

FRAWLEY CORP
Form 10-Q
November 01, 2005
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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 September 30, 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)

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

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(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

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 September 30, 2005

Total Number of Pages 13

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FRAWLEY CORPORATION AND SUBSIDIARIES

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| | SEPTEMBER 30, 2005 | DECEMBER 31, 2004 |
|--|-------------------------------|------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 3,000 | \$ 4,000 |
| Accounts receivable, net | 4,000 | |
| Prepaid expenses and other current assets | 1,000 | 30,000 |
| | <u>8,000</u> | <u>34,000</u> |
| TOTAL CURRENT ASSETS | 8,000 | 34,000 |
| Real estate investments, net | 812,000 | 812,000 |
| Investment in partnership | 16,000 | 16,000 |
| | <u>836,000</u> | <u>862,000</u> |
| TOTAL ASSETS | \$ 836,000 | \$ 862,000 |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| CURRENT LIABILITIES | | |
| Notes payable to stockholders | \$ 2,288,000 | \$ 2,143,000 |
| Accounts payable and accrued expenses | 264,000 | 283,000 |
| Environmental reserve | 73,000 | 73,000 |
| Interest payable to related parties | 1,593,000 | 1,427,000 |
| Deposits | 378,000 | 374,000 |
| | <u>4,596,000</u> | <u>4,300,000</u> |
| TOTAL CURRENT LIABILITIES | 4,596,000 | 4,300,000 |
| LONG TERM LIABILITIES | | |
| Environmental reserve | 1,274,000 | 1,274,000 |
| | <u>1,274,000</u> | <u>1,274,000</u> |
| TOTAL LIABILITIES | 5,870,000 | 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 | (22,896,000) | (22,573,000) |
| | <u>(4,273,000)</u> | <u>(3,951,000)</u> |
| Less common stock in treasury, 191,312 shares (at cost) | (761,000) | (761,000) |
| | <u>(5,034,000)</u> | <u>(4,712,000)</u> |
| TOTAL STOCKHOLDERS DEFICIT | (5,034,000) | (4,712,000) |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT | \$ 836,000 | \$ 862,000 |

See notes to consolidated financial statements.

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FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended SEPTEMBER 30 | |
|--|--|--------------------|
| | 2005 | 2004 |
| REVENUES: | | |
| Net revenue | \$ 1,000 | \$ |
| Gain on sale of real state | | 210,000 |
| | | |
| TOTAL REVENUE | \$ 1,000 | \$ 210,000 |
| | | |
| COSTS AND EXPENSES: | | |
| Selling, general and administrative expenses | 52,000 | 242,000 |
| Interest expense | 57,000 | 66,000 |
| | | |
| TOTAL COSTS AND EXPENSES | 109,000 | 308,000 |
| | | |
| NET LOSS | \$ (108,000) | \$ (98,000) |
| | | |
| NET LOSS PER SHARE, COMMON | \$ (0.09) | \$ (0.08) |
| | | |
| FULLY DILUTED | \$ (0.09) | \$ (0.08) |
| | | |
| 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 OPERATIONS
 (UNAUDITED)

| | Nine Months Ended September 30 | |
|--|-----------------------------------|---------------------|
| | 2005 | 2004 |
| REVENUES: | | |
| Net revenue | \$ 5,000 | \$ |
| Gain on sale of real state | | 210,000 |
| TOTAL REVENUE | 5,000 | 210,000 |
| COSTS AND EXPENSES: | | |
| Selling, general and administrative expenses | 162,000 | 387,000 |
| Interest expense | 166,000 | 183,000 |
| TOTAL COSTS AND EXPENSES | 328,000 | 570,000 |
| NET LOSS | \$ (323,000) | \$ (360,000) |
| NET LOSS PER SHARE, COMMON | \$ (0.26) | \$ (0.29) |
| FULLY DILUTED | \$ (0.26) | \$ (0.29) |
| 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)

| | Nine Months Ended | |
|---|-------------------|------------------|
| | September 30, | |
| | 2005 | 2004 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (323,000) | \$ (360,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Gain on sale of real state | | (210,000) |
| Changes in operating assets and liabilities: | | |
| Short and long-term accounts receivable, net | (4,000) | (4,000) |
| Prepaid expenses and other current assets | 29,000 | 30,000 |
| Accounts payable and accrued expenses | 151,000 | 380,000 |
| TOTAL ADJUSTMENTS | 176,000 | 196,000 |
| NET CASH USED IN OPERATING ACTIVITIES | (147,000) | (164,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of real state | | 450,000 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | | 450,000 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term debt borrowings from related party | 145,000 | 74,000 |
| Repayment of borrowings | | (368,000) |
| Capital contributions | 1,000 | 62,000 |
| NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES | 146,000 | (232,000) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,000) | 54,000 |
| CASH, BEGINNING OF PERIOD | 4,000 | 18,000 |
| CASH, END OF PERIOD | \$ 3,000 | \$ 72,000 |

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 September 30, 2005, and the results of operations and changes in cash flows for the nine months then ended.

NOTE 2: The results of operations for the nine months ended September 30, 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

For the quarter ended September 30, 2005, the real estate net loss was \$89,000 compared to net income in 2004 of \$40,000. During the nine months ended September 30, 2005, real estate losses were \$257,000 as compared to a loss of \$132,000 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 seven parcels of land because of new ridgeline building ordinances. Prior to the ordinance deadline, the Company received grandfathering status on three of its seven 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 September 30, 2005, no decision has been made by management regarding liquidation, nor can they determine the potential financial impact to the Company. Accordingly, the September 30, 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.

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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 September 30, 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 September 30, 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 September 30, 2005. After the closing of the quarter ended September 30, 2005, the PRP group informed the Company, that they have received a payment on the \$250,000 note of \$50,000 in principal and \$12,000 in interest.

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 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

During the Third Quarter ended September 30, 2005 the Company borrowed approximately \$44,000 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

No reports on Form 8-K were filed during the quarter ended September 30, 2005.

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: October 31, 2005

By: /s/ Michael P. Frawley
MICHAEL P. FRAWLEY, President
(Authorized Officer and
Chief Financial Officer)