

FRAWLEY CORP
Form 10-Q
November 08, 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 September 30, 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)

1,222,900
Outstanding at September 30, 2007

Total Number of Pages 14

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FRAWLEY CORPORATION AND SUBSIDIARIES

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

	SEPTEMBER 30, 2007 (Unaudited)	DECEMBER 31, 2006
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 4,000	\$ 8,000
Accounts receivable, net	4,000	4,000
Prepaid expenses and other current assets	-	17,000
TOTAL CURRENT ASSETS	8,000	28,000
Real estate investments, net	457,000	457,000
Investment in partnership	16,000	16,000
TOTAL ASSETS	\$ 481,000	\$ 501,000
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
CURRENT LIABILITIES		
Notes payable to stockholders	\$ 2,309,000	\$ 2,138,000
Accounts payable and accrued expenses	123,000	164,000
Environmental reserve	77,000	77,000
Interest payable to related parties	2,003,000	1,840,000
Deposits	385,000	374,000
TOTAL CURRENT LIABILITIES	4,897,000	4,593,000
LONG TERM LIABILITIES		
Environmental reserve	1,120,000	1,120,000
TOTAL LIABILITIES	6,017,000	5,713,000
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	17,209,000
Accumulated deficit	(23,398,000)	(23,074,000)
	(4,775,000)	(4,451,000)
Less common stock in treasury, 191,312 shares (at cost)	(761,000)	(761,000)

TOTAL STOCKHOLDERS' DEFICIT	(5,536,000)	(5,212,000)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 481,000	\$ 501,000

See notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended SEPTEMBER 30,	
	2007	2006
REVENUES:		
Other income	\$ -	\$ -
COSTS AND EXPENSES:		
Selling, general and administrative expenses	40,000	40,000
Interest expense	56,000	51,000
TOTAL COSTS AND EXPENSES	96,000	91,000
NET LOSS	\$ (96,000)	\$ (91,000)
NET LOSS PER SHARE, COMMON	\$ (0.08)	\$ (0.07)
FULLY DILUTED	\$ (0.08)	\$ (0.07)
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
(UNAUDITED)

	Nine Months Ended SEPTEMBER 30,	
	2007	2006
REVENUES:		
Other income	\$ 2,000	\$ 751,000
COSTS AND EXPENSES:		
Cost of real estate sold	-	355,000
Selling, general and administrative expenses	163,000	205,000
Interest expense	163,000	163,000
TOTAL COSTS AND EXPENSES	326,000	723,000
NET (LOSS)/INCOME	\$ (324,000)	\$ 28,000
NET (LOSS)/INCOME PER SHARE, COMMON	\$ (0.26)	\$ 0.02
FULLY DILUTED	\$ (0.26)	\$ 0.02
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
(UNAUDITED)

	Nine Months Ended SEPTEMBER 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	\$ (324,000)	\$ 28,000
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	17,000	24,000
Accounts payable and accrued liabilities	133,000	(4,000)
Real estate investments	-	355,000
TOTAL ADJUSTMENTS	150,000	371,000
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	(174,000)	399,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt borrowings from related party	171,000	115,000
Repayment of environmental reserve	-	(150,000)
Repayment of borrowings	-	(369,000)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	171,000	(404,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,000)	(5,000)
CASH, BEGINNING OF PERIOD	7,000	7,000
CASH, END OF PERIOD	\$ 4,000	\$ 2,000

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 September 30, 2007, 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, 2007 as compared to the results of 2006 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, 2007, the real estate operating loss was \$80,000 compared to a loss in 2006 of \$70,000. During the first nine months of this year, real estate losses were \$259,000 as compared to a gain of \$93,000 for the same period in 2006. However, real estate losses will continue as the Company incurs carrying costs 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 September 30, 2007, no decision has been made by management regarding liquidation, nor can they determine the potential financial impact to the Company. Accordingly, the September 30, 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 does not 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 September 30, 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. After the closing of the quarter ended September 30, 2007, the PRP reported receipt of the final payment of \$50,000 in principal and \$4,000 in interest, due from the assigned note.

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. At this time, the Company is unable to pay the remaining balance currently owed on the settlement note in the amount of approximately \$110,000. The PRP group has been unwilling to extend the note. The Company is attempting to raise the cash through either loans or a property sale.

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 and second quarters of 2007, respectively. The Company was unable to make the payment due on July 11, 2007. The Company requested a payment extension, which the EPA reviewed and granted an extension of 18 months to pay the balance plus interest accrued by March 2009.

ITEM 5: Other Information

Related Party Transactions

During the third quarter ended September 30, 2007, the Company borrowed approximately \$39,000 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 September 30, 2007.

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 9, 2007

By: /s/ Michael P. Frawley

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