FRAWLEY CORP
Form 10KSB40
April 30, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2000

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	95-2639686
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER I.D. NO.)
5737 Kanan Road PMB 188, Agoura Hills, California	91301
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(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:

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 X 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: X

Revenues from continuing operations as of December 31, 2000: $2,740,000

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 March 29, 2000.

Number of shares of Common Stock outstanding as of March 29, 2001: 1,222,905

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.

Total number of pages, including cover page and exhibits: 26

PART I

ITEM 1: BUSINESS

Frawley Corporation is currently engaged in the operation of inpatient and outpatient treatment of chemical dependency and stop-smoking centers, and investment in real estate. Frawley Corporation is a Delaware Corporation organized in 1969. References to the Company include references to Frawley Corporation and Subsidiaries.

Specialized Health Services

Company Owned Inpatient Hospital: The Company currently owns and operates under the name of Schick Shadel Hospital, one hospital located in Seattle, Washington with 63 licensed beds. The Seattle hospital is devoted primarily to the treatment of chemical dependency and is not operated for general hospital purposes. This hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations, as well as other federal and state accrediting authorities.

The patients usually remain for a basic treatment of approximately 14 days consisting of an initial admission of 10 days followed by two reinforcement stays lasting 1 to 2 days each, generally 2 weeks and 6 weeks after the initial discharge. Additionally, patients receive two years of aftercare services and may return for post-reinforcement treatment as needed. Patients requiring detoxification may require one to four days additional hospitalization during their initial admission. Treatment consists of four principal aspects: (1) a detoxification period, during which the patient is medically withdrawn from alcohol and or drugs; (2) conditioned-reflex aversion treatment, during which patients are furnished alcoholic beverages or synthetic drugs under circumstances which produce an unpleasant reaction for the purpose of inducing an aversion; (3) sodium pentothal interviews; and

(4) professional aftercare counseling. The hospital is under the direction of a full-time physician. In addition, other physicians, registered nurses and specially trained counselors are on staff.

Company Owned Outpatient Programs: During 2000, the Company operated two outpatient chemical dependency treatment centers located in the state of Washington. The outpatient programs are designed to meet the individual needs of the patient; and accordingly, a patient may be in a program for up to two years. Each location is under the direction of specially trained chemical dependency counseling staff.

Company Owned Centers: The Company also owns and operates one center for stop-smoking services under the name of Schick Centers. The center operates out of the Schick Shadel Hospital in Seattle.

1

The Company is considering closing the outpatient program in 2001 due to continued losses at the center.

Competition and Sources of Revenue: Schick encounters competition from other facilities and methods of alcohol, cocaine, marijuana and nicotine addiction. The success of the Specialized Health Services operations substantially depends on public acceptance of the services provided by the Company and the Company's ability to attract referrals from health professionals and administrators, which are influenced by the efficacy of the services rendered, the Company's reputation for effective results, marketing, the cost of care and the location and scope of services offered by the facilities. The hospital is conducting local marketing activities with employers in its area and other potential referral sources to increase the number of patients referred to the hospital. The Company faces substantial competition from companies that offer both general psychiatric care and chemical dependency treatment.

Limitations imposed by insurance carriers on their coverage and lower reimbursement rates for chemical dependency treatment plus increased competition in all market areas served by the hospital have affected the occupancy level. Competition from utilization programs (which review the utilization of health care by insureds in order to reduce unnecessary medical expenses) and managed care systems (which systems provide health care coverage only with certain identified providers who have contracted with the system to provide these services) continue to impact the Company's ability to attract patients.

Utilization programs have resulted in many mental health services (including chemical dependency services) being denied for coverage by insurance companies and either not provided to an insured or not paid for by the insurance carrier. Managed care systems have severely limited the ability of patients to select the health care provider, as only treatment services provided by the system's providers are covered by insurance. Accordingly, many patients who seek treatment at the Company's hospital are unable to be treated there, as the Company is not a provider in the managed care network in which that potential patient participates. Since the Company has not successfully contracted managed care systems to provide chemical dependency treatment services to the insured covered by that system, the potential population of patients for the Company's hospital has decreased. Another trend in the health care industry that has affected the Company's Specialized Health Services is the general reduction in benefits offered by employers to employees for mental health care, which includes chemical dependency treatment. Furthermore, insurance carriers are increasing their pre-authorization admission review activities, resulting in substantially fewer approved admissions to the hospital. The Company believes that these trends are escalating and are causing significant problems to the profitability of the Company's Specialized Health Services business. Since the

individuals treated at the Company's hospital have significantly reduced levels of insurance coverage, the patient's balance owing after insurance payment has increased substantially thereby increasing collection risks. Additionally, insurance carriers have increased the time period required to review claims, thereby delaying payment and increasing the accounts receivable. Another factor affecting the chemical dependency treatment industry is that insurance carriers, in their efforts to manage the costs of chemical dependency treatment, have caused an increase in the utilization of outpatient services, due to the lower cost of providing chemical dependency services on an outpatient basis.

The Company currently has two outpatient facilities (See Company Owned Outpatient Programs above), which they are considering closing in 2001 due to continued financial losses.

Governmental Regulation: The health care facilities operated by the Company must comply with licensing requirements of federal, state and local health agencies, with state certificate of need and similar laws regulating various aspects of the operation of health facilities and with the requirements of building codes, health codes and local fire departments.

Certain licensing requirements also are a prerequisite to participation in Medicare and Medicaid programs.

Legislative, regulatory and policy changes by governmental agencies (including reduction of budgets for payments under state and federal governmental care reimbursement programs and the regulation of the relationship of, physicians and health care businesses) have impacted the Company's ability to generate revenue and the utilization of its health care facilities.

The U.S. Congress and the administration continue to put forth proposals directed at health care reform. Such proposals may include short-term governmental price controls, a national health care budget limiting the amount to be spent on health care coverage and giving to federal and state governments new powers with respect to medical fees and health care insurance premiums. Many options under discussion would limit access to effective treatment programs for chemical dependency. At this time it is not possible to determine the exact nature of the present proposals, their legislative outcome, or their likely impact on the Company.

Real Estate

The Company's real estate consists of approximately 127 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 $1,723,000 as of the end of 2000, and are subject to mortgage debt, held by five stockholders and a third party, aggregating approximately $2,325,000. 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 an aggregate of approximately 68 persons and management believes that employee relations are satisfactory.

Item 2: Properties

The principal facilities used by Frawley Corporation and its subsidiaries in their businesses include the one owned property described below. Other facilities are rented under leases expiring on various dates through December 2001.

Specialized Health Services:

The hospital subsidiary of the Company is in Seattle, Washington (approximately 22,000 square feet). The outpatient chemical dependency programs located in the state of Washington consist of two leased locations ranging from approximately 1,300 to 2,400 square feet each. In February 2001, an earthquake occurred in the Seattle area and one of the outpatient facilities was relocated to the Hospital (For a description of investment properties, see Item 1 Business - Real Estate). No material damage occurred to the facility.

Item 3: 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 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.

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

Court.

As of December 31, 2000, the Company had paid over $570,000 into the PRP group and had a cash call contribution payable of $131,000. In addition, the Company has accrued $78,000 for a total short-term and long-term liability in the amount of $209,000 and $1,424,000, to cover estimated costs related to the remediation plan.

The Company is in dispute related to a license agreement entered into in 1988 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 that the licensee 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 4: Submission of Matters to a Vote of Security Holders

(Not Applicable)

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 of the stock.

The approximate number of holders of record for Frawley Corporation's Common Stock as of December 31, 2000 was 885.

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

Net revenues from continuing operations for the Company decreased $96,000, or approximately 4% in 2000 when compared to 1999. Net loss is $1,537,000 in 2000 compared to a $723,000 net loss in 1999. Interest expense in 2000 was $322,000 compared to $284,000 in 1999. Selling, general and administrative expenses remained the same in 2000 as in 1999 at $1,218,000.

Specialized Health Services

Revenues from Specialized Health Services chemical dependency hospital and contract units decreased by 4% in 2000 compared to 1999. The

Company is spending more in outreach marketing to attract new patients. Specialized Health Service income before interest expense was $171,000 in 2000 when compared to $106,000 in 1999. Competition from other treatment programs intensified during 2000 and 1999, together with stronger emphasis by insurance carriers on outpatient treatment instead of inpatient programs.

The Company plans to continue to improve operations through additional reduction in overhead and increase the patients in the inpatient treatment program. Schick will continue to offer educational material regarding the addiction cycle and chemical dependency and to popularize aversion treatment methodology.

Real Estate

In August 2000, the Company sold one parcel of land for $465,000, resulting in a loss of $142,000. The Company used approximately $248,000 of the proceeds to retire related debt and accrued interest. The real estate operating loss before interest expense was $1,260,000 in 2000 when compared to a loss of $290,000 in 1999. In addition, the Company recorded an increase in the

6

reserve against the book value of the real estate in the amount of $803,000. Real estate losses continue as the Company continues to incur carrying costs.

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

During 2000 and 1999 the Company incurred additional debt in amounts of $454,000 and $544,000, respectively. The notes are with related parties, bear interest at 10%, and are due in 2001. The funds were used to meet working capital requirements, and are secured by the Company's real estate holdings.

The Company has settled certain lawsuits and therefore has reduced the cash required to support these efforts. The Company has an outstanding $131,000 cash call for contributions to the Chatham Brothers toxic waste cleanup lawsuit. The Company intends to meet this obligation from loans and real estate sales.

Management intends to raise capital for the health care business by seeking partners in health care and selling real estate. The limited resources available to the Company will be directed at revitalization of the health care business and the continued elimination of non-producing assets and overhead.

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

	December 31, 2000	December 31, 1999
Working capital deficiency	$(4,105,000)	$(3,704,000)
Current ratio	.12 to 1	.14 to 1

Item 7: Financial Statements and Supplementary Data

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

7

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

None.

8

PART III

Item 9: Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

There is hereby incorporated by reference the information that will appear under the captions "Election of Directors" and "Executive Officers" in an Information Statement to be filed with the Securities and Exchange Commission relating to the Company's Annual Election of Directors.

Item 10: Executive Compensation.

There is hereby incorporated by reference the information that will appear under the caption "Cash Compensation of Executive Officers" in an Information Statement to be filed with the Securities and Exchange Commission relating to the Company's Annual Election of Directors.

Item 11: Security Ownership of Certain Beneficial Owners and Management.

There is hereby incorporated by reference the information that will appear under the caption "Ownership of the Company's Securities" in an Information Statement to be filed with the Securities and Exchange Commission relating to the Company's Annual Election of Directors.

Item 12: Certain Relationships and Related Transactions

There is hereby incorporated by reference the information which will appear under the caption "Certain Relationships and Related Transactions" in an Information Statement to be filed with the Securities and Exchange Commission relating to the Company's Annual Election of Directors.

9

PART IV

Item 13: Financial Statements, Exhibits and Reports on Form 8-K

(a) 1. List of Financial Statements:

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.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed.

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)

/s/ Michael P. Frawley

Michael P. Frawley
CEO and Chairman of the Board

April 30, 2001

(Date)

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.

/s/ Michael P. Frawley

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

April 30, 2001

(Date)

/s/ Eileen Callahan

Eileen Callahan
Vice President and Secretary

April 30, 2001

(Date)

LaRue, Corrigan & McCormick LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Frawley Corporation
Agoura Hills, California

We have audited the accompanying consolidated balance sheet of Frawley

Corporation and subsidiaries (the "Company") as of December 31, 2000, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years ended December 31, 2000 and 1999. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2000, and the results of its operations and its cash flows for the years ended December 31, 2000 and 1999 in conformity with generally accepted accounting principles.

The 2000 and 1999 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 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
February 26, 2001

- F1 -

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2000

ASSETS

CURRENT ASSETS	
Cash (Note 1)	$ 54,000
Accounts receivable (net of current allowance of $484,000) (Note 1)	433,000
Prepaid expenses and deposits	93,000
TOTAL CURRENT ASSETS	580,000
OTHER ASSETS	
Long-term accounts receivable (net of allowance of $122,000) (Notes 1 and 4)	95,000

Real estate investments (Notes 3 and 6)	1,723,000
TOTAL OTHER ASSETS	1,818,000
PROPERTY AND EQUIPMENT (Note 1)	
Land	111,000
Building and improvements	894,000
Machinery and equipment	665,000
Furniture and fixtures	5,000
	1,675,000
Less accumulated depreciation	(1,224,000)
TOTAL PROPERTY AND EQUIPMENT	451,000
TOTAL ASSETS	$ 2,849,000

See independent auditor's report and notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2000

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Notes payable to stockholders (Notes 3 and 6)	$ 3,277,000
Accounts payable and accrued expenses	1,230,000
Environmental reserve (Note 8)	78,000
Note payable (Note 6)	70,000
Unearned revenue	30,000
TOTAL CURRENT LIABILITIES	4,685,000
LONG-TERM LIABILITIES	
Environmental reserve (Note 8)	1,424,000
TOTAL LIABILITIES	6,109,000
COMMITMENTS AND CONTINGENCIES (NOTES 6, 7 and 8)	
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, 1,414,217 shares issued	1,414,000
Capital surplus	16,986,000
Accumulated deficit	(20,899,000)
	(2,499,000)

Less common stock in treasury, 191,312 shares (at cost)	(761,000)
TOTAL STOCKHOLDERS' DEFICIT	(3,260,000)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 2,849,000

See independent auditor's report and notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
REVENUES		
Net operating revenues	$ 2,740,000	$2,644,000
COSTS AND EXPENSES		
Cost of operations	1,792,000	1,751,000
Selling, general and administrative expenses (Note 9)	1,218,000	1,218,000
Impairment loss on real estate	803,000	-
Loss on sale of real estate	142,000	114,000
Interest expense, net (Note 3)	322,000	284,000
TOTAL COSTS AND EXPENSES	4,277,000	3,367,000
NET LOSS	$(1,537,000)	$ (723,000)
NET LOSS PER SHARE, COMMON	$ (1.26)	$ (0.59)
FULLY DILUTED	$ (1.26)	$ (0.59)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,222,905	1,222,905

See independent auditor's report and notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
YEARS ENDED DECEMBER 31, 2000 AND 1999

Common Stock		Capital	Accumulated	Treasury
Shares	Amount	Surplus	Deficit	Stock

January 1, 1999	1,414,000	$1,414,000	$16,986,000	$(18,639,000)	$(761,000)
Net loss	-	-	-	(723,000)	-
December 31, 1999	1,414,000	1,414,000	16,986,000	(19,362,000)	(761,000)
Net loss	-	-	-	(1,537,000)	-
December 31, 2000	1,414,000	$1,414,000	$16,986,000	$(20,899,000)	$(761,000)

See independent auditor's report and notes to consolidated financial statements.

- F5 -

FRAWLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000 AND 1999

CASH FLOWS FROM OPERATING ACTIVITIES:	2000	1999
Net Loss	$(1,537,000)	$(723,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on sale of real estate investment	142,000	114,000
Depreciation	24,000	32,000
Impairment loss on real estate	803,000	-
Changes in operating assets and liabilities:		
Short and long-term accounts receivable, net	(40,000)	105,000
Prepaid expenses and deposits	20,000	22,000
Accounts payable and accrued liabilities	238,000	102,000
Environmental reserve	(22,000)	(94,000)
Unearned revenue	(5,000)	(49,000)
TOTAL ADJUSTMENTS	1,160,000	232,000
NET CASH USED IN OPERATING ACTIVITIES	(377,000)	(491,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of real estate	465,000	321,000
Equipment purchases	-	(45,000)
Payments for real estate improvements	(317,000)	(266,000)
NET CASH PROVIDED BY INVESTING ACTIVITIES	148,000	10,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term debt borrowings from related party	454,000	544,000
Repayment of borrowings	(200,000)	(50,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	254,000	494,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,000	13,000
CASH, BEGINNING OF YEAR	29,000	16,000
CASH, END OF YEAR	$ 54,000	$ 29,000

=========== =========

See independent auditor's report and notes to consolidated financial statements.

FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2000 AND 1999

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. (the "Hospital"), and Sun Sail Development Company. All significant intercompany profits, transactions and balances have been eliminated.

Hospital Revenue - The Hospital primarily treats substance abuse in the Seattle, Washington area. Certain operating revenues for the Company's Hospital are recorded under cost reimbursement agreements, principally Medicare, which are subject to audit and possible retroactive adjustment by third-party payors in order to arrive at the reimbursable cost of providing the medical services to the beneficiaries of these programs. In the opinion of management, adequate provision has been made for any adjustments that may result from such audits. Differences between estimated provisions and final settlements are reflected as charges or credits to operating results in the year in which the settlements are made.

Depreciation - The cost of property and equipment is depreciated over the estimated useful lives of the assets, which range from ten to twenty years, using the straight-line method. The hospital building is depreciated over forty years.

Unearned Revenue - The Company defers fees on its chemical dependency programs and amortizes them into operations per the term of the program.

Net Income (Loss) per Common Share - Net income (loss) per common share is computed by dividing net income (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.

Malpractice Insurance Coverage - Medical malpractice claims are covered by an occurrence-basis medical malpractice insurance policy, the coverage of $5 million per occurrence is considered by the Company to be adequate for potential claims.

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 consist primarily of cash and accounts receivable. The Company

places its cash with high-credit, quality financial institutions. Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large patient base. The Company maintains an allowance for doubtful accounts based on factors surrounding the credit risk of specific patients and other information. Credit losses, when realized, have been within the range of the Company's expectations.

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, accounts receivable, note receivable, other assets, accounts payable, accrued expenses and unearned revenue) approximate fair value because of the short maturity of these items. The carrying amount of the notes payable to stockholders and notes payable approximate fair value based on current rates for similar debt of the same remaining maturity.

Advertising - The Company expenses advertising costs as incurred. Advertising expense was $110,000 and $138,000 for the years ended December 31, 2000 and 1999, respectively.

Reclassification - Certain accounts were reclassified from the prior year. The purpose of the reclassification is to give a more accurate representation of the Company's operations. The reclassifications did not effect the representation of the Company's overall performance.

2. OPERATING RESULTS AND MANAGEMENT PLANS

The Company's net loss for 2000 was $1,537,000 compared to a $723,000 net loss for 1999. The Company generates operating profits under the one standing hospital but continues to have unprofitable subsidiary operations. Working capital and operating cash flow continue to be negative.

Management plans for 2001 include seeking partners for unit operations.

The Company will continue its efforts to sell its real estate holdings and minimize additional investments that require borrowing. Management is also seeking other sources of long-term financing necessary for further reorganization.

The Company's real estate investment consists of approximately 127 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.

The value of the Company's undeveloped real estate in the Santa Monica Mountains has generally been affected by past economic conditions unique to California. The factors affecting the salability of the Company's property included the lack of Southern California development activities and general uncertainties in the economy. There are limited comparable sales of property in the area, however, based on the limited data available, management has estimated net realizable value of the property to be equal to or greater than the carrying value.

3. RELATED PARTY TRANSACTIONS

The Company has borrowed funds from the Chief Executive Officer and his family members, as needed, to meet real estate investment and working capital needs. As of December 31, 2000 and 1999 the balances due were $3,277,000 and $3,023,000, respectively (see Note 6). The notes bear interest at 10%, are secured by real estate and become due in 2001.

4. LONG-TERM ACCOUNTS RECEIVABLE

As a result of insurance reimbursement restrictions, the Company has increasingly been forced to provide extended payment terms on the private balance of its patient accounts receivable balances. Such terms generally extend over one to three years and bear interest from 10% to 12%.

5. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:	2000	1999
Income taxes	$ 4,000	$ 6,000
Interest	$116,000	$218,000

6. DEBT

Short-term debt consists of the following:

Notes payable to stockholders, due various dates throughout 2001, bearing interest at 10%, secured by real estate holdings	$3,277,000
Note payable to creditor, due 2001, bearing interest at 10%, secured by real estate holdings	$ 70,000
Environmental reserve	78,000

Total current debt	$3,425,000

Long-term debt consists of the environmental reserve amount of $1,424,000.

FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2000 AND 1999

7. COMMITMENTS AND CONTINGENCIES

The Company conducts a portion of its operations from leased facilities, which include corporate offices and general offices for its specialized health services business and outpatients programs. All of the Company's leases are operating leases. The rental payments under these leases include the minimum rental expense along with the increase in the cost of living plus, in some instances, an annual adjustment to reflect the lessor's increased costs of operation.

The Company has future minimum rental payments required under leases that have initial or remaining noncancelable lease terms in the amount of $40,000 through 2001.

Operations include rent expense of $80,000 in 2000 and $88,000 in 1999.

8. 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 involved 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 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. In January 1999, the PRP's consented decree was approved by the Court.

As of December 31, 2000, the Company had made payments totaling approximately $570,000 into the PRP group and had a cash call contribution payable of $131,000. The Company has accrued short-term and long-term liabilities of $78,000 and $1,424,000, respectively, to cover future costs under the remediation plan.

The Company is in dispute related to a license agreement entered into in 1988 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 that the licensee would have to investigate the international trademark involving "Classics Illustrated." Management believes that there is no probable risk of loss related to this dispute.

FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2000 AND 1999

9. INCOME TAXES

There is no provision for income taxes due to tax losses in 2000 and 1999, 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, 2000 and 1999 consist of the following:

	2000	1999
Net operating loss carryforwards	$ 4,376,000	$ 4,218,000
Depreciation	(38,000)	(143,000)
Bad debt/land reserves	530,000	185,000
Toxic waste accrual	511,000	518,000
Other reserves	231,000	171,000
	5,610,000	4,949,000
Less valuation allowance	(5,610,000)	(4,949,000)
	$ -	$ -

The Company has net operating loss carryforwards aggregating approximately $12,871,000, for federal income tax purposes, which expire in various years through 2015.

10. INDUSTRY SEGMENTS

The Company operates principally in two industries: specialized health services and real estate. The specialized health services subsidiary operates one owned hospital and two outpatient program facilities for the treatment of chemical dependency. The real estate segment consists principally of undeveloped land in the Santa Monica Mountains. Operating profit excludes interest expense.

Identifiable assets by industry are those assets that are used in the Company's operations in each segment and include principally cash (including negative book balances of the segment), property, plant and equipment and other assets used in the corporate management operations. Depreciation and capital expenditures from continuing operations, including investments in real estate, for the years ended December 31, 2000 and 1999 were as follows:

	Specialized Health Services	Real Estate	Other Activity	Consolidated
Depreciation:				

2000	$24,000	$ -	$ -	$ 24,000
1999	$32,000	$ -	$ -	$ 32,000

FRAWLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2000 AND 1999

Capital expenditures and investments in real estate:

2000	$ -	$317,000	$ -	$317,000
1999	$45,000	$266,000	$ -	$311,000

Segment information from continuing operations for the years ended December 31, 2000 and 1999 is as follows:

	Specialized Health Services	Real Estate	Other Activity	Consolidated
Year ended December 31, 2000:				
Net operating revenues	$2,719,000	$ 20,000	$ 1,000	$ 2,740,000
Income (loss) from operations	$ 69,000	$(1,402,000)	$(204,000)	$(1,537,000)
Interest expense, net				$ (322,000)
Identifiable assets	$1,117,000	$ 1,882,000	$ -	$ 2,999,000
Year ended December 31, 1999:				
Net operating revenues	$2,636,000	$ -	$ 8,000	$ 2,644,000
Income (loss) from operations	$ 8,000	$ (474,000)	$(257,000)	$ (723,000)

	Specialized Health Services	Real Estate	Other Activity	Consolidated
Interest expense, net				$ (284,000)
Identifiable assets	$1,086,000	$ 2,985,000	$ -	$ 4,071,000

11. EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) Plan covering substantially all of its employees. Contributions to the Plan are made by participating employees.

The Company made no contributions in 2000 and 1999, as contributions are discretionary.

12. SUBSEQUENT EVENTS

In April 2001, the Company entered into discussions regarding the sale of the Hospital in Seattle. No transaction has been consummated as of the date of this report.