

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002  
-----

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 01-21617

THE QUIGLEY CORPORATION  
-----

(Exact name of registrant as specified in its charter)

Nevada

23-2577138  
-----

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

(MAILING ADDRESS: PO Box 1349, Doylestown, PA 18901.)

Kells Building, 621 Shady Retreat Road, Doylestown, PA 18901  
-----

(Address of principle executive offices) (Zip Code)

Registrant's telephone number, including area code: (215) 345-0919  
-----

(Registrant's telephone number, including area code)

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. [X] Yes [ ] No

Indicate the number of shares outstanding of each of the issuer's class of Common Stock, as of the latest practicable date. The number of shares outstanding of each of the registrant's classes of Common Stock, as of April 26, 2002, was 10,954,946 all of one class of \$.0005 par value Common Stock.

TABLE OF CONTENTS

	Page No.
PART I - Financial information	
Item 1. Consolidated Financial Statements	3-15
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16-20
Item 3. Quantitative and Qualitative Disclosure About Market Risk	20
PART II - Other Information	
Item 1. Legal Proceedings	20
Item 2. Changes in Securities	20
Item 3. Defaults Upon Senior Securities	20

Item 4.	Submission of Matters to a Vote of Security Holders	20
Item 5.	Other Information	20
Item 6.	Exhibits and Reports on Form 8-K	21
Signatures		22

2

THE QUIGLEY CORPORATION  
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2002 (unaudited)	December 31, 2001
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$10,751,063	\$9,740,840
Accounts receivable (less doubtful accounts of \$744,996 and \$719,310)	2,056,343	4,425,291
Inventory	5,976,121	6,507,746
Prepaid expenses and other current assets	1,060,155	1,507,462
	-----	-----
TOTAL CURRENT ASSETS	19,843,682	22,181,339
	-----	-----
PROPERTY, PLANT AND EQUIPMENT - net	2,171,338	2,201,309
	-----	-----
OTHER ASSETS:		
Patent rights - Less accumulated amortization	-	21,940
Excess of cost over net assets acquired - Less accumulated amortization	327,014	327,014
Other assets	27,237	24,193
	-----	-----
TOTAL OTHER ASSETS	354,251	373,147
	-----	-----
TOTAL ASSETS	\$22,369,271	\$24,755,795
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$601,399	\$911,813
Accrued royalties and sales commissions	560,922	1,005,594
Accrued advertising	325,174	668,792
Other current liabilities	1,382,269	969,321
	-----	-----
TOTAL CURRENT LIABILITIES	2,869,764	3,555,520
	-----	-----
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST IN CONSOLIDATED AFFILIATES		
STOCKHOLDERS' EQUITY:		
Common stock, \$.0005 par value; authorized 50,000,000 shares; Issued: 15,362,199 and 15,321,206 shares	7,681	7,661
Additional paid-in-capital	28,915,592	28,915,612
Retained earnings	15,764,393	17,465,161
Less: Treasury stock, 4,646,053 shares, at cost	(25,188,159)	(25,188,159)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	19,499,507	21,200,275
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$22,369,271	\$24,755,795
	=====	=====

See accompanying notes to financial statements

3

(Unaudited)

	Three Months Ended	
	March 31, 2002	March 31, 2001
	-----	-----
SALES:		
Sales	\$5,774,045	\$5,198,537
Co-operative advertising promotions	264,640	493,069
	-----	-----
NET SALES	5,509,405	4,705,468
LICENSING FEES	148,866	-
	-----	-----
TOTAL REVENUE	5,658,271	4,705,468
	-----	-----
COST OF SALES	2,743,585	1,880,649
	-----	-----
GROSS PROFIT	2,914,686	2,824,819
	-----	-----
OPERATING EXPENSES:		
Sales and marketing	1,325,228	1,345,322
Administration	2,724,199	1,787,166
Research and development	610,884	247,533
	-----	-----
TOTAL OPERATING EXPENSES	4,660,311	3,380,021
	-----	-----
LOSS FROM OPERATIONS	(1,745,625)	(555,202)
INTEREST and OTHER INCOME	44,857	152,171
	-----	-----
LOSS BEFORE TAXES	(1,700,768)	(403,031)
	-----	-----
INCOME TAXES	-	-
MINORITY INTEREST IN LOSS OF CONSOLIDATED AFFILIATE	-	122
	-----	-----
NET LOSS	(\$1,700,768)	(\$402,909)
	=====	=====
Per common share:		
Basic	(\$0.16)	(\$0.04)
	=====	=====
Diluted	(\$0.16)	(\$0.04)
	=====	=====
Weighted average common shares outstanding:		
Basic	10,681,985	10,675,153
	=====	=====
Diluted	10,681,985	10,675,153
	=====	=====

See accompanying notes to financial statements

4

THE QUIGLEY CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)  
(Unaudited)

	Three Months Ended	
	March 31, 2002	March 31, 2001
	-----	-----
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$1,064,455	(\$1,327,019)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(54,232)	(216,950)
Net cost of assets acquired	-	(128,493)

NET CASH USED IN INVESTING ACTIVITIES	(54,232)	(345,443)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Common Stock for business acquisition	-	43,750
Repurchase of Common Stock	-	(30,131)
NET CASH FLOWS FROM FINANCING ACTIVITIES	-	13,619
NET INCREASE/(DECREASE) IN CASH	1,010,223	(1,658,843)
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD	9,740,840	11,365,843
CASH & CASH EQUIVALENTS, END OF PERIOD	\$10,751,063	\$9,707,000

See accompanying notes to financial statements

5

THE QUIGLEY CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BUSINESS

The Quigley Corporation (the "Company"), organized under the laws of the state of Nevada, is engaged in the development, manufacturing, and marketing of health and homeopathic products that are being offered to the general public. For the fiscal periods presented, the Company's proprietary "Cold-Eeze(R)" products contributed a significant part of the revenues.

Darius International Inc., a wholly owned subsidiary of The Quigley Corporation, was formed in January 2000 to introduce new products to the marketplace through a network of independent distributors. Darius is a direct selling organization specializing in proprietary health and wellness products, which commenced shipping product to customers in the third quarter of 2000.

Effective July 1, 2000, The Quigley Corporation acquired a 60% ownership position in Caribbean Pacific Natural Products, Inc. an Orlando, Florida-based company. Caribbean Pacific Natural Products, Inc. is a leading developer and marketer of all-natural sun and skincare products for luxury resorts, theme parks and spas.

The formation of Darius International Inc., and the majority ownership in Caribbean Pacific Natural Products, Inc., provide diversification to the Company in both the method of product distribution and the broader range of products available to the marketplace.

In January 2001, the Company formed an Ethical Pharmaceutical Unit which is now Quigley Pharma Inc., a wholly-owned subsidiary of the Company that is under the direction of its Executive Vice President and chairman of its Medical Advisory Committee. The formation of the Company's Ethical Pharmaceutical Unit follows the Patent Office of The United States Commerce Department confirming the assignment to the Company of a Patent Application for the "Method and Composition for the Topical Treatment of Diabetic Neuropathy." In September 2001, the Patent Office confirmed the assignment to the Company of a Patent Application entitled the "Medicinal Composition and Method of Using it" (for Treatment of Sialorrhea and other Disorders) for a prescription product to relieve sialorrhea (drooling) in patients suffering from Amyotrophic Lateral Sclerosis (ALS), otherwise known as Lou Gehrig's Disease. In November 2001, the Company was assigned a Patent Application entitled "Composition and Method for Prevention, Reduction and Treatment of Radiation Dermatitis" with the Patent Office of The United States Commerce Department. The establishment of a dedicated pharmaceutical subsidiary will enable the Company to diversify into the prescription drug market and to ensure safe and effective distribution of these important potential new products currently under development.

Cold Remedy Products

Cold-Eeze(R), a zinc gluconate glycine formulation (ZIGG(TM)) is sold in lozenge, bubble gum and sugar-free tablet forms. In May 1992, the Company entered into an exclusive agreement for worldwide representation, manufacturing, marketing and distribution rights to a zinc gluconate glycine lozenge formulation which was patented in the United States, United Kingdom, Sweden,

France, Italy, Canada, Germany, and pending in Japan. This product is presently being marketed by the Company and also through independent brokers and marketers in the United States under the trade names Cold-Eeze(R), Cold-Eeze(R) Sugar Free, and Cold-Eeze(R) Bubble Gum and in Canada under the trade name Zigg-Eeze(TM).

In 1996, the Company also acquired an exclusive license to a zinc gluconate use patent, thereby assuring the Company exclusivity in the manufacturing and marketing of zinc gluconate glycine lozenge formulated cold relief products.

In April 2002, the Company was assigned a Patent Application which was filed with the Patent Office of the United States Commerce Department for the use of Cold-Eeze(R) as a prophylactic for cold prevention. The new patent application follows the results of an adolescent study that found that the use of Cold-Eeze(R) is effective in preventing a cold, reduces the use of antibiotics and confirmed that Cold-Eeze(R) reduces the median duration of a cold by four days.

In the second half of 1998, the Company launched Cold-Eeze(R) in a sugar free version of the product to benefit diabetics and other consumers concerned with their sugar intake. Late in the fourth quarter of 1998, the Company launched a bubble gum version of Cold-Eeze(R).

6

Under a Food and Drug Administration ("FDA") approved Investigational New Drug Application, filed by Dartmouth College, a randomized double-blind placebo-controlled study, conducted at Dartmouth College of Health Science, Hanover, New Hampshire, concluded that the lozenge formulation treatment, initiated within 48 hours of symptom onset, resulted in a significant reduction in the total duration of the common cold.

On May 22, 1992, ZINC AND THE COMMON COLD, A CONTROLLED CLINICAL STUDY, was published in England, in the "Journal of International Medical Research", Volume 20, Number 3, Pages 234-246. According to this publication, (a) flavorings used in other Zinc lozenge products (citrate, tartrate, separate, orotate, picolinate, mannitol or sorbitol) render the Zinc inactive and unavailable to the patient's nasal passages, mouth and throat, where cold symptoms have to be treated, (b) this patented pleasant-tasting formulation delivers approximately 93% of the active Zinc to the mucosal surfaces and (c) the patient has the same sequence of symptoms as in the absence of treatment, but goes through the phases at an accelerated rate and with reduced symptom severity.

On July 15, 1996, results of a new randomized double-blind placebo-controlled study on the common cold were published, which commenced at the Cleveland Clinic Foundation on October 3, 1994. The study called "Zinc Gluconate Lozenges for Treating the Common Cold" was completed and published in the Annals of Internal Medicine - Vol. 125 No. 2. Using a 13.3mg lozenge (almost half the strength of the lozenge used in the Dartmouth Study), the result still showed a 42% reduction in the duration of the common cold symptoms.

In April 2002, the Company announced the statistical results of a retrospective analysis that suggests that Cold-Eeze(R) is also an effective means of preventing the common cold. This adolescent study indicated that when taken daily, Cold-Eeze(R) statistically lessens the number of colds an individual suffers per year, reducing the median from 1.5 to zero. These findings are the result of analyzing three years of clinical data at the Heritage School facility in Provo, Utah. The study also found that the use of Cold-Eeze(R) to treat a cold statistically reduces the use of antibiotics for respiratory illnesses from 39.3% to 3.0% when Cold-Eeze(R) is administered as a first line treatment approach to the common cold. Additionally, the study reinforces the original clinical trials, concluding that Cold-Eeze(R) reduces the median duration of a cold by four days.

The business of the Company is subject to federal and state laws and regulations adopted for the health and safety of users of the Company's products. Cold-Eeze(R) is a homeopathic remedy that is subject to regulations by various federal, state and local agencies, including the FDA and the Homeopathic Pharmacopoeia of the United States.

The Company competes with suppliers varying in range and size in the cold remedy products arena. Cold-Eeze(R), which has been clinically proven, offers a significant advantage over other suppliers in the over-the-counter cold remedy market. The management of the Company believes there should be no future impediment on the ability to compete in the marketplace now, or in the immediate future, since factors concerning the product, such as price, product quality, availability, reliability, credit terms, name recognition, delivery and support are all properly positioned. The Company has several Broker, Distributor and Representative Agreements, both nationally and internationally and the product is distributed through numerous independent and chain drug and discount stores throughout the United States.

The Company continues to use the resources of independent national and international brokers complementing its own personnel to represent the Company's over-the-counter products, thereby saving capital and other ongoing expenditures that would otherwise be incurred.

Ethical Pharmaceutical Products  
- - - - -

The establishment of a dedicated pharmaceutical subsidiary will enable the Company to diversify into the prescription drug market and to ensure safe and effective distribution of these important potential new products currently under development.

Quigley Pharma is currently undergoing research and development activity in compliance with regulatory requirements. The Company is at the initial stages of what may be a lengthy process to develop these patent applications into commercial products.

The formation of the Company's Ethical Pharmaceutical Unit follows the Patent Office of The United States Commerce Department confirming the assignment to the Company of the following patent applications:

- o A Patent Application for the "Method and Composition for the Topical Treatment of Diabetic Neuropathy."
- o In September 2001, the Patent Office confirmed the assignment to the Company of a Patent Application entitled the "Medicinal Composition and Method of Using it" (for Treatment of

7

Sialorrhea and other Disorders) for a prescription product to relieve sialorrhea (drooling) in patients suffering from Amyotrophic Lateral Sclerosis (ALS), otherwise known as Lou Gehrig's Disease.

- o In November 2001, the Company was assigned a Patent Application entitled "Composition and Method for Prevention, Reduction and Treatment of Radiation Dermatitis" with the Patent Office of The United States Commerce Department.

The pre-clinical development, clinical trials, product manufacturing and marketing of Quigley Pharma's potential new products are subject to federal and state regulation in the United States and other countries. Obtaining FDA regulatory approval for these pharmaceutical products can require substantial resources and take several years. The length of this process depends on the type, complexity and novelty of the product and the nature of the disease or other indications to be treated. If the Company cannot obtain regulatory approval of these new products in a timely manner, it could have a material effect on the business and financial condition of the Company.

In April 2002, the Company commenced a Phase II proof of concept study in France for the diabetic neuropathy treatment. Upon its successful completion, the Company will apply for approval by the FDA to begin pivotal clinical trials (Phase III). Because the Company's formulation for relief of diabetes-related pain is a topical treatment and its ingredients are GRAS listed (Generally Regarded As Safe) as identified in the Code of Federal Regulations, FDA approval could potentially be obtained within a one to two-year period.

#### Health And Wellness Products - - - - -

Darius International Inc., a wholly owned subsidiary, was formed in January 2000 for the purpose of introducing new products to the marketplace through a network of independent distributors. On January 2, 2001, the Company acquired certain assets and assumed certain liabilities of a privately held company involved in the direct marketing and distribution of health and wellness products. Darius is a direct selling organization specializing in proprietary health and wellness products. The products marketed and sold by Darius are designed to improve the human condition, in the area of health, immunity, energy, pain and the common cold.

#### Sun-care and Skincare Products - - - - -

Caribbean Pacific Natural Products, Inc., is a leading developer and marketer of all-natural sun and skincare products for luxury resorts, theme parks and spas.

These products are all-natural, eco-safe, and organic, meaning that the need for petro-chemical, synthetic, and chemical additives used by most competitors has been eliminated. All-natural ingredients such as aloe vera, rose hip oil, squalane, Vitamin E, tea tree oil and other natural oils and extracts are used instead of many synthetic preservatives, fillers and softeners which may have side-effects.

Caribbean Pacific currently has three distinct product lines: Virgin Sol, Coral Sol and Sport Sol and is currently developing a spa line called Sabate and a dry-grip golf product.

Caribbean Pacific markets a line of natural protectors, or "Sol Cremes" that provide dual protection against the damaging effects of the sun. This product is available in differing Sun Protection Factors (SPF). Caribbean Pacific also markets a sunscreen product called "Karibbean Kidz" especially for children,

again containing all natural ingredients found in nature.

Additionally, Caribbean Pacific markets various products rich in essential nutrients and vitamins necessary for the skin. Products available in this category are: Black Pearl Ultra Oil, Diamond Rose Dry Tanning Oil and Emerald Rose Tanning Oil. Caribbean Pacific has developed an effective combination of natural ingredients for moisture that include the Aloe Rose Body Creme, a moisturizing lotion, and the Tea Tree Burn Relief, which cools the skin to sooth the discomfort associated with burns, insect bites and itching.

Caribbean Pacific also has the capability to make available customized merchandise, such as beach bags, beach towels etc., which complement the range of sun-care and skincare products, which it currently markets.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

The Consolidated Balance Sheet at March 31, 2002, the Consolidated Statements of Operations for the three-months periods ended March 31, 2002 and 2001, and the Consolidated Statements of Cash Flows for the three-months periods ended March 31, 2002 and 2001, have been prepared without audit. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position, consolidated results of operations and consolidated cash flows, for the periods indicated, have been made. Certain prior period amounts have been reclassified to conform with the 2002 presentation.

All inter-company transactions and balances have been eliminated.

Effective July 1, 2000, the Company acquired a 60 percent ownership position in Caribbean Pacific Natural Products, Inc., which is accounted for by the purchase method of accounting and accordingly, the operating results have been included in the Company's consolidated financial Statements from the date of acquisition. This majority ownership position required a cash investment that approximated \$812,000 and the provision for a \$1 million line of credit, secured by inventory, accounts receivable and all other assets of Caribbean Pacific Natural Products. The net assets of Caribbean Pacific Natural Products at the acquisition date principally consisted of a product license and distribution rights, inventory and fixed assets of \$312,915 and \$510,000 of working capital with a contribution to minority interest of \$329,166.

In the past the 40 percent ownership position representing the minority interest has been reflected in the Consolidated Statements of Operations for their portion of losses, and in the Consolidated Balance Sheet for their ownership portion of accumulated losses, share of net assets and capital stock at acquisition date. At March 31, 2002, accumulated losses associated with minority interest have reduced minority interest to zero on the Balance Sheet, with excess losses amounting to \$130,869 being absorbed in the Consolidated Statement of Operations in 2002 and 2001, by the Company.

On January 2, 2001, the Company acquired certain assets and assumed certain liabilities of a privately held company, located in Utah, involved in the direct marketing and distribution of health and wellness products. This acquisition required cash payments that approximated \$110,000 and 50,000 shares of the Company's stock issued to the former owners of the net assets acquired. The net assets acquired at acquisition principally consisted of intangibles, inventory, accounts receivable, bank balances and fixed assets totaling \$536,000 and liabilities assumed approximating \$416,000. Also required are continuous payments for the use of product formulations; consulting; confidentiality and non-compete fees that are 12% on net sales collected until \$540,000 is paid, then becoming 5% on net sales collected for the continuous applications of these arrangements. This acquisition is accounted for by the purchase method of accounting and accordingly, the operating results have been included in the Company's Consolidated Statements of Operations from the date of acquisition. The excess of cost over net assets acquired has been amortized on a straight-line basis over a period of 15 years. Subsequent to 2001, the account will only be reduced if the value becomes impaired.

##### Principles of Accounting

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

##### Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents include cash on hand and monies invested in money market funds. The carrying amount approximates the fair market value due to the short-term maturity of these investments.

## Inventories

Inventories are stated at the lower of cost or market. The Company uses the first-in, first-out ("FIFO") method of determining cost for all inventories. Inventories are primarily comprised of finished goods.

9

## Property, Plant and Equipment

Property, plant and equipment is recorded at cost. The Company uses a combination of straight-line and accelerated methods in computing depreciation for financial reporting purposes. The annual provision for depreciation has been computed in accordance with the following ranges of estimated asset lives: building and improvements - twenty years; machinery and equipment - five to seven years; computer software - three years; and furniture and fixtures - seven years.

## Patent Rights and Intangibles

Patent rights have been amortized on a straight-line basis over the period of the related licensing agreements, which approximated 67 months. Amortization costs incurred for the three months periods ended March 31, 2002 and 2001, were \$21,940 for each period. At March 31, 2002, this item was fully amortized.

Prior to January 1, 2002, the excess of cost over net assets acquired has been subject to amortization on a straight-line basis over a period of 15 years.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued by the FASB. SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon adoption of this statement. The Company implemented SFAS No. 142 on January 1, 2002.

Following the adoption of Statement 142, the amortization expense, net loss and earnings per-share of The Quigley Corporation for the three months periods ended March 31, 2002 and 2001 are as follows:

	Three Months Ended March 31	
(\$,000s, except earnings-per-share amounts)	2002	2001
Reported net loss	\$1,700,768	(\$402,909)
Add back: Goodwill amortization	-	16,458
Adjusted Net Loss	\$1,700,768	(\$386,451)
Basic and Diluted earnings per share:		
Reported net loss	(\$0.16)	(\$0.04)
Goodwill amortization	-	-
Adjusted net loss - Basic	(\$0.16)	(\$0.04)
Adjusted net loss - Diluted	(\$0.16)	(\$0.04)

Subsequent to 2001, excess of cost over net assets will only be reduced if the value becomes impaired.

## Concentration of Risks

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and trade accounts receivable.

The Company maintains cash and cash equivalents with three major financial institutions. Since the Company maintains amounts in excess of guarantees provided by the Federal Depository Insurance Corporation, the Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

Trade accounts receivable potentially subjects the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral. The Company has historically incurred minimal credit losses. The Company's broad range of customers includes many large wholesalers, mass merchandisers and multi-outlet pharmacy chains, five of which account for 32% and 19% of sales volume, for the three months periods ended March 31, 2002 and 2001, respectively.



The Company currently uses three separate suppliers to produce Cold-Eeze(R) in lozenge, bubble gum, and sugar-free tablet form. A significant portion of the Company's revenue is currently generated from the sale of the Cold-Eeze(R) product. The lozenge form is manufactured by a third party manufacturer that produces predominantly for the Company. The other forms are manufactured by third parties that produce a variety of other products for other customers. Should these relationships terminate or discontinue for any reason, the Company has formulated a contingency plan in order to prevent such discontinuance from materially affecting the Company's operations. Any such termination may, however, result in a temporary delay in production until the replacement facility is able to meet the Company's production requirements.

Raw material used in the production of the product is available from numerous sources. Currently, it is being procured from a single vendor in order to secure purchasing economies. In a situation where this one vendor is not able to supply the contract manufacturer with the ingredients, other sources have been identified.

Quigley Pharma was formed in 2001 for the purpose of developing prescription drug products. These new products are based on patent applications that the Company has acquired. The Company's potential products are currently undergoing research and testing and will require substantial resources to develop these applications into commercial products. The successful conclusion of such research is dependent on regulatory approval and may take several years.

Darius' product for resale is sourced from several suppliers. In the event that such sources were no longer in a position to supply Darius with product, other vendors have been identified as reliable alternatives with minimal adverse loss of business.

Currently, the principal finished products relating to Caribbean Pacific Natural Products are being manufactured and blended by a single vendor. In the event of difficulties with the current sources of raw material or finished product, other suppliers have been identified. However, this could result in a temporary delay in production.

#### Long-lived assets

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The statement retains the previously existing accounting requirements related to the recognition and measurement of the impairment of long-lived assets to be held and used while expanding the measurement requirements of long-lived assets to be disposed of by sale to include discontinued operations. It also expands the previously existing reporting requirements for discontinued operations to include a component of an entity that either has been disposed of or is classified as held for sale. The Company implemented SFAS No. 144 on January 1, 2002. The implementation of SFAS 144 did not have a material impact on the Company's consolidated financial position or results of operations.

The Company reviews its long-lived assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through future cash flows. If it is determined that an impairment loss has occurred based on the expected cash flows, a loss will be recognized in the Statement of Operations.

#### Revenue Recognition

Sales are recognized at the time ownership is transferred to the customer. Provisions for estimated product returns are accrued in the period of sale recognition.

#### Coupons, Rebates and Discounts

In May 2000, the Emerging Issues Task Force ("EITF") issued EITF No. 00-14, "Accounting for Coupons, Rebates and Discounts" that addressed accounting for sales incentives. The Task Force concluded that in accounting for cash sales incentives a manufacturer should recognize the incentive as a reduction of revenue on the later date of the manufacturer's sale or the date the offer is made to the public. The reduction of revenues should be measured based on the estimated amount of incentives to be claimed by the ultimate customers. This pronouncement was adopted in the first quarter of fiscal 2001.

In August 2001, the EITF issued EITF No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products" that codified and reconciled EITF No. 00-14, No. 00-22, "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future" and No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF No. 01-09 addresses the accounting for consideration given by a vendor to a customer. The Task Force concluded that cash consideration (including a sales incentive) given by a vendor to a customer is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when

recognized in the vendor's income statement. That presumption is overcome and the consideration should be characterized as a cost incurred if, and to the extent that, a benefit is or will be received from the recipient of the consideration that meets both of the following conditions: (1) The vendor receives, or will receive, an identifiable benefit (goods or services) in return for the consideration. The identified benefit must be sufficiently separable from the recipient's purchase of the vendor's products such that the vendor could have entered into an exchange transaction with a party other than a purchaser of its products in order to receive that benefit.; (2) The vendor can reasonably estimate the fair value of the benefit identified. This pronouncement was adopted in the first quarter of 2002.

#### Shipping and Handling

In September 2000, the Emerging Issues Task Force ("EITF") reached a final consensus on issue EITF No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." The Task Force concluded that amounts billed to customers related to shipping and handling should be classified as revenue. Further, the Task Force stated that shipping and handling cost related to this revenue should either be recorded in costs of goods sold or the Company should disclose where these costs are recorded and the amount of these costs. The Company adopted this principle during the fourth quarter of fiscal year 2000.

#### Stock Compensation

FASB Interpretation, or FIN, No. 44, "Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25," clarifies the application of APB No. 25 for certain issues. FIN 44 clarifies the definition of employee for purposes of applying APB No. 25, the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequences of various modifications to the terms of a previously fixed option or award, and the accounting for an exchange of share compensation awards in a business combination, among others.

#### Royalties

The Company includes royalties and founders commissions incurred as cost of products sold based on agreement terms.

#### Advertising

Advertising costs are expensed within the period to which they relate. Advertising expense is made up of media advertising, presented as part of sales and marketing expense; co-operative advertising, which is accounted for as a deduction from sales; and free product, which is accounted for as part of cost of sales. Advertising costs incurred for the three months periods ended March 31, 2002 and 2001 were \$750,666 and \$1,032,543, respectively. Included in prepaid expenses and other current assets was \$165,000 and \$427,550 at March 31, 2002 and 2001, respectively, relating to prepaid advertising and promotion expenses.

#### Research and Development

Research and development costs are charged to operations in the year incurred. Expenditures for the three months periods ended March 31, 2002 and 2001 were \$610,884 and \$247,533, respectively. Principally, the increase of Research and Development costs in 2002 was due to expenses incurred as part of the product research costs related to Quigley Pharma. Quigley Pharma is currently involved in research activity following patent applications that the Company has acquired and such research and development costs relating to potential products are expected to increase significantly over time as product research and testing progresses.

#### Income Taxes

The Company utilizes an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law or rates. See Note 5 for further discussion.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and accompanying notes for the fiscal year ended December 31, 2001, in the Company's Form 10-K.

NOTE 3 - SEGMENT INFORMATION

The basis for presenting segment results generally is consistent with overall Company reporting. The primary difference relates to presentation of partially-owned operations, which are presented as if owned 100% in the operating segments. The adjustment to ownership basis is included in Corporate & Other.

The Company has divided its operations into four reportable segments: The Quigley Corporation (Cold Remedy Products), whose main product is Cold-Eeze(R), a proprietary zinc gluconate glycine lozenge for the common cold; Darius (Health and Wellness) whose business is the sale and direct marketing of a range of health and wellness products; Caribbean Pacific Natural Products, Inc. (Sun-care and Skincare Products), a leading developer and marketer of all-natural sun-care and skincare products for luxury resorts, theme parks and spas and Quigley Pharma (Ethical Pharmaceutical Products), currently involved in research and development activity to develop patent applications into commercial pharmaceutical products.

Financial information by business segment follows:

As of and for the three months ended March 31, 2002	Cold Remedy Products	Health and Wellness	Sun-care and Skincare Products	Ethical Pharmaceutical Products	Corporate and Other	Total
Net Sales						
Customers	\$2,629,923	\$2,354,608	\$524,874	-	-	\$5,509,405
Inter-segment	-	-	-	-	-	-
Segment operating profit (loss)	(1,527,164)	52,059	28,500	(\$311,041)	\$12,021	(1,745,625)
Total Assets	\$24,087,541	\$1,174,957	\$1,044,491	-	(\$3,937,718)	\$22,369,271

As of and for the three months ended March 31, 2002	Cold Remedy Products	Health and Wellness	Sun-care and Skincare Products	Ethical Pharmaceutical Products	Corporate and Other	Total
Net Sales						
Customers	\$3,286,171	\$775,518	\$643,779	-	-	\$4,705,468
Inter-segment	(712)	294,202	-	-	(\$293,490)	-
Segment operating Profit (loss)	(318,378)	(192,923)	(2,018)	(\$32,626)	(9,257)	(555,202)
Total Assets	\$24,343,891	\$1,498,435	\$1,350,670	-	(\$3,377,544)	\$23,815,452

NOTE 4 - TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

Since the inception of the stock buy-back program in January 1998, the Board has subsequently increased the authorization on five occasions, for a total authorized buy-back of 5,000,000 shares or approximately 38% of the previous shares outstanding. Such shares are reflected as treasury stock and will be available for general corporate purposes. From the initiation of the plan, 4,159,191 shares have been repurchased at a cost of \$24,042,801 or an average cost of \$5.78 per share.

As a result of the litigation relating to the case against Nutritional Foods Corporation, in March of 1998, a subsequent order of the Court of Common Pleas of Bucks County modified the decree of January 23, 1997 to provide for a return to treasury of 604,928 shares to the Company. As payment for legal services, 118,066 of these shares were reissued with a market value of approximately \$1,145,358. This value, the cost of reacquiring these shares, then became the value of the net treasury stock (\$2.35 per share) represented by 486,862 shares returned to treasury.

On April 9, 2002, The Quigley Corporation entered into an agreement with Forrester Financial LLC, ("Forrester") providing for Forrester to act as a financial consultant to the Company. The consulting agreement commenced on March 7, 2002 and has a term of twelve months, but may be terminated by the Company in its sole discretion at any time. As compensation for services to be provided by Forrester to the Company, the Company granted to Forrester, or its designees, warrants to purchase up to a total of 1,000,000 shares of the Company's common stock. The warrants have three distinct exercise prices, they being, 500,000 warrants are exercisable at \$6.50 per share, 250,000 warrants are exercisable at \$8.50 per share, and 250,000

warrants are exercisable at \$11.50 per share. The warrants are exercisable until the earlier to occur of (i) March 6, 2003 or (ii) the termination of the

Consulting Agreement. In the three months ended March 31, 2002, the Company recorded an expense of \$700,000 relating to the grant.

At March 31, 2002, there were 4,959,000 unexercised and vested options and warrants of the Company's stock available for exercise.

NOTE 5 - INCOME TAXES

Certain exercises of options and warrants, and restricted stock issued for services that became unrestricted resulted in reductions to taxes currently payable and a corresponding increase to additional-paid-in-capital for years prior to 1999. The tax benefit effect of option and warrant exercises during 2000 and 1999 were \$230,998 and \$697,208, respectively. However, these benefits were deferred because of a net operating loss carry-forward for tax purposes ("NOLs") that occurred during the fourth quarter of 1999, resulting from a cumulative effect of deducting a total value of \$42,800,364 attributed to these options, warrants and unrestricted stock deductions from taxable income during the tax years 1997 and 1998. The net operating loss carry-forwards arising from the option, warrant and stock activities approximate \$10.4 million for federal purposes, of which \$3.5 million will expire in 2019, \$6.9 million in 2020; and \$15.6 million for state purposes, of which \$9.7 million will expire in 2009, \$3.3 million in 2010 and \$2.6 million in 2011. Until sufficient taxable income to offset the temporary timing differences attributable to operations and the tax deductions attributable to option, warrant and stock activities are assured, a valuation allowance equaling the total deferred tax asset is being provided.

NOTE 6 - EARNINGS PER SHARE

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to Common Stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in the earnings of the entity. Diluted EPS also utilizes the treasury stock method that prescribes a theoretical buy-back of shares from the theoretical proceeds of all options and warrants outstanding during the period. Since there are 4,959,000 options and warrants outstanding, fluctuations in the actual market price can have a varying of results for each period presented. For the periods presented that reflect losses, no effect was given for options and warrants because the result would be anti-dilutive.

A reconciliation of the applicable numerators and denominators of the income statement periods presented is as follows (millions, except earnings per share amounts):

	Three Months Ended March 31, 2002			Three Months Ended March 31, 2001		
	Loss	Shares	EPS	Loss	Shares	EPS
Basic EPS	(\$1.7)	10.7	(\$0.16)	(\$0.4)	10.7	(\$0.04)
Dilutives: Options/Warrants	-	-		-	-	
Diluted EPS	(\$1.7)	10.7	(\$0.16)	(\$0.4)	10.7	(\$0.04)

NOTE 7 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has sales brokerage and other arrangements with entities whose major stockholders are also stockholders of The Quigley Corporation, or are related to major stockholders of the Company. Commissions and other items paid or payable under such arrangements amounted to approximately \$33,230 and \$40,018 respectively, for the three-months periods ended March 31, 2002 and 2001.

The Company is in the process of acquiring licenses in certain countries through related party entities. For the three-months periods ended March 31, 2002 and 2001, fees amounting to \$68,250 and \$68,470, respectively, have been paid to a related entity to assist with the regulatory aspects of obtaining such licenses.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Company maintains certain royalty and founders commission agreements with the developers, licensors, founders, and consultants for the Cold-Eeze(R) products. Up to March 5, 2002, these payments were 13% of sales collected less certain

deductions and thereafter at 10%. Of the 13%, up to March 2002, a three percent royalty on sales collected less certain deductions was payable to the patent holder whose agreement expired on March 5, 2002. A three percent royalty of sales collected less certain deductions is payable to the developer of the product formulation together with a two percent consulting fee based on an agreement that expires in 2007. Additionally, a founders' commission is payable

totaling 5% of sales collected less certain deductions, which is shared by two of the officers whose agreements expire in 2005.

Also, required for the acquisition of certain assets of a privately held company involved in the direct marketing and distribution of health and wellness products are continuous payments for the use of product formulations; consulting; confidentiality and non-compete fees that are 5% on net sales collected for the continuous applications of these arrangements.

On April 9, 2002, The Quigley Corporation entered into an agreement with Forrester Financial LLC, providing for Forrester to act as a financial consultant to the Company. The consulting agreement commenced on March 7, 2002 and has a term of twelve months, but may be terminated by the Company in its sole discretion at any time. As compensation for services to be provided by Forrester to the Company, the Company granted to Forrester, or its designees, warrants to purchase up to a total of 1,000,000 shares of the Company's common stock at three specific exercise prices. The warrants are exercisable until the earlier to occur of (i) March 6, 2003 or (ii) the termination of the Consulting Agreement. In the three months ended March 31, 2002, the Company recorded an expense of \$700,000 relating to the grant.

The Company has anticipated commitments for advertising and other purchases amounting to approximately \$1,400,000.

A Special Meeting of the Quigley stockholders was held on October 15, 1999, at which a majority of the shares entitled to vote adopted a Corrective Action Proposal (initially reported in the Company's Form 10-Q for the quarter ending June 30, 1999) to ratify actions previously taken by the Company relating to the 1990 1 for 2.74 reverse split, the 1995 1 for 10 reverse split (the "Reverse Splits") and the 1997 1 for 2 forward split (the "Forward Split"). Pursuant to the October 15, 1999 Special Meeting, the Company authorized the filing of a declaratory judgment action in Nevada to determine the effectiveness of the Corrective Action.

In August 2000, the District Court of Clark County, Nevada, held that it had jurisdiction to decide the Company's declaratory judgment action filed in April, 2000, against two putative shareholders (Thomas Goldblum and Alan Wayne), in which the Company seeks a judicial declaration that, based on stockholder approval of the Corrective Action Proposal, the Reverse Splits and Forward Split satisfy and/or comply with Nevada law and that the capitalization of Quigley evidenced by the issued and outstanding shares of common stock and common stock warrants is as reflected on Quigley's stock transfer ledger on September 10, 1999, the record date of the Special Meeting. The District Court of Clark County held a hearing on this matter on March 19, 2002 and ruled in favor of The Quigley Corporation. A final order and judgment has not been entered of record by the Court to date. When a judgment is entered, the defendants will have 30 days to file an appeal with the Nevada Supreme Court. No prediction can be made as to the outcome of this case.

An underlying claim filed by Goldblum and Wayne in the Court of Common Pleas of Montgomery County, Pennsylvania on March 17, 1996 alleging that the plaintiffs became owners of 500,000 shares each of the Company's common stock in or about 1990 and requested damages in excess of \$100,000 for breach of contract and conversion.

The Company is vigorously defending this lawsuit and has denied any liability to the plaintiffs. The Company also believes that the plaintiffs' claims are barred by the applicable statutes of limitations, and that the plaintiffs are, in any event, limited to claims for approximately 36,000 shares. The Company continues to believe that the plaintiffs' claims are without merit but certain pre-trial discovery remains incomplete and no prediction can be made as to the outcome of this case.

#### NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS

##### SFAS 143

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is required to implement SFAS No. 143 on January 1, 2003. Management does not expect this statement to have a material impact on the Company's consolidated financial position or results of operations.

#### Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this Report contains forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to management of growth, competition, pricing pressures on the Company's product, industry growth and general economic conditions. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the

date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. The Company is subject to a variety of additional factors more fully described in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Overview  
- - - - -

Revenues for the three months periods ended March 31, 2002 and 2001 were \$5,658,271 and \$4,705,468, respectively. Revenue for the three months ended March 31, 2002 includes an amount of \$148,866 for licensing fees from the settlement of a lawsuit following the filing by The Quigley Corporation of a patent infringement suit against Gel Tech, LLC, the developer of Zicam(TM), and Gum Tech International, Inc., its distributor, in November 1999. Under the agreement, Gum Tech agreed to pay The Quigley Corporation \$1,137,500 for a limited license for Quigley's patent on the use of zinc gluconate for the treatment of the duration and symptoms of the common cold. Gum Tech was also required to pay The Quigley Corporation an ongoing royalty of 5.5 percent from April 1, 2001 through March 5, 2002 on all Zicam cold relief sales receipts. In addition, Gum Tech guaranteed to pay Quigley a minimum of \$500,000 in ongoing royalties regardless of sales receipts through March 5, 2002, that actually totaled \$557,957 for the period. Legal and other expenses associated with this lawsuit approximated \$700,000.

Net sales of the Cold-Eeze(R) products were reduced in 2002 over the comparable 2001 period by approximately \$650,000. Despite the increase in the incidence of illnesses during the cough/cold season, the consumer demand for the majority of cold remedies was reduced. Additionally, as the economy remains uncertain, our customers continue to manage inventory levels thereby impacting the frequency and value of orders placed.

The Company continues to support Cold-Eeze(R) through ongoing co-operative advertising with our customers with strong promotional activity at store level and directly with our consumer at the point of purchase.

Darius International Inc., and Caribbean Pacific Natural Products, Inc., contributed combined revenues of \$2,879,482 and \$1,419,298 for the three months periods ended March 31, 2002 and 2001, respectively.

The business of Caribbean Pacific Natural Products is being adversely affected by the downturn in the travel and leisure business and the success of its product lines is heavily influenced by economic conditions and current travel events.

Net income for the three months ended March 31, 2002 was negatively impacted by the reduction in margin as a result of the higher proportion of Darius sales to the total consolidated sales as compared to the same period 2001. Operating expenses were also influenced in 2002 by a \$700,000 charge relating to the granting of 1,000,000 warrants to Forrester Financial, LLC in March 2002 and research and development expenditures incurred in 2002 by Quigley Pharma for potential product testing and development.

The Company continues to use the resources of contract manufacturers and independent national and international brokers to represent and compliment sales of the Company's Cold-Eeze(R) products, thereby saving capital and other ongoing expenditures that would otherwise be incurred.

The Company currently uses three separate suppliers to produce Cold-Eeze(R) in lozenge, bubble gum, and sugar free tablet form. Other products of the Company and its subsidiaries are manufactured by third parties that produce a variety of other products for other customers. Should these relationships terminate or discontinue for any reason, the Company has formulated a contingency plan in order to prevent such discontinuance from materially affecting the Company's operations. Any such termination may, however, result in a temporary delay in production until the replacement facility is able to meet the Company's production requirements.

Raw material used in the production of certain products are available from numerous sources. Currently, certain materials are being procured from a single source vendor in order to secure purchasing economies. In a situation where one vendor is not able to supply the contract manufacturer with the ingredients, other sources have been identified. All manufacturing sites have the capacity to respond quickly to market requirements.

Effect of Recent Accounting Pronouncements  
- - - - -

Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products

In August 2001, the EITF issued EITF No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products" that codified and reconciled EITF No. 00-14, No. 00-22, "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future" and No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF No. 01-09 addresses the accounting for consideration

given by a vendor to a customer. The Task Force concluded that cash consideration (including a sales incentive) given by a vendor to a customer is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration should be characterized as a cost incurred if, and to the extent that, a benefit is or will be received from the recipient of the consideration that meets both of the following conditions: (1) The vendor receives, or will receive, an identifiable benefit (goods or services) in return for the consideration. The identified benefit must be sufficiently separable from the recipient's purchase of the vendor's products such that the vendor could have entered into an exchange transaction with a party other than a purchaser of its products in order to receive that benefit; (2) The vendor can reasonably estimate the fair value of the benefit identified. This pronouncement was adopted in the first quarter of 2002.

#### SFAS 143

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is required to implement SFAS No. 143 on January 1, 2003. Management does not expect this statement to have a material impact on the Company's consolidated financial position or results of operations.

#### Significant Accounting Policies

As previously described, the Company is engaged in the development, manufacturing, and marketing of health and homeopathic products that are being offered to the general public. Due to the nature of the business, it is unlikely that any accounting policies, that are open to interpretation, could have a material effect on the Company's results of operations. Certain key accounting policies that may affect the results of the Company are the timing of revenue recognition and sales incentives (including coupons, rebates and discounts); the classification of advertising expenses; and the fact that all research and development expenses are expensed as incurred. Note 1 to the consolidated financial statements describes the Company's other significant accounting policies.

#### Revenue Recognition

Sales are recognized at the time ownership is transferred to the customer. Provisions for estimated product returns are accrued in the period of sale recognition.

#### Coupons, Rebates and Discounts

In May 2000, the Emerging Issues Task Force ("EITF") issued EITF No. 00-14, "Accounting for Coupons, Rebates and Discounts" that addressed accounting for sales incentives. The Task Force concluded that in accounting for cash sales incentives a manufacturer should recognize the incentive as a reduction of revenue on the later date of the manufacturer's sale or the date the offer is made to the public. The reduction of revenues should be measured based on the estimated amount of incentives to be claimed by the ultimate customers. This pronouncement was adopted in the first quarter of fiscal 2001.

In August 2001, the EITF issued EITF No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products" that codified and reconciled EITF No. 00-14, No. 00-22, "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future" and No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF No. 01-09 addresses the accounting for consideration given by a vendor to a customer. The Task Force concluded that cash consideration (including a sales incentive) given by a vendor to a customer is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration should be characterized as

17

a cost incurred if, and to the extent that, a benefit is or will be received from the recipient of the consideration that meets both of the following conditions: (1) The vendor receives, or will receive, an identifiable benefit (goods or services) in return for the consideration. The identified benefit must be sufficiently separable from the recipient's purchase of the vendor's products such that the vendor could have entered into an exchange transaction with a party other than a purchaser of its products in order to receive that benefit; (2) The vendor can reasonably estimate the fair value of the benefit identified. This pronouncement was adopted in the first quarter of 2002.

#### Advertising

Advertising costs are expensed within the period to which they relate.

Advertising expense is made up of media advertising, presented as part of sales and marketing expense; co-operative advertising, which is accounted for as a deduction from sales; and free product, which is accounted for as part of cost of sales. Advertising costs incurred for the three months periods ended March 31, 2002 and 2001 were \$750,666 and \$1,032,543, respectively. Included in prepaid expenses and other current assets was \$165,000 and \$427,550 at March 31, 2002 and 2001, respectively, relating to prepaid advertising and promotion expenses.

#### Research and Development

Research and development costs are charged to operations in the year incurred. Expenditures for the three months periods ended March 31, 2002 and 2001 were \$610,884 and \$247,533, respectively. Principally, the increase of Research and Development costs in 2002 was due to expenses incurred as part of the product research costs related to Quigley Pharma. Quigley Pharma is currently involved in research activity following patent applications that the Company has acquired and such research and development costs relating to potential products are expected to increase significantly over time as product research and testing progresses.

18

#### Results of Operations

-----  
Three months ended March 31, 2002 compared to three months ended March 31, 2001  
-----

For the three months ended March 31, 2002, the Company reported revenues of \$5,658,271 and a net loss of \$1,700,768 as compared to revenues of \$4,705,468 and a net loss of \$402,909, for the comparable period ended March 31, 2001. Cold-Eeze(R) sales were reduced in 2002 due to reduced consumer demand for cold remedy products despite increases in the number of cough/cold illnesses. Additionally, our Cold-Eeze(R) customers appear to be managing their inventory levels more efficiently resulting in reduced order frequency. Darius continues to grow with 2002 sales of \$2,354,608 compared to the 2001 level of \$775,518. Caribbean Pacific continues to be adversely affected by the "September 11 terrorist attack" and the impact this has had on the travel and leisure industry.

Cost of Sales as a percentage of sales before co-operative advertising promotions for the three months ended March 31, 2002 was 47% compared to 36% for the comparable period ended March 31, 2001. The 2002 results reflect a higher cost of sales due to the greater proportion of sales represented by Darius in 2002 (40.7% of consolidated 2002 sales as compared to 14.9% of consolidated 2001). The Darius cost of goods is significantly higher relative to Cold-Eeze(R) and Caribbean Pacific products, thereby increasing the overall percentage.

For the three months ended March 31, 2002, total operating expenses were \$4,660,311 compared to \$3,380,021 for the comparable period ended March 31, 2001. The 2002 expenditures reflects a charge of \$700,000, using the Black Scholes model, resulting from an agreement between The Quigley Corporation and Forrester Financial LLC providing for Forrester to act as a financial consultant to the Company. As compensation for services to be rendered by Forrester to the Company, the Company granted to Forrester, or its designees, warrants to purchase up to 1,000,000 shares of the Company's common stock. Also, the 2002 results include increased research and development costs associated with Quigley Pharma of approximately \$278,000.

Net income for the three months ended March 31, 2002 was negatively impacted by the reduction in margin as a result of the higher proportion of Darius sales to the total consolidated sales as compared to the same period 2001. Operating expenses were also influenced in 2002 by a \$700,000 charge relating to the granting of 1,000,000 warrants to Forrester Financial, LLC in March 2002 and also the research and development expenditure incurred in 2002 by Quigley Pharma for potential product testing and development.

During the three months ended March 31, 2002, the major operating expenses of salaries, brokerage commissions, promotion, media advertising, and legal costs accounted for \$2,930,935 (63%) of total operating costs. These expense categories for the comparable period in 2001 accounted for \$1,676,757 (50%) of total operating costs. The remaining items for the periods were of a semi-fixed nature in that they do not strictly follow sales trends.

#### Liquidity and Capital Resources

-----  
The total assets of the Company at March 31, 2002 and December 31, 2001 were \$22,369,271 and \$24,755,795, respectively. Working capital decreased to \$16,973,918 from \$18,625,819 during the period. The significant movement within total assets represents the decrease in accounts receivable of \$2,368,948, cash and cash equivalents increased by \$1,010,223, prepaid expenses and other current assets decreased by \$447,307, inventory decreased by \$531,625. From a working capital perspective, accounts payable decreased by \$310,414 and accrued royalties and sales commissions decreased over the period by \$444,672 while the



advertising accrual decreased by \$343,618. Total cash balances at March 31, 2002 were \$10,751,063, as compared to \$9,740,840 at December 31, 2001.

The Company believes that its increased marketing efforts and national publicity concerning the Cold-Eeze(R) products, the Company's manufacturing availability, newly available products, growth in international sales together with its current working capital should provide an internal source of capital to fund the Company's business operations. In addition to anticipated funding from operations, the Company may raise capital through the issuance of equity securities to finance anticipated growth.

Notwithstanding previous period negative cash flows from operations, management believes amounts of cash on hand as well as those current assets readily convertible to cash will provide adequate liquidity to support future operations. Any challenge to the Company's patent rights could have a material adverse effect on future liquidity of the Company; however, the Company is not aware of any condition that would make such an event probable.

19

#### Capital Expenditures

- - - - -

Since the Company's products are manufactured by outside sources, capital expenditures during the remainder of 2002 are not anticipated to be material.

#### Item 3: Quantitative and Qualitative Disclosures about Market Risk

Not Applicable

#### Part II. Other Information

- - - - -

#### Item 1. Legal Proceedings

##### GOLDBLUM AND WAYNE

A Special Meeting of the Quigley stockholders was held on October 15, 1999, at which a majority of the shares entitled to vote adopted a Corrective Action Proposal (initially reported in the Company's Form 10-Q for the quarter ending June 30, 1999) to ratify actions previously taken by the Company relating to the 1990 1 for 2.74 reverse split, the 1995 1 for 10 reverse split (the "Reverse Splits") and the 1997 1 for 2 forward split (the "Forward Split"). Pursuant to the October 15, 1999 Special Meeting, the Company authorized the filing of a declaratory judgment action in Nevada to determine the effectiveness of the Corrective Action.

In August 2000, the District Court of Clark County, Nevada, held that it had jurisdiction to decide the Company's declaratory judgment action filed in April, 2000, against two putative shareholders (Thomas Goldblum and Alan Wayne), in which the Company seeks a judicial declaration that, based on stockholder approval of the Corrective Action Proposal, the Reverse Splits and Forward Split satisfy and/or comply with Nevada law and that the capitalization of Quigley evidenced by the issued and outstanding shares of common stock and common stock warrants is as reflected on Quigley's stock transfer ledger on September 10, 1999, the record date of the Special Meeting. The District Court of Clark County held a hearing on this matter on March 19, 2002 and ruled in favor of The Quigley Corporation. A final order and judgment has not been entered of record by the Court to date. When a judgment is entered, the defendants will have 30 days to file an appeal with the Nevada Supreme Court. No prediction can be made as to the outcome of this case.

An underlying claim filed by Goldblum and Wayne in the Court of Common Pleas of Montgomery County, Pennsylvania on March 17, 1996 alleging that the plaintiffs became owners of 500,000 shares each of the Company's common stock in or about 1990 and requested damages in excess of \$100,000 for breach of contract and conversion.

The Company is vigorously defending this lawsuit and has denied any liability to the plaintiffs. The Company also believes that the plaintiffs' claims are barred by the applicable statutes of limitations, and that the plaintiffs are, in any event, limited to claims for approximately 36,000 shares. The Company continues to believe that the plaintiffs' claims are without merit but certain pre-trial discovery remains incomplete and no prediction can be made as to the outcome of this case.

#### Item 2. Changes in Securities

None

#### Item 3. Defaults Upon Senior Securities

None

#### Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

20

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

On April 11, 2002, the Registrant filed a Current Report on Form 8-K for the following event:

The Company reported under:

Item 5. Other Events

On April 9, 2002, the Company signed a Consulting Agreement effective March 7, 2002 with Forrester Financial, LLC, ("Forrester") providing for Forrester to act as a financial consultant to the Company. The Consulting Agreement commenced on March 7, 2002 and has a term of 12 months but may be terminated by the Company, in its sole discretion at any time.

21

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE QUIGLEY CORPORATION

By: /s/ George J. Longo  
-----  
George J. Longo  
Vice President, Chief Financial Officer

Date: April 30, 2002