b>47,000</b>	<b>215,000</b>
<b>NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES</b>	<b>(67,000)</b>	<b>424,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Improvements to real estate	-	(86,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>(86,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short-term debt borrowings from related party	78,000	86,000
Repayment of borrowings	-	(369,000)
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>78,000</b>	<b>(283,000)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>11,000</b>	<b>55,000</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>7,000</b>	<b>7,000</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 18,000</b>	<b>\$ 62,000</b>

See notes to consolidated financial statements.

**FRAWLEY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE In the opinion of management, the accompanying unaudited consolidated financial statements contain all  
1: adjustments necessary to present fairly the financial position as of March 31, 2007, and the results of  
operations and changes in cash flows for the three months then ended.

NOTE The results of operations for the three months ended March 31, 2007 as compared to the results of 2006 are  
2: 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**

**Real Estate**

The real estate operating loss during the quarter ended March 31, 2007 was approximately \$88,000 as compared to a gain of \$231,000 for the same period in 2006. However, real estate losses will continue as the Company incurs carrying cost and improvements required to sell the remaining properties.

In February 2004, the Company received notice from Los Angeles County that the county intends to severely restrict grading permits and may require condition use permits for grading on the Company's property. In addition, the County of Los Angeles announced its intention to restrict the building of residences on three of the Company's six parcels of land because of new ridgeline building ordinances. Prior to the ordinance deadline, the Company received grandfathering status on three of its remaining parcels. Because the grandfathering clause is conditional, it is unclear whether or not the Company will be able to take advantage of this grandfathering status until the Company completes the permit process. The above regulations potentially require multi-year processing to reach the point that a parcel can be sold to a third party.

If an agreement cannot be reached with Los Angeles County, these new regulations may force the Company to liquidate its real estate, make settlements with its lenders and close down its real estate development business. As of March 31, 2007, no decision has been made by management regarding liquidation, nor can they determine the potential financial impact to the Company. Accordingly, the March 31, 2007 financial statements do not reflect any adjustments that might result from these new and more stringent regulations.

**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.

The Company continues to incur legal expenses and has an obligation in 2007 to contribute to the Chatham Brothers toxic waste cleanup lawsuit, as well as an obligation in 2007 for the Omega Chemical Superfund Site. At this time, the Company is unsure if it will have the funds to satisfy these obligations when they become due.

## 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 Harley 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 is 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, 1999, the PRP's consent decree was approved by the Court. As of March 31, 2007 the Company had paid into the PRP Group approximately \$1,040,000, which includes the assignment of a \$250,000 note receivable with recourse. In addition, the Company has accrued short-term and long-term undiscounted liabilities of \$77,000 and \$1,120,000 respectively, to cover future costs under the remediation plan.

During the past several years, the Company has requested a Hardship Withdrawal Settlement with the PRP group due to the Company's financial condition. The PRP group has continually denied the Company's request. In December 2003, the Company again formally requested a Hardship Withdrawal Settlement with the PRP Group. The Company's proposal was for payment of \$240,000 over four years in exchange for complete release from all further legal and financial responsibility related to the environmental liability.

On July 16, 2004, the Company entered in a settlement agreement with the Chatham Site PRP Group Trust for a \$240,000 payment to be paid as follows: \$100,000 on December 31, 2004, \$50,000 on December 31, 2005, \$50,000 on December 31, 2006 and \$40,000 on December 31, 2007. The Company will not be fully released from the environmental liability until the settlement agreement note of \$240,000 and the assigned note in the amount of \$250,000 are paid in full. In 2006, the PRP Group received a principal payment related to the assigned note of \$50,000 and interest accrued of \$8,000, compared to a \$50,000 principal payment and \$12,000 of accrued interest in 2005. In March 2006, the Company made a payment in the amount of \$150,000 related to the settlement agreement note representing the payments due on December 31, 2004 and December 31, 2005. The Company did not make the scheduled payment on December 31, 2006. The Company owes penalties on late payments totaling approximately \$20,000 calculated at 10% of the face value of the note payments for the years 2004, 2005 and 2006. These penalties are recognized in interest expense and the liability is accrued as a portion of the current environmental reserve.

If Frawley Corporation complies with the terms of the notes, the Company will not be responsible for any additional payments to the Chatham Site PRP Group for the financing of the remediation action plan approved by the State of California in 1999. However, the PRP Group refused to indemnify Frawley Corporation for any third party lawsuit related to the Chatham Site Clean up Site that are not considered in the remediation action plan approved in 1999.

In June 2004 the Corporation received a new environmental claim against its former Harley pen division in the amount of approximately \$99,000. The claim has been made by the United States Environmental Toxic Agency concerning the Company's alleged responsibility for the Omega Chemical Superfund Site. The Company has recorded the liability in the year ended December 31, 2004. During 2006, the Company agreed to pay the liability in installment payments through October 2007. The Company made payments of approximately \$52,000 during 2006 and \$12,000 during the first quarter of 2007.

ITEM 5:

Other Information

Related Party Transactions

During the first quarter ended March 31, 2007 the Company borrowed approximately \$78,000 from the Frawley Family Trust. These loans are secured by Deeds of trust on the Company's real estate property.

ITEM 6:

Exhibits and Reports on Form 8-K

Exhibit 31.1 - Sarbanes-Oxley Act Section 302 Certification

Exhibit 32.1 - Certification of CEO and CFO

No reports on Form 8-K were filed during the quarter ended March 31, 2007.

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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: May 14, 2007

By: /s/ Michael P. Frawley

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