FRAWLEY CORP
Form 10-Q
June 27, 2005
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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, 2005

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 OR ORGANIZATION)**	**95-2639686** **(I.R.S. EMP ID 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.

Common stock, par value $1	**1,222,905**
(Class)	**(Outstanding at March 31, 2005)**

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, 2005 (Unaudited)	DECEMBER 31, 2004
ASSETS		
CURRENT ASSETS		
Cash	$ 4,000	$ 4,000
Accounts receivable, net	4,000	
Prepaid expenses and other current assets	2,000	30,000
TOTAL CURRENT ASSETS	10,000	34,000
Real estate investments, net	812,000	812,000
Investment in partnership	16,000	16,000
TOTAL ASSETS	$ 838,000	$ 862,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Notes payable to stockholders	$ 2,187,000	$ 2,143,000
Accounts payable and accrued expenses	267,000	283,000
Environmental reserve	73,000	73,000
Interest payable to related parties	1,481,000	1,427,000
Deposits	383,000	374,000
TOTAL CURRENT LIABILITIES	4,391,000	4,300,000
LONG TERM LIABILITIES		
Environmental reserve	1,274,000	1,274,000
TOTAL LIABILITIES	5,665,000	5,574,000
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	17,209,000	17,208,000
Accumulated deficit	(22,689,000)	(22,573,000)
	(4,066,000)	(3,951,000)
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)
TOTAL STOCKHOLDERS DEFICIT	(4,827,000)	(4,712,000)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 838,000	$ 862,000

See notes to consolidated financial statements.

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31	
	2005	**2004**
REVENUES:		
Net revenue	$ 4,000	$
COSTS AND EXPENSES:		
Selling, general and administrative expenses	66,000	74,000
Interest expense	54,000	60,000
TOTAL COSTS AND EXPENSES	120,000	134,000
NET LOSS	$ (116,000)	$ (134,000)
NET LOSS PER SHARE, COMMON	$ (0.09)	$ (0.11)
FULLY DILUTED	$ (0.09)	$ (0.11)
Weighted average number of Common shares outstanding	1,222,905	1,222,905

See notes to consolidated financial statements.

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (116,000)	$ (134,000)
Changes in operating assets and liabilities:		
Short and long-term accounts receivable, net	(4,000)	
Prepaid expenses and other current assets	28,000	25,000
Accounts payable and accrued expenses	47,000	88,000
TOTAL ADJUSTMENTS	71,000	113,000
NET CASH USED IN OPERATING ACTIVITIES	(45,000)	(21,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt borrowings from related party	44,000	
Capital contributions	1,000	26,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	45,000	26,000
NET CHANGE IN CASH AND CASH EQUIVALENTS		5,000
CASH, BEGINNING OF PERIOD	4,000	18,000
CASH, END OF PERIOD	$ 4,000	$ 23,000

See notes to consolidated financial statements.

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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 March 31, 2005, the results of operations and changes in cash flows for the three months then ended.

NOTE 2: The results of operations for the three months ended March 31, 2005 as compared to the results of 2004 are 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, 2005 was approximately $95,000 as compared to a loss of $84,000 for the same period in 2004. Real estate losses continue as the Company incurs carrying costs and costs of improvements required to sell the property.

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 eight parcels of land because of new ridgeline building ordinances. Prior to the ordinance deadline, the Company received grandfathering status on three of its eight 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 the report date, no decision has been made by management regarding liquidation, nor can they determine the potential financial impact to the Company. Accordingly, the March 31, 2005 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 2005 to contribute to the Chatham Brothers toxic waste cleanup lawsuit.

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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, 2005 the Company had paid into the PRP Group approximately $840,000, which includes the assignment of a $250,000 note receivable with recourse, and had a cash call contribution payable of approximately $65,000. In addition, the Company has accrued short-term and long-term undiscounted liabilities of $73,000 and $1,274,000 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 note of $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 2004 the PRP Group received a principal payment of $50,000 and $16,000 in interest, compared to $50,000 principal payment and $20,000 in accrued interest in 2003. As of March 31, 2005, the Company has not yet made the payment due on December 31, 2004 and is in default on the note. As result, the Company has not adjusted its long term or short term environmental liability as of March 31, 2005.

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.

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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 as it is more likely than not that the Company will have to pay the claim.

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 sub licensee in Greece. The Company believes that the license agreement supports that it adequately notified the licensee that the licensee would have to investigate the international trademark involving Classics Illustrated . Although the parent company of the licensee has filed for Chapter 7 bankruptcy protection, management believes that there is no probable risk of loss related to this dispute.

ITEM 5: Other Information

Related Party Transactions

During the First Quarter ended March 31, 2005 the Company borrowed from Frawley Family Trust approximately $44,000 secured by Deeds of Trust on the Company s property.

The Company has charged its stockholders for any employee time spent on non-corporate matters. The Company has received $1,000 from the Frawley Family Trust as reimbursement for payroll expenses during the First Quarter ended March 31, 2005. The funds do not have to be repaid and are accounted for as capital contributions in the financial statements.

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

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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: June 23, 2005

By: /s/ Michael P. Frawley
(Authorized Officer and CEO and Chairman of the Board)