

FRAWLEY CORP
Form 10KSB
May 05, 2005
Table of Contents

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-6436

FRAWLEY CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(STATE OR OTHER JURISDICTION OF)

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

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INCORPORATION OR ORGANIZATION)

5737 Kanan Road PMB 188,
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

Agoura Hills, California 91301
(ZIP CODE)

(818)735-6640

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act: None

Title of each class

Common Stock, par value \$1.00 per share

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Company's stock was de-listed by the Pacific Stock Exchange Incorporated on December 1, 1992. Therefore, no current market value exists for the stock as of April 26, 2005.

Number of shares of Common Stock outstanding as of April 26, 2005: 1,222,900 shares.

Documents incorporated by reference portions of the Information Statement to be filed with the Securities and Exchange Commission in connection with the Annual Election of Directors are incorporated by reference into Part III hereof.

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Total number of pages, including cover page and exhibits 31

Table of Contents

PART I

ITEM 1. BUSINESS

Frawley Corporation is currently engaged in real estate development.

The Health Services division was terminated in 2002 with the sale of the assets and operations on February 1, 2002 and October 1, 2002, respectively.

Frawley Corporation is a Delaware Corporation organized in 1969. References to the Company include references to Frawley Corporation and its Subsidiaries.

Real Estate

The Company's real estate consists of approximately 52 acres of largely undeveloped land in the Santa Monica Mountains, northwest of Los Angeles. The properties owned by the Company represent an aggregate investment of approximately \$812,000 as of the end of 2004, and are subject to mortgage debt held by various stockholders, including the Chief Executive Officer and related family members, aggregating approximately \$2,143,000. The Company continues to invest resources in the real estate and it will continue its efforts to sell the land. (See Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations).

Employees

Frawley Corporation and its Subsidiaries employ 1 person. Due to the Company's severe financial condition, the Company reduced its staff to Michael Frawley, President, and one part time assistant since the third quarter of 2004.

Item 2. Properties

Frawley Corporation and its Subsidiaries operate out of an investment property. (For a description of investment properties, see Item 1. Business - Real Estate).

Item 3: Legal Proceedings

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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,

Table of Contents

filed by the State of California - Environmental Protection Agency, Department of Toxic Substances Control (DTSC) and involved the Harley Pen Company, which was 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 are referred to as Potentially Responsible Parties (PRPs) for the purpose of negotiating with the DTSC and for undertaking remediation of the site.

In January 1998 the final remediation plan was approved by the State and in January of 1999 the PRPs consented to the plan and related allocation of costs. The consent decree was approved by the Court.

As of December 31, 2004 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 into a settlement agreement note in the amount of \$240,000 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 related to the assigned note of \$50,000 and \$16,000 in interest, compared to a \$50,000 principal payment and \$20,000 in accrued interest in 2003. As of the report date, the Company has not yet made the payment due on December 31, 2004 related to the settlement agreement note and is in default. As a result, the Company has not adjusted its long term or short term environmental liability as of December 31, 2004.

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

Table of Contents

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 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. In the license agreement the Company 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 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholders Matters

The Company's stock was delisted by the Pacific Stock Exchange on December 1, 1992. There is currently no public trading for the stock.

The approximate number of holders of record for Frawley Corporation's Common Stock as of December 31, 2004 was 670.

No dividends have been paid in the periods shown above.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overall Summary

The net loss from the Company was \$453,000 in 2004 as compared to a net loss of \$514,000 in 2003 (see following discussion of real estate).

Interest expense for 2004 was \$220,000 (net of \$16,000 of interest income) compared to \$234,000 (net of \$20,000 of interest income) for 2003. Selling, general and administrative expenses were \$344,000 for 2004 compared to \$294,000 for 2003.

Real Estate

During the year ended December 31, 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 \$143,000, after deducting the expenses directly related to the purchase contract in the amount of \$67,000. The Company used approximately \$368,000 of the proceeds to retire related debt. The balance of these funds were used to meet operating expenses and reduce outstanding payables.

The real estate operating income before interest expense was \$11,000 in 2004 as compared to an operating loss before interest expense of \$66,000 in 2003.

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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

Table of Contents

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 December 31, 2004 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 continue to produce losses that the Company is having difficulty absorbing. The required investments in real estate are currently funded from loans or contributions from related parties.

The Company has borrowed additional funds from the Chief Executive Officer and his family members as needed, to meet real estate investments and working capital needs. During 2004, the Company repaid \$368,000, and borrowed an additional \$74,000. The notes bear interest at 10%, are secured by the Company's real estate investments and became due on various dates ranging from 2001 through 2005. The Company has defaulted on substantially all of the notes under their terms. As of the date of this report, no action has been taken on the delinquent amounts.

The Company received approximately \$105,000 and \$200,000 during 2004 and 2003, respectively, from the family members as an advance on property that they intend to purchase. The specific property has not been identified and the terms of the purchase have not been finalized. The balances for the deposits for real estate were \$374,000 and \$269,000 at December 31, 2004 and 2003, respectively.

In addition, the Company has received capital contributions of \$68,000 in 2004 and \$84,000 in 2003, from family members to help meet payroll requirements. The funds do not have to be repaid and are accounted for as capital contributions.

Table of Contents

Management intends to raise additional capital by selling real estate. The limited resources available to the Company will be directed at selling real estate.

The following measurements indicate the trends in the Company's liquidity from continuing operations:

| <u>December 31,</u> | <u>2004</u> | <u>2003</u> |
|------------------------------|----------------|----------------|
| Working capital (deficiency) | \$ (4,266,000) | \$ (4,171,000) |
| Current ratio | (.01 to 1) | (.01 to 1) |

Item 7. Financial Statements and Supplementary Data

See the consolidated financial statements and the notes thereto which begin on page F1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Table of Contents**PART III****Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.**

The following table sets forth the names and certain other information pertaining to the persons elected as directors.

| <u>Name</u> | <u>Age</u> | <u>Principal Occupation</u> | <u>Year First Became Director</u> |
|--------------------|------------|---|---------------------------------------|
| Michael P. Frawley | 51 | Chairman of the Board and President of the Company Chief Executive Officer, Treasurer | 1991 |
| Dudley Callahan | 24 | Director and Secretary of the Company | 2003 |

The Company's Board of Directors has no committees. During 2004, the Board of Directors held four meetings in which all of the directors attended. Michael P. Frawley and Dudley Callahan received no separate compensation for acting as directors.

All directors are elected annually and serve until the next annual meeting of stockholders or until the election and qualification of their successors.

All executive officers serve at the discretion of our Board of Directors. The term of office of each executive officer is until his or her respective successor is chosen and qualified, or until his or her death, resignation or removal. Officers are customarily elected by the Board at a meeting held after the annual election of directors.

On February 28, 2005, Mr. Michael Frawley and Dudley Callahan were elected by Written Consent from the Shareholders holding over 54% of the Common stock outstanding.

Biographical information for Executive officers and directors

Mr. Michael P. Frawley has been employed by the Company since 1972. He became Vice President of Advertising in 1986, Vice President of the Company in 1991 and Treasurer in 1996. He became President of the Company in 1998 after the passing of his father Patrick J. Frawley, Jr.

Mr. Dudley Callahan was appointed to the Board on May 14, 2003 and confirmed by a majority of the stockholders on June 4, 2003. He was appointed Secretary of the Company on June 4, 2003 after the resignation of Eileen Frawley Callahan.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) requires the Company's executive officers and directors and persons who own more than 10% of a registered class of the Company's equity securities to file an initial report of ownership on Form 3 and changes in ownership on Form 4

Table of Contents

or 5 with the SEC and the National Association of Securities Dealers, Inc. Executive officers, directors and greater than 10% stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. The Company believes that the filing requirements applicable to its officers, directors and 10% stockholders were not fulfilled during the fiscal year ended December 31, 2004. The Company is in the process of reviewing the filing information and changes in beneficial ownership that occurred during the fiscal year ended December 31, 2004. All filings will be made by appropriate parties upon completion of the Company's review.

Code of Ethics

The Company has adopted a Code of Ethics and Conduct, which applies to all of its directors, officers and employees. A copy of the Code of Ethics and Conduct may be obtained, without charge, upon written request addressed to the following address, c/o Chief Executive Officer, Frawley Corporation, 5737 Kanan Road PMB 188, Agoura Hills, CA 91301.

ITEM 10. Executive Compensation

Summary Compensation Table

The following table sets forth information for the three most recently completed fiscal years concerning the compensation of (i) the Chief Executive Officer and (ii) all other executive officers of the Company who earned over \$100,000 in salary and bonus in the fiscal year ended December 31, 2004 (together the Named Executive Officers).

| <u>Name and Principal Position</u> | <u>Year</u> | <u>Annual Compensation</u> | |
|---|-------------|----------------------------|--------|
| Michael P. Frawley Chief Executive Officer | 2004 | \$ | 14,040 |
| | 2003 | \$ | 14,040 |
| | 2002 | \$ | 14,040 |

Option Grants in Last Fiscal Year

None of the Named Executive Officers received stock option grants in fiscal 2004.

Option Exercises in Last Fiscal Year and Fiscal Year End Option Value

None of the Named Executive Officers exercised stock options in fiscal 2004.

Director Compensation

Our directors do not currently receive any compensation for service on the Board of Directors.

Employment Agreements and Change-in-Control Arrangements

None.

Table of Contents**ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth certain information regarding beneficial ownership of the Company's common stock as of December 31, 2004, by (i) each person or entity who is known by the Company to own beneficially more than 5% of the outstanding shares of the Company's common stock, (ii) each of the directors, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group.

| <u>Title of Class</u> | <u>Name and Address of Beneficial Owners</u> | <u>Amount and Nature of Percent of</u> | |
|-----------------------|---|--|-------|
| | | <u>Beneficial Ownership (1)</u> | |
| Common Stock | Dr. P. Joseph Frawley (2) 436 N. Ontare St., Santa Barbara, California | 161,401 | 13.2% |
| Common Stock | Michael P. Frawley 5737 Kanan Rd. PMB 188, Agoura Hills, California | 133,683 | 10.9% |
| Common Stock | Mary Louise Frawley 16161 Ventura Blvd., #347, Encino, California | 140,353 | 11.5% |
| Common Stock | Eileen Frawley Callahan 10910 Wellworth Ave., #102, Los Angeles, California | 99,747 | 8.2% |
| Common Stock | Dudley Callahan 1824 E. Gardenia, Phoenix, Arizona | 0 | 0% |
| Common Stock | Joan Frawley Desmond 7106 44th Street, Chevy Chase, Maryland | 105,976 | 8.7% |
| Common Stock | All Directors and Executive Officers as group (2 Persons) | 133,683 | 10.9% |

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- (1) Except as indicated otherwise in the following notes, shares shown as beneficially owned are those as to which the named persons possess sole voting and investment power. Dr. P. Joseph Frawley, Mary Louise Frawley, Eileen Frawley Callahan, Joan Frawley Desmond and Michael P. Frawley each possess an interest in common stock of the Company that is currently held in the estate or trust of their deceased father, Patrick Frawley, Jr. These shares have not been transferred to such individuals as of the date of this filing. If and when such shares are transferred to such individuals, they will each hold an additional number of shares of common stock as follows: Dr. P. Joseph Frawley (2432 shares), Mary Louise Frawley (2433 shares), Eileen Frawley Callahan (2433 shares), Joan Frawley Desmond (2433 shares) and Michael P. Frawley (2432 shares). Each such individual disclaims beneficial ownership of the shares held by Patrick Frawley, Jr.
 - (2) Dr. P. Joseph Frawley's holdings include 22,456 shares he holds as custodian for his children, as to which he disclaims beneficial ownership.

Table of Contents

Equity Compensation Plan Information

The Company does not have any equity compensation plans.

ITEM 12. Certain Relationships and Related Transactions

In 2004 and prior years, the Company has borrowed a total of \$2,143,000 from its stockholders to meet real estate investment and working capital needs. The notes are secured by real estate investments. Interest expense to related parties totaled \$236,000 and \$254,000 during 2004 and 2003, respectively.

The Company received \$105,000 during 2004 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 Company has charged its stockholders for any employee time spent on non-corporate matters. The Company has received from the family members as reimbursement for payroll expenses \$68,000 in 2004. These payments are accounted for as capital contributions in the Company's financial statements.

Table of Contents**PART IV****Item 13. Financial Statements, Exhibits and Reports on Form 8-K**

| (a) 1. List of Financial Statements: | <u>Page Numbers</u> |
|--|----------------------------|
| <u>Independent Auditors Report</u> | F1-F2 |
| Financial Statements for the Years Ended December 31, 2004 and 2003 | |
| <u>Consolidated Balance Sheets</u> | F3-F4 |
| <u>Consolidated Statements of Operations</u> | F5 |
| <u>Consolidated Statement of Stockholders Deficit</u> | F6 |
| <u>Consolidated Statements of Cash Flows</u> | F7 |
| <u>Notes to Consolidated Financial Statements</u> | F8-F13 |
| 2. List of Exhibits: | |
| 3.1 Registrant s certificate of incorporation is incorporated herein by this reference to (A) Exhibit Item (3.1) to Registrant s Registration Statement No. 2-36536 on form S-1, (B) the name change amendment to said certificate of incorporation under Section 1-02 of the Merger Agreement which is Exhibit A to the definitive proxy material for Registrant s June 16, 1977 annual meeting of stockholders, filed under Regulation 14A, and (C) the amendment to certificate of incorporation which is Exhibit A to the definitive proxy material for Registrant s June 25, 1987 Annual Meeting of Stockholders, filed under Regulation 14A. | |
| 3.2 Registrant s bylaws, as amended to date are incorporated herein by reference to Exhibit Item (3) to Registrant s Annual Report on Form 10-K for the year ended December 31, 1980. | |
| 21.1 List of Subsidiaries is incorporated herein by reference to Exhibit Item (10) to Registrant s Annual Report on Form 10-K for the year ended December 31, 1991. | |
| 31.1 Sarbanes-Oxley Act section 302 Certification | |
| 32.1 Certification of CEO and CFO | |

Table of Contents

(b) Reports on Form 8-K:

During 2004, no 8K reports were filed.

Other Events and Required FD Disclosure

On March 1, 2005 the Company filed with the SEC amended forms 10K for 2003 and 2002.

These reports on Form 10-KSB/A (Amendment No.1) are being filed to disclose items 9 through 12 previously omitted from Part III of the Annual Report on Form 10-KSB, filed by the Frawley Corporation, a Delaware corporation (the Company) on March 18, 2004 and May 23, 2003 in compliance with General Instructions E.3 to Form 10-KSB. Although the Company previously reported its related party transactions that occurred during the fiscal year ended December 31, 2003, and 2002 in the financial statements of the Company s 10-KSB filed on March 18, 2004 and May 23, 2003, the reports did not contain certain information pertaining to the Company s Officers, directors and stockholders controlling more than five percent of the Company s outstanding stock. This Amendment No. 1 is being filed to disclose such information. In addition, pursuant to the rules of the Securities and Exchange Commission (the SEC), we are including with this Amendment No. 1 certain currently dated certifications.

Item 14. Controls and Procedures

- (a) The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s filings under the Securities Act of 1934 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Company s management, including its principal financial officer, as appropriate, to allow timely decisions regarding disclosure. The Company s management, including the principal executive officer and principal accounting officer, recognized that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this annual report 10-K, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on such evaluation, the Company s principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures are effective.

- (b) There have been no significant changes in the Company s internal controls or in any other factors that could significantly affect the internal controls subsequent to the date of their evaluation in connection with the preparation of this annual report on Form 10-K.

Table of Contents

SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Frawley Corporation
(Registrant)

By: /s/ Michael P. Frawley

Michael P. Frawley, CEO and Chairman of the Board

Date May 5, 2005

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Michael P. Frawley

Michael P. Frawley, CEO and Chairman of the Board
(Principal Executive, Financial and Accounting Officer)

May 5, 2005
(Date)

By: /s/ Dudley Callahan

Dudley Callahan, Vice President and Secretary

May 5, 2005
(Date)

Table of Contents

LaRUE, CORRIGAN & McCORMICK LLP

Certified Public Accountants

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Telephone 818-587-9300
Facsimile 818-347-0904
lcmcpa.com**

**ROBERT LaRUE 818-587-9302 MIKE McCORMICK 818-587-9303
KEN TEASDALE 818-587-9305 JACK CORRIGAN 818-587-9301**

INDEPENDENT AUDITORS REPORT

Board of Directors and Stockholders

Frawley Corporation

Agoura Hills, California

We have audited the accompanying consolidated balance sheets of Frawley Corporation and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frawley Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The 2004 and 2003 consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's recurring losses from operations, difficulties in generating sufficient cash flow to meet its obligations and negative working capital raise substantial doubt about its ability to continue as a going concern. The Company has relied upon financing from related parties and sales of assets to continue its operations and is seeking sources

Table of Contents

of long-term financing as it reorganizes its business. Management's plans concerning these matters are also described in Note 2. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

LaRue, Corrigan & McCormick LLP
Woodland Hills, California
March 28, 2005

- F2 -

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash (Note 1) | \$ 4,000 | \$ 18,000 |
| Prepaid expenses and other current assets | 30,000 | 32,000 |
| TOTAL CURRENT ASSETS | <u>34,000</u> | <u>50,000</u> |
| OTHER ASSETS | | |
| Real estate investments (Notes 1, 2, 3 and 5) | 812,000 | 1,052,000 |
| Investment in partnership | 16,000 | 16,000 |
| TOTAL OTHER ASSETS | <u>828,000</u> | <u>1,068,000</u> |
| TOTAL ASSETS | <u>\$ 862,000</u> | <u>\$ 1,118,000</u> |

See independent auditors report and notes to consolidated financial statements.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|--------------------|---------------------|
| CURRENT LIABILITIES | | |
| Notes payable to related parties (Notes 3 and 5) | \$ 2,143,000 | \$ 2,437,000 |
| Interest payable to related parties | 1,427,000 | 1,192,000 |
| Deposits | 374,000 | 269,000 |
| Accounts payable and accrued expenses | 283,000 | 184,000 |
| Environmental reserve (Note 6) | 73,000 | 139,000 |
| | <u>4,300,000</u> | <u>4,221,000</u> |
| TOTAL CURRENT LIABILITIES | | |
| LONG-TERM LIABILITIES | | |
| Environmental reserve(Note 6) | 1,274,000 | 1,224,000 |
| | <u>1,274,000</u> | <u>1,224,000</u> |
| TOTAL LIABILITIES | | |
| | <u>5,574,000</u> | <u>5,445,000</u> |
| COMMITMENTS AND CONTINGENCIES (Notes 5 and 6) | | |
| STOCKHOLDERS DEFICIT | | |
| Preferred stock, \$1.00 par value, 1,000,000 shares authorized, no shares issued | | |
| Common stock, \$1.00 par value, 6,000,000 shares authorized, 1,414,212 shares Issued | 1,414,000 | 1,414,000 |
| Capital surplus | 17,208,000 | 17,140,000 |
| Accumulated deficit | (22,573,000) | (22,120,000) |
| | <u>(3,951,000)</u> | <u>(3,566,000)</u> |
| Less common stock in treasury, 191,312 shares (at cost) | (761,000) | (761,000) |
| | <u>(4,712,000)</u> | <u>(4,327,000)</u> |
| TOTAL STOCKHOLDERS DEFICIT | | |
| | <u>(4,712,000)</u> | <u>(4,327,000)</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| | <u>\$ 862,000</u> | <u>\$ 1,118,000</u> |

See independent auditors report and notes to consolidated financial statements.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|
| REVENUES | | |
| Other income | \$ | \$ 14,000 |
| Gain on sale of real estate | 143,000 | |
| TOTAL REVENUE | <u>143,000</u> | <u>14,000</u> |
| COSTS AND EXPENSES | | |
| Environmental liability expense | 99,000 | |
| Selling, general and administrative expenses | 277,000 | 294,000 |
| Interest expense, net of interest income (Note 3) | 220,000 | 234,000 |
| TOTAL COSTS AND EXPENSES | <u>596,000</u> | <u>528,000</u> |
| NET LOSS | <u>\$ (453,000)</u> | <u>\$ (514,000)</u> |
| LOSS PER SHARE FROM CONTINUING OPERATIONS, COMMON | <u>\$ (0.37)</u> | <u>\$ (0.42)</u> |
| NET LOSS PER SHARE, COMMON | <u>\$ (0.37)</u> | <u>\$ (0.42)</u> |
| FULLY DILUTED | <u>\$ (0.37)</u> | <u>\$ (0.42)</u> |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | <u>1,222,900</u> | <u>1,222,905</u> |

See independent auditors' report and notes to consolidated financial statements.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | <u>Common Stock</u> | | <u>Capital Surplus</u> | <u>Accumulated Deficit</u> | <u>Treasury Stock</u> | <u>Total</u> |
|-----------------------|---------------------|---------------|----------------------------|--------------------------------|---------------------------|----------------|
| | <u>Shares</u> | <u>Amount</u> | | | | |
| January 1, 2003 | 1,414,000 | \$ 1,414,000 | \$ 17,056,000 | \$ (21,606,000) | \$ (761,000) | \$ (3,897,000) |
| Capital contributions | | | 84,000 | | | 84,000 |
| Net loss, 2003 | | | | (514,000) | | (514,000) |
| December 31, 2003 | 1,414,000 | 1,414,000 | 17,140,000 | (22,120,000) | (761,000) | (4,327,000) |
| Capital contributions | | | 68,000 | | | 68,000 |
| Net loss, 2004 | | | | (453,000) | | (453,000) |
| December 31, 2004 | 1,414,000 | \$ 1,414,000 | \$ 17,208,000 | \$ (22,573,000) | \$ (761,000) | \$ (4,712,000) |

See independent auditors report and notes to consolidated financial statements.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (453,000) | \$ (514,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Gain on sale of real estate investment | (143,000) | |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | 2,000 | 14,000 |
| Accounts payable and accrued liabilities | 99,000 | (27,000) |
| Deposits | 105,000 | 200,000 |
| Interest payable | 235,000 | 243,000 |
| Environmental reserve | (16,000) | (20,000) |
| TOTAL ADJUSTMENTS | 282,000 | 410,000 |
| NET CASH USED IN OPERATING ACTIVITIES | (171,000) | (104,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Improvements to real estate | (67,000) | |
| Proceeds from the sale of real estate | 450,000 | |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 383,000 | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Capital contributions | 68,000 | 84,000 |
| Short-term debt borrowings from related party | 74,000 | |
| Repayment of borrowings | (368,000) | |
| NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES | (226,000) | 84,000 |
| NET CHANGE IN CASH | (14,000) | (20,000) |
| CASH, BEGINNING OF YEAR | 18,000 | 38,000 |
| CASH, END OF YEAR | \$ 4,000 | \$ 18,000 |

See independent auditors' report and notes to consolidated financial statements.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include Frawley Corporation (the Company) and its subsidiaries: Schick Shadel Hospital, Inc. and Sun Sail Development Company (Sun Sail). In addition, Sun Sail is the sole member of Sunny Hill L.L.C. (Sunny Hill), which was formed in 2003. Sunny Hill did not have any transactions for 2003 and 2004. All significant intercompany profits, transactions and balances have been eliminated.

Net Income Loss per Common Share - Net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the year.

Income Taxes - The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, effective January 1, 1993. Accordingly, the Company uses the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on temporary differences between financial reporting and income tax basis of assets and liabilities at the balance sheet date multiplied by the applicable tax rates.

Cash and Cash Equivalents - The Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk - Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consisted primarily of cash.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The carrying amounts of the Company's financial instruments (cash, other assets, and accounts payable and accrued expenses) approximate fair value because of the short maturity of these items. The carrying amount of the notes payable to stockholders approximate fair value based on current rates for similar debt of the same remaining maturity.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

Impairment of Long-Lived Assets - The Company evaluates a property for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. There was no impairment charge recognized during the years ended December 31, 2004 and 2003.

Gains/Losses from Sales of Real Estate - The Company recognizes gains/losses from sales of real estate at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by the Company with the properties sold are met. If the criteria are not met, the Company defers the gains and recognizes them when the criteria are met or using the installment or cost recovery methods as appropriate under the circumstances.

2. OPERATING RESULTS AND MANAGEMENT PLANS

The Company's net loss for 2004 was \$453,000 as compared to net loss for 2003 of \$514,000. Working capital and operating cash flow continue to be negative.

Management's plans for 2005 will include the continued efforts to sell its real estate holdings and minimize additional investments that require borrowing.

The Company's real estate investment consists of approximately 52 acres of largely undeveloped land in the Santa Monica Mountains, northwest of Los Angeles. The Company is continuing to pursue various options with respect to selling a significant portion of its real estate.

During the year ended December 31, 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 \$143,000. The Company used approximately \$368,000 of the proceeds to retire related debt.

3. RELATED PARTY TRANSACTIONS

The Company has borrowed additional funds from the Chief Executive Officer and his family members as needed, to meet real estate investment and working capital needs. During 2004, the Company repaid \$368,000 (see Note 2) and borrowed an additional \$74,000 from the related parties. As of December 31, 2004 and 2003 the balances due were \$2,143,000 and \$2,437,000, respectively (see Note 5). The notes bear interest at 10%, are secured by the Company's real estate investments and became due on various dates ranging from 2001 through 2005. The Company has defaulted on substantially all of the notes under their individual terms. As of the date of this report, no action has been taken on the

delinquent amounts.

- F9 -

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

The Company received approximately \$105,000 during 2004 and \$200,000 during 2003 from family members as an advance on property that they intend to purchase. The specific property has not been identified and the terms of the purchase have not been finalized.

The Company received approximately \$68,000 during 2004 and \$84,000 during 2003 from family members to help meet payroll requirements. The funds do not have to be repaid and are accounted for as capital contributions in accordance with AICPA Technical Practice Aids Paragraph No. 4160, Contributed Capital, and SEC Staff Accounting Bulletin, Release No. 79, Accounting for Transactions Undertaken by a Company's Principal Stockholder(s) for the Benefit of the Company.

In October 2003, the Frawley Family Trust (the Trust) distributed 328,783 of its shares of Frawley Corporation common stock, par value \$1.00 per share, to the following beneficiaries listed below.

| <u>Name of Beneficiary</u> | <u>Number of Shares</u> | <u>Percentage of ownership After distribution</u> |
|--------------------------------|-----------------------------|---|
| Dr. Patrick Joseph Frawley III | 52,364 | 11.36%(1) |
| Miss Mary Louise Frawley | 52,365 | 11.46% |
| Mrs. Eileen Frawley Callahan | 52,365 | 8.16% |
| Mr. Michael P. Frawley | 52,365 | 11.93% |
| Mrs. Joan Frawley Desmond | 52,364 | 8.67% |
| Mrs. Barbara Frawley Ross | 52,364 | 4.28% |
| Totals | 314,187 | 55.86% |

(1) Additionally Dr. Frawley holds 22,456 shares or 1.83% as custodian for his children, as to which he disclaims beneficial ownership.

Upon completion of the distribution, the Trust held no shares or 0% of the Company's issued and outstanding common stock. The shares were distributed pursuant to an exemption from registration made available under Section 4(2) of the Securities Act of 1933, as amended.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

4. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | <u>2004</u> | <u>2003</u> |
|--------------------------------|-------------|-------------|
| Cash paid during the year for: | | |
| Income taxes | \$ 6,000 | \$ 4,300 |
| Interest | \$ | \$ |

5. DEBT

Short-term debt consists of \$2,143,000 of notes payable to stockholders and other related parties (see Note 3), which are due on various dates from 2001 through 2005, bear interest at 10% per annum, and are secured by the real estate investments of the Company. The Company has defaulted on substantially all of the notes under their individual terms. As of the date of this report, no action has been taken on the delinquent amounts.

Long-term debt consists of the environmental reserve amount of \$1,274,000 (see Note 6).

6. LITIGATION

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 December 31, 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 approximately \$65,000. In addition, the Company carried accrued short-term and long-term liabilities of \$73,000 and \$1,274,000, respectively.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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. In 2004, the PRP Group received a principal payment related to the assigned note of \$50,000 and interest accrued of \$16,000, compared to a \$50,000 principal payment and \$20,000 accrued interest in 2003. As of the report date, the Company has not yet made the payment due on December 31, 2004 related to the settlement agreement note and is in default. As a result, the Company has not adjusted its long-term or short-term environmental liability as of December 31, 2004.

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 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 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 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.

Table of Contents

FRAWLEY CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

7. INCOME TAXES

The Company does not carry a provision for income taxes due to tax losses in 2004 and 2003, other than provisions for minimum state income taxes that are included in selling, general and administrative expenses.

Deferred tax assets and liabilities for federal income tax purposes at December 31, 2004 and 2003 consist of the following:

| | <u>2004</u> | <u>2003</u> |
|----------------------------------|------------------|------------------|
| Net operating loss carryforwards | \$ 4,860,000 | \$ 4,745,000 |
| Gain on sale of real estate | 49,000 | |
| Bad debt/land reserves | 247,000 | 247,000 |
| Toxic waste accrual | 458,000 | 463,000 |
| Other reserves | 489,000 | 409,000 |
| | <u>6,103,000</u> | <u>5,864,000</u> |
| Less valuation allowance | (6,103,000) | (5,864,000) |
| | <u>\$</u> | <u>\$</u> |

The Company has net operating loss carryforwards aggregating approximately \$14,296,000, for federal income tax purposes, which expire in various years through 2019.