

FRAWLEY CORP
Form 10-K
October 15, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(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, 2011

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 (I.R.S. EMPLOYER I.D. NO.)
INCORPORATION OR ORGANIZATION)

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: None

Title of each class

Common Stock, par value \$1.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

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 August 29, 2013.

Number of shares of Common Stock outstanding as of August 29, 2013: 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.

Total number of pages, including cover page and exhibits 28

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 28 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 \$217,000 as of the end of 2011, and are subject to mortgage debt held by various stockholders, including the Chief Executive Officer and related family members, aggregating approximately \$2,223,000. The Company continues to invest resources in real estate and it will continue its efforts to sell the land. (See Item 7, 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 office space from a related party at no charge. (For a description of investment properties, see Item 1. Business - Real Estate).

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Item 3. Legal Proceedings

In June 2004, the Corporation received a new environmental claim against its former Hartley Pen division in the amount of approximately \$99,000. The claim was made by the United States Environmental Toxic Agency concerning the Company's alleged responsibility for the Omega Chemical Superfund Site. The Company recorded the liability in the year ended December 31, 2004. In December 2005, the Company received a demand for payment from the EPA and negotiated a payment plan which required the total liability, plus interest to be paid in full by January 2007. During 2006, the Company made payments of approximately \$52,000, leaving a balance of approximately \$47,000 due in January 2007. The Company was unable to make the January 2007 payment. The Company reached a new agreement with the EPA, and made its first payment under the new agreement on January 11, 2007. The remaining payments were due in April, July and October 2007. The Company was unable to make the payment due in July 2007. The Company requested a payment extension. The EPA reviewed the request and extended the term 18 months to pay the balance plus interest accrued in March 2009. The Company again was unable to make a payment in March 2009. In August 2011, the Company made a full payment of the liability related to the Omega Chemical Superfund and was then released of its liability to that site.

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 for the stock.

The approximate number of holders of record for Frawley Corporation's Common Stock as of December 31, 2011 was 500.

No dividends have been paid in the periods shown above.

Item 6. Selected Financial Statement Data

Recent Accounting Pronouncements

See Recent Accounting Pronouncement section of Note 1 to our consolidated financial statements for a summary of new accounting standards.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overall Summary

The net loss was \$15,000 in 2011 as compared to net loss of \$113,000 in 2010 (see following discussion of real estate).

Interest expense for 2011 was \$206,000 compared to \$229,000 for 2010. Selling, general and administrative expenses were \$248,000 for 2011 compared to \$154,000 for 2010.

Real Estate

The real estate operating income before interest expense was \$86,000 in 2011 as compared to \$170,000 in 2010.

In February 2004, the Company received notice from Los Angeles County that the county intends to severely restrict grading permits and may require conditional 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 several of the Company's parcels of land because of new ridgeline building ordinances. Prior to the ordinance deadline, the Company received grandfathering status on those 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, 2011 financial statements do not reflect any adjustments that might result from these new and more stringent regulations.

In addition to Los Angeles County permits, the Company's property is subject to development permits from California Department of Fish and Game, the U.S. Army Corps of Engineering and the California State Water Resources Control Board. These permits can take up to 24 months to process and there is no guarantee that these agencies will issue the permits.

During 2011, the Company entered into an agreement with a neighboring property owner to grant an easement which would allow for a water main to be built on the Company's property, making it available for the Company's use. As part of that agreement, related party deed holders agreed to subordinate their debt to that easement for a partial pay down on the debt owed to them. The related parties received a total of \$38,000 in relation to this agreement.

Liquidity and Capital Resources

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 Frawley family members as needed, to meet real estate investments and working capital needs. During 2011, the Company borrowed \$23,000 from related parties compared to \$30,000 during 2010. As of December 31, 2011, the total notes due were \$2,223,000. These are related party notes and bear interest at 10%, are secured by the Company's real estate investments and became due on various dates ranging from 2001 through 2012. The Company has defaulted on substantially all of the related party notes under their terms. As of the date of this report, no action has been taken on the delinquent amounts.

Prior to 2005, the Company received funds from the family members as an advance on property that they intend to purchase in the future. The family members have not yet specified the parcel they intend to purchase and balances for the deposits for real estate were \$374,000 at December 31, 2011 and 2010, respectively.

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:

| December 31, | 2011 | 2010 |
|------------------------------|---------------|---------------|
| Working capital (deficiency) | \$(5,628,000) | \$(5,631,000) |
| Current ratio | (.015 to 1) | (.001 to 1) |

Item 8. Financial Statements and Supplementary Data

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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 ineffective due to lack of segregation of duties. The Company currently does not have the resources to hire additional personnel at this time.

Changes in Internal Controls

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. We have also evaluated our internal controls for financial reporting, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

Limitations on the Effectiveness of Controls

Our management, which consists of our CEO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO and CFO Certifications

Appearing immediately following the Signatures section of this report there are Certifications of the CEO and the CFO. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This Item of this report, which you are currently reading is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011 and concluded that internal control over financial reporting was not effective. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, as of December 31, 2011, management has identified the

following deficiency for the Company, that only when aggregated, may possibly be viewed as a material weakness:

We did not maintain proper segregation of duties for the preparation of our financial statements. As of December a)31, 2011, the majority of the preparation of financial statements was carried out by one person. Additionally, the Company currently only has one officer having oversight on all transactions.

The Company is currently engaged in the review, documentation and remediation of its disclosure controls and procedures. However, the Company presently does not have sufficient financial resources to hire additional personnel or consultants. Once the Company does, then our Board of Directors will establish the following remediation measures:

a) We will hire additional personnel and outside consultants to perform various layers of reviews of our disclosures.

b) We will hire additional personnel to assist with the preparation of the Company's financial statements which will allow for proper segregation of duties, as well as additional manpower for proper documentation.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

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

| First Name <u>Director</u> | Age | Principal Occupation | Year Became |
|---|------------|---|------------------------|
| Michael P. Frawley | 58 | Chairman of the Board and President of the Company Chief Executive Officer, Treasurer | 1991 |
| Sheila Callahan | 29 | Director and Secretary of the Company | 2007 |

The Company's Board of Directors has no committees. During 2011, the Board of Directors held four meetings in which all of the directors attended. Michael P. Frawley and Sheila 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 9, 2007, Mr. Michael P. Frawley and Ms. Sheila 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. Michael P. Frawley is legally blind.

Michael Frawley appointed Sheila Callahan to the Board of Directors on February 9, 2007. On February 9, 2007, Michael Frawley and Sheila Callahan were confirmed as members of the Board of Directors by written consent by the majority of the stockholders.

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 11. 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, 2011 (together the “Named Executive Officers”).

| Name and Principal Position | Year | Annual Compensation |
|--------------------------------|------|---------------------|
| Michael P. Frawley | 2011 | \$ - |
| Chief Executive Officer | 2010 | \$ - |
| | 2009 | \$ - |

Option Grants in Last Fiscal Year

None of the Named Executive Officers received stock option grants in fiscal 2011.

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

None of the Named Executive Officers exercised stock options in fiscal 2011.

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.

Item 12. 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, 2011, 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.

| Title of Class | Name and Address of Beneficial Owners | Amount and Nature of Percent of Beneficial Ownership (1) |
|----------------|---------------------------------------|--|
|----------------|---------------------------------------|--|

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| | | | |
|--------------|--|---------|-------|
| 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 | Sheila Callahan 436 N. Ontare Rd. Santa Barbara, California | 0 | 0 % |
| Common Stock | Joan Frawley Desmond 7106 44 th Street Chevy Chase, Maryland | 105,976 | 8.7 % |
| Common Stock | All Directors and Executive Offices as group (2 Persons) | 133,683 | 10.9% |

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 (1) 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.

Equity Compensation Plan Information

The Company does not have any equity compensation plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence

In 2011 and prior years, the Company has borrowed a total of \$2,223,000 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 \$209,000 and \$254,000 during 2011 and 2010, respectively.

Item 14. Principal Accounting Fees and Services.

Audit Fees – The aggregate audit fees billed for each of the last two fiscal years are as follows: 2011 - \$66,250; 2010 – None.

Audit-Related Fees – No audit-related fees were billed in either 2011 or 2010.

Tax Fees – The aggregate tax fees billed for each of the last two fiscal years are as follows: 2011 - \$33,750; 2010 – None.

All Other Fees – No other fees were billed in either 2011 or 2010.

Audit Committee's Pre-Approval Policies – Information concerning the audit committee's pre-approval policies and procedures will appear in our 2012 8-K under the caption "Audit Committee Matters." Such information is incorporated herein by reference.

The percentage of services described above that were approved by the audit committee was 100% in 2011 and none in 2010. No work was performed by persons other than the principal accountant's full-time permanent employees.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1. List of Financial Statements: Page Numbers

| | |
|---|--------|
| Independent Auditors' Report | F1 |
| Financial Statements for the Years Ended December 31, 2011 and 2010 | |
| Consolidated Balance Sheets | F2-F3 |
| Consolidated Statements of Operations | F4 |
| Consolidated Statement of Stockholders' Deficit | F5 |
| Consolidated Statements of Cash Flows | F6 |
| Notes to Consolidated Financial Statements | F7-F10 |

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

31.2 Exhibit 302.1

(b) **Reports on Form
8-K:**

During 2011, no 8-K reports were filed.

SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the Registrant has duly 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 August 29, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, 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)

August 29, 2013

(Date)

By: /s/ Sheila Callahan
Sheila Callahan, Vice President and Secretary

August 29, 2013

(Date)

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, 2011 and 2010, 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 audits 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, 2011 and 2010, 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.

LaRue, Corrigan, McCormick & Teasdale LLP

Woodland Hills, California

August 9, 2013

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 and 2010

ASSETS

| | 2011 | 2010 |
|---|-----------|-----------|
| Current assets: | | |
| Cash (Note 1) | \$82,000 | \$2,000 |
| Prepaid expenses and other current assets | 4,000 | 6,000 |
| Total current assets | 86,000 | 8,000 |
| Real estate investments, net (Notes 1, 2 and 4) | 217,000 | 217,000 |
| Investment in partnership | - | 16,000 |
| TOTAL ASSETS | \$303,000 | \$241,000 |

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 and 2010

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | 2011 | 2010 |
|--|--------------|--------------|
| Current liabilities: | | |
| Notes payable to related parties (Notes 2 and 4) | \$2,223,000 | \$2,262,000 |
| Interest payable to related parties | 2,991,000 | 2,781,000 |
| Deposits | 374,000 | 374,000 |
| Accounts payable and accrued expenses | 128,000 | 222,000 |
| Total current liabilities | 5,716,000 | 5,639,000 |
| Total liabilities | 5,716,000 | 5,639,000 |
| Commitments and contingencies (Notes 4 and 5) | | |
| 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 | 17,209,000 | 17,209,000 |
| Accumulated deficit | (23,275,000) | (23,260,000) |
| | (4,652,000) | (4,637,000) |
| Less common stock in treasury, 191,312 shares (at cost) | (761,000) | (761,000) |
| Total stockholders' deficit | (5,413,000) | (5,398,000) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$303,000 | \$241,000 |

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|--|-------------|--------------|
| REVENUES | | |
| Sales of real estate | \$- | \$650,000 |
| Other income | 6,000 | - |
| TOTAL REVENUE | 6,000 | 650,000 |
| COSTS AND EXPENSES | | |
| Cost of real estate sold | - | 380,000 |
| Selling, general and administrative expenses | 248,000 | 154,000 |
| Interest expense, net of interest income (Note 5) | 206,000 | 229,000 |
| TOTAL COSTS AND EXPENSES | 454,000 | 763,000 |
| LOSS FROM OPERATIONS | (448,000) | (113,000) |
| OTHER INCOME: | | |
| Gain on sale of investment (Note 1) | 133,000 | - |
| Gain on sale of assets (Note 1) | 300,000 | - |
| TOTAL OTHER INCOME | 433,000 | - |
| NET LOSS | \$(15,000) | \$(113,000) |
| NET LOSS PER SHARE, COMMON | \$(0.01) | \$(0.09) |
| FULLY DILUTED | \$(0.01) | \$(0.09) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 1,222,900 | 1,222,900 |

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | Common Stock Shares | Common Stock Amount | Capital Surplus | Accumulated Deficit | Treasury Stock | Total |
|-------------------|------------------------|------------------------|--------------------|------------------------|-------------------|---------------|
| December 31, 2009 | 1,414,212 | \$1,414,000 | \$17,209,000 | \$(23,147,000) | \$(761,000) | \$(5,285,000) |
| Net loss, 2010 | - | - | - | (113,000) | - | (113,000) |
| December 31, 2010 | 1,414,212 | 1,414,000 | 17,209,000 | (23,260,000) | (761,000) | (5,398,000) |
| Net loss, 2011 | - | - | - | (15,000) | - | (15,000) |
| December 31, 2011 | 1,414,212 | \$1,414,000 | \$17,209,000 | \$(23,275,000) | \$(761,000) | \$(5,413,000) |

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FRAWLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(15,000) | \$(113,000) |
| Adjustments to reconcile net loss to net cash (used in)/provided by operating activities: | | |
| Gain on sale of investments | (133,000) | - |
| Gain on sale of assets | (300,000) | - |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | 2,000 | - |
| Real estate investments | - | 134,000 |
| Accounts payable and accrued expenses | (94,000) | (3,000) |
| Interest payable | 210,000 | 229,000 |
| TOTAL ADJUSTMENTS | (315,000) | 360,000 |
| NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES | (330,000) | 247,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of investment | 149,000 | - |
| Proceeds from sale of assets | 300,000 | - |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 449,000 | - |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term debt borrowings from related parties | 23,000 | 30,000 |
| Repayment of borrowings | (62,000) | (276,000) |
| NET CASH USED IN FINANCING ACTIVITIES | (39,000) | (246,000) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 80,000 | 1,000 |
| CASH, BEGINNING OF PERIOD | 2,000 | 1,000 |
| CASH, END OF PERIOD | \$82,000 | \$2,000 |

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. (Schick Shadel) 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. All significant intercompany profits, transactions and balances have been eliminated.

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 follows the provisions of ASC 740, “*Accounting for Income Taxes*,” (formally SFAS 109). 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.

In June 2006, the Financial Accounting Standards Board (FASB) issued ASC 740-10-25 which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise’s financial statements in accordance with ASC 740, “*Accounting for Income Taxes*”. ASC 740-10-25 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of ASC 740-10-25 did not have a material impact on the Company’s financial statements.

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, accounts payable and accrued expenses) approximate fair value because of the short maturity of these items. The carrying amount of the notes payable approximate fair value based on current rates for similar debt of the same remaining maturity.

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, 2011 and 2010.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revenue and recognizes it when the criteria are met or using the installment or cost recovery methods as appropriate under the circumstances.

Sale of Investment - The Company owned a minority interest in Dufy I, LP (the "Partnership"), a partnership that owns and operates the Schick Shadel Hospital (the "Hospital") in Seattle, Washington. In August 2011, the Hospital was sold and the Company received proceeds in the amount \$149,000 for its share of the purchase price. The Company recognized \$133,000 in gain as a result of this transaction. In addition, the Company will receive additional funds to be determined related to excess cash and collected accounts receivable from the Hospital. Once the final proceeds are distributed, the Partnership will be dissolved.

Sale of Assets - In August 2011, the Company sold two trademarks it owned, Classics Illustrated and Classic Illustrated Junior for \$300,000. In previous years, the Company had written the book value of the trademarks down to zero and therefore the entire amount of the sale was recorded as a gain. The Company received \$207,850, which represents the remaining sales proceeds after settlement of invoices owed by the Company related to the trademarks. Included in these invoices was approximately \$10,000 paid to a consulting company owned by Mary Louise Frawley, a related party.

2. 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 2011 and 2010, the Company borrowed an additional \$23,000 and \$30,000, respectively, from the related parties. Also, as a result of a real estate sale in 2010, the Chief Executive Officer and other family members received \$276,320 in total as repayment of principal and interest related to a note secured by the property. As of December 31, 2011 and 2010, the balances due were \$2,223,000 and \$2,262,000, respectively (see Note 4). 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 2012. 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.

3. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

2011 2010

Cash paid during the year for:

| | | |
|--------------|---------|---------|
| Income taxes | \$5,000 | \$3,000 |
| Interest | \$- | \$- |

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4. DEBT

Short-term debt at December 31, 2011 consists of \$2,223,000 of notes payable to stockholders and other related parties (see Note 2), which were due on various dates from 2001 through 2012, 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.

5. LITIGATION

In June 2004 the Corporation received an environmental claim against its former Hartley 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. During 2006, the Company agreed to pay the liability in installment payments through January 2007 and had made payments of approximately \$52,000 during 2006 and of approximately \$26,000 during 2007. In September 2007, the Company was granted a postponement of the additional payments due until March 2009. In August 2011, a full payment for the remaining liability was made and the Company was released of its liability related to that site.

6. INCOME TAXES

The Company does not carry a provision for income taxes due to tax losses in 2011 and 2010, 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, 2011 and 2010 consist of the following:

| | 2011 | 2010 |
|----------------------------------|-------------|-------------|
| Net operating loss carryforwards | \$1,888,000 | \$1,795,000 |
| Bad debt/land reserves | 98,000 | 98,000 |
| Other reserves | 1,021,000 | 950,000 |
| | 3,007,000 | 2,843,000 |
| Less valuation allowance | (3,007,000) | (2,843,000) |
| | \$- | \$- |

The Company has net operating loss carryforwards aggregating approximately \$5,551,000 for federal income tax purposes, which expire in various years through 2031.

7.SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 9, 2013, the date the financial statements were available to be issued, and determined that no matters required disclosure.

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