

FRAWLEY CORP
Form 10-Q
November 02, 2004
Table of Contents

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, 2004

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)

Edgar Filing: FRAWLEY CORP - Form 10-Q

Delaware
(STATE OR OTHER JURISDICTION

95-2639686
(I.R.S. EMP I.D. NO)

OF INCORPORATION)

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.

Common stock, par value \$1
Class

1,222,905
Outstanding at September 30, 2004

Total Number of Pages 14

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES

INDEX

| | <u>PAGE NO.</u> |
|------------------------------------------------------------------------------------------------------|------------------------|
| PART I: FINANCIAL INFORMATION | |
| Item 1: <u>Financial Statements</u> | |
| <u>Consolidated Balance Sheets September 30, 2004 and December 31, 2003</u> | 3 |
| <u>Consolidated Statements of Operations Three Months ended September 30, 2004 and 2003</u> | 4 |
| <u>Consolidated Statements of Operations Nine Months Ended September 30, 2004 and 2003</u> | 5 |
| <u>Consolidated Statements of Cash Flows Nine Months Ended September 30, 2004 and 2003</u> | 6 |
| <u>Notes to Consolidated Financial Statements</u> | 7 |
| Item 2: <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 8 |
| PART II: OTHER INFORMATION | |
| Item 1: <u>Legal Proceedings</u> | 9-10 |
| Item 5: <u>Other Information</u> | 10 |
| Item 6: <u>Exhibits and Reports on Form 8-K</u> | 10 |
| <u>SIGNATURES</u> | 11 |

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

| | SEPTEMBER 30 2004 | DECEMBER 31, 2003 |
|----------------------------------------------------------------------------------------------|----------------------|----------------------|
| | (Unaudited) | |
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | \$ 72,000 | \$ 18,000 |
| Accounts receivable, net | 4,000 | |
| Prepaid expenses and other assets | 2,000 | 32,000 |
| | <u>78,000</u> | <u>50,000</u> |
| TOTAL CURRENT ASSETS | 78,000 | 50,000 |
| Real estate investments, net | 812,000 | 1,052,000 |
| Investment in partnership | 16,000 | 16,000 |
| | <u>828,000</u> | <u>1,068,000</u> |
| TOTAL ASSETS | \$ 906,000 | \$ 1,118,000 |
| <u>LIABILITIES AND STOCKHOLDERS DEFICIT</u> | | |
| CURRENT LIABILITIES | | |
| Notes payable to stockholders | \$ 2,143,000 | \$ 2,437,000 |
| Accounts payable and accrued expenses | 276,000 | 184,000 |
| Environmental reserve | 139,000 | 139,000 |
| Interest payable to related parties | 1,373,000 | 1,192,000 |
| Deposits | 376,000 | 269,000 |
| | <u>4,307,000</u> | <u>4,221,000</u> |
| TOTAL CURRENT LIABILITIES | 4,307,000 | 4,221,000 |
| LONG TERM LIABILITIES | | |
| Environmental reserve | 1,224,000 | 1,224,000 |
| | <u>1,224,000</u> | <u>1,224,000</u> |
| TOTAL LIABILITIES | 5,531,000 | 5,445,000 |
| 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 | 17,202,000 | 17,140,000 |
| Accumulated deficit | (22,480,000) | (22,120,000) |
| | <u>(3,864,000)</u> | <u>(3,566,000)</u> |
| Less common stock in treasury, 191,312 shares (at cost) | (761,000) | (761,000) |
| | <u>(4,625,000)</u> | <u>(4,327,000)</u> |
| TOTAL STOCKHOLDERS DEFICIT | (4,625,000) | (4,327,000) |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT | \$ 906,000 | \$ 1,118,000 |

See notes to consolidated financial statements.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

| | Three Months Ended September 30 | |
|------------------------------------------------------|--------------------------------------------|---------------------|
| | 2004 | 2003 |
| REVENUES: | | |
| Gain on sale of real state | \$ 210,000 | \$ |
| COSTS AND EXPENSES: | | |
| Selling, general and administrative expenses | 242,000 | 85,000 |
| Interest expense | 66,000 | 73,000 |
| TOTAL COSTS AND EXPENSES | 308,000 | 158,000 |
| NET LOSS | \$ (98,000) | \$ (158,000) |
| NET LOSS PER SHARE, COMMON | \$ (0.08) | \$ (0.13) |
| FULLY DILUTED | \$ (0.08) | \$ (0.13) |
| Weighted average number of Common shares outstanding | 1,222,905 | 1,222,905 |

See notes to consolidated financial statements.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

| | Nine Months Ended September 30 | |
|------------------------------------------------------|-------------------------------------------|---------------------|
| | 2004 | 2003 |
| REVENUES: | | |
| Net operating revenues | \$ | \$ 14,000 |
| Gain on sale of real state | 210,000 | |
| | 210,000 | 14,000 |
| TOTAL REVENUE | 210,000 | 14,000 |
| COSTS AND EXPENSES: | | |
| Selling, general and administrative expenses | 387,000 | 271,000 |
| Interest expense | 183,000 | 194,000 |
| | 570,000 | 465,000 |
| TOTAL COSTS AND EXPENSES | 570,000 | 465,000 |
| NET LOSS | \$ (360,000) | \$ (451,000) |
| NET LOSS PER SHARE, COMMON | \$ (0.29) | \$ (0.37) |
| FULLY DILUTED | \$ (0.29) | \$ (0.37) |
| Weighted average number of Common shares outstanding | 1,222,905 | 1,222,905 |

See notes to consolidated financial statements.

Table of Contents

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

| | Nine Months Ended September 30, | |
|-----------------------------------------------------------------------------|--------------------------------------------|------------------|
| | 2004 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (360,000) | \$ (451,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Gain on sale of real estate | (210,000) | |
| Changes in operating assets and liabilities: | | |
| Short and long-term accounts receivable, net | (4,000) | (4,000) |
| Prepaid expenses and other assets | 30,000 | 46,000 |
| Accounts payable and accrued expenses | 380,000 | 327,000 |
| TOTAL ADJUSTMENTS | 196,000 | 369,000 |
| NET CASH USED IN OPERATING ACTIVITIES | (164,000) | (82,000) |
| 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 | 74,000 | |
| Repayment of borrowings | (368,000) | |
| Capital contributions | 62,000 | 62,000 |
| NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES | (232,000) | 62,000 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 54,000 | (20,000) |
| CASH, BEGINNING OF PERIOD | 18,000 | 38,000 |
| CASH, END OF PERIOD | \$ 72,000 | \$ 18,000 |

See notes to consolidated financial statements.

Table of Contents

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, 2004, 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, 2004 as compared to the results of 2003 are not necessarily indicative of results to be expected for the full year.

Table of Contents

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, 2004, the real estate net income was \$40,000 compared to a loss in 2003 of \$92,000. During the nine months ended September 30, 2004, real estate losses were \$132,000 as compared to a loss of \$248,000 for the same period in 2003. 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. In May of 2004, Los Angeles County Regional Planning approved the Grading Ridgeline Ordinance. The Los Angeles County Board of Supervisors was scheduled to hear the Ordinance in late September 2004. 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 date of this filing, no decision has been made by management regarding liquidation, nor can they determine the potential financial impact to the Company. Accordingly, the September 30, 2004 financial statements do not reflect any adjustments that might result from these new and more stringent regulations.

During the third quarter ended September 30, 2004, the Company sold one parcel of land of approximately 5 acres to a non-related third party for \$450,000, and recorded a gain on the sale in the amount of approximately \$210,000, not including the expenses directly related to the purchase contract in the amount of \$71,118. The Company used approximately \$368,000 of the proceeds to retire related debt. The balance of these funds will be used to meet operating expenses and reduce Accounts Payable.

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 operating business is unable to absorb. The required investments in real estate are currently funded by loans.

Edgar Filing: FRAWLEY CORP - Form 10-Q

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 had an obligation in 2004 to contribute to the Chatham Brothers toxic waste cleanup lawsuit.

Table of Contents

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 of the changes. 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 September 30, 2004, the Company had paid over \$840,000, which includes the assignment of a \$250,000 note receivable with recourse, into the PRP group and had a cash call contribution payable of \$61,000. In addition, the Company carried accrued short-term and long-term liabilities of \$139,000 and \$1,224,000, respectively.

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 a 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.

Frawley Corporation will not be responsible for any additional payments to the Chatham Site PRP Group Trust 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 lawsuits related to the Chatham site clean up or for any new claims by the State of California involving the Chatham 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 \$98,503. 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 third quarter ended September 30, 2004 as it is more likely than not that the Company will have to pay the claim.

Table of Contents

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 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, 2004 the Company received approximately \$8,000 from the Frawley Family Trust as an advance on property that the Trust intends to purchase. The specific property has not been identified and the terms of the purchase have not been finalized. The advance is included in deposits.

In order to fulfill a sales contract on a 5 acre piece of property, the Company borrowed approximately \$6,000 from Frances Swanson, the Chairman's sister, approximately \$64,000 from the Frawley Family Trust, and approximately \$5,000 from Michael Frawley, the Company's President and CEO. These loans were secured by the property that was sold.

The Company has charged its principal stockholder for any employee time spent on non-corporate matters. The Company has received from the Frawley Family Trust as reimbursement for payroll expenses \$15,000 during the third quarter ended September 30, 2004. 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 Certification of CEO and CFO
- Exhibit 32.1 Certification of CEO and CFO

Table of Contents

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: November 2, 2004

By: /s/ Michael P. Frawley

MICHAEL P. FRAWLEY, President
(Authorized Officer and

Chief Financial Officer)