

FRAWLEY CORP
Form 10-Q
August 21, 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 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 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
	<u>710,000</u>	<u>743,000</u>
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
	<u>2,003,000</u>	<u>2,435,000</u>
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
	<u>4,318,000</u>	<u>5,068,000</u>
Total current liabilities	4,318,000	5,068,000
Long term liabilities		
Environmental reserve	1,424,000	1,424,000
	<u>5,742,000</u>	<u>6,492,000</u>
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)
	<u>(2,978,000)</u>	<u>(3,296,000)</u>
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)
	<u>(3,739,000)</u>	<u>(4,057,000)</u>
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	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	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.