

Edgar Filing: FRANKLIN CAPITAL CORP - Form 10-Q

FRANKLIN CAPITAL CORP  
Form 10-Q  
August 14, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities and Exchange Act of 1934

For the Quarterly period ended JUNE 30, 2003

or

Transition report pursuant to Section 13 or 15(d) of the  
Securities and Exchange Act of 1934

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

Commission File No. \_1-9727\_

FRANKLIN CAPITAL CORPORATION  
(Exact name of registrant specified in its charter)

DELAWARE 13-3419202 .  
-----  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

450 PARK AVENUE, 20TH FLOOR, NEW YORK, NEW YORK 10022 .  
-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (212) 486-2323 .  
-----

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 Corporation was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes \_\_\_\_\_ No

The number of shares of common stock outstanding as of August 8, 2003 was 1,040,100.

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SIGNATURE

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FORWARD LOOKING STATEMENTS

WHEN USED IN THIS QUARTERLY REPORT ON FORM 10-Q, THE WORDS "BELIEVES," "ANTICIPATES," "EXPECTS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. STATEMENTS LOOKING FORWARD IN TIME ARE INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF. THE CORPORATION UNDERTAKES NO OBLIGATION TO PUBLICLY REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES OCCURRING AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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The information furnished in the accompanying financial statements reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period presented.

FRANKLIN CAPITAL CORPORATION

BALANCE SHEETS

ASSETS

Marketable investment securities, at market value (cost: June 30, 2003 - \$26,249, December 31, 2002 - \$34,675) (Note 2)  
 Investments, at fair value (cost: June 30, 2003 - \$2,476,804; December 31, 2002 - \$2,476,804) (Note 2)  
     Excelsior Radio Networks, Inc.  
     Other investments

Cash and cash equivalents (Note 2)  
 Other assets

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Note payable  
 Accounts payable and accrued liabilities

TOTAL LIABILITIES

Commitments and contingencies (Note 5)

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### STOCKHOLDERS' EQUITY

Convertible preferred stock, \$1 par value, cumulative 7% dividend: 5,000,000 shares authorized; 10,950 issued and outstanding at June 30, 2003 and December 31, 2002, respectively (Liquidation preference \$1,095,000) (Note 4)	10
Common stock, \$1 par value: 5,000,000 shares authorized; 1,505,888 shares issued: 1,040,100 and 1,049,600 shares outstanding at June 30, 2003 and December 31, 2002, respectively (Note 7)	1
Paid-in capital	1
Unrealized appreciation of investments, net of deferred income taxes (Notes 2 and 3)	(8)
Accumulated deficit	4
Deduct: 465,788 and 456,288 shares of common stock held in treasury, at cost, at June 30, 2003 and December 31, 2002, respectively (Note 4)	(2)
Net assets (See Note 9 for per share information)	2

### TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$3

The accompanying notes are an integral part of these financial statements.

### FRANKLIN CAPITAL CORPORATION

#### STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
<b>INVESTMENT INCOME</b>		
Interest and dividend income	\$80	\$560
Management fees	45,000	120,000
	45,080	120,560
<b>EXPENSES</b>		
Salaries and employee benefits	135,629	212,115
Professional fees	72,605	35,325
Rent	26,079	28,242
Insurance	17,910	10,982
Directors' fees	2,001	501
Taxes other than income taxes	9,358	9,194
Newswire and promotion	-	999
Depreciation and amortization	4,243	4,242
Interest expense	8,850	8,850

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Expenses related to proposed merger	-	200,000
General and administrative	46,331	44,565
	-----	-----
	323,006	555,015
	-----	-----
Net investment loss from operations	(277,926)	(434,455)
Net realized loss on portfolio of investments:		
Investment securities:		
Affiliated	-	-
Unaffiliated	-	(309,209)
	-----	-----
Net realized loss on portfolio of investments	-	(309,209)
	-----	-----
Net realized loss	(277,926)	(743,664)
(Decrease) increase in unrealized appreciation of investments		
Investment securities:		
Affiliated	(524,599)	3,000,000
Unaffiliated	-	(1,585)
	-----	-----
(Decrease) increase in unrealized appreciation of investments	(524,599)	2,998,415
	-----	-----
Net (decrease) increase in net assets from operations	(802,525)	2,254,751
Preferred dividends	19,163	28,787
	-----	-----
Net (decrease) increase in net assets attributable to common stockholders	(\$821,688)	\$2,225,964
	=====	=====
Basic and diluted net (decrease) increase in net assets per common share (Note 8)	(\$0.79)	\$2.08
	=====	=====

The accompanying notes are an integral part of these financial statements.

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FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS  
(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30,

2003

Cash flows from operating activities:

Net (decrease) increase in net assets from operations	(\$1,028,708)
Adjustments to reconcile net (decrease) increase in net assets from operations to net cash used in operating activities:	
Depreciation and amortization	8,487
Decrease (increase) in unrealized appreciation of investments	477,055
Net realized loss on portfolio of investments	-

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Changes in operating assets and liabilities:	
Decrease in other assets	10,093
Increase in accounts payable and accrued liabilities	132,975
	-----
Total adjustments	628,610
	-----
Net cash used in operating activities	(400,098)
	-----
Cash flows from investing activities:	
Proceeds from sale of other investments	-
Loan payments from majority-owned affiliate	-
Proceeds from sale of marketable investment securities	8,426
Purchase of majority-owned affiliates	(87,444)
Proceeds from sale of majority-owned affiliate	87,444
Purchases of marketable investment securities	-
	-----
Net cash provided by investing activities	8,426
	-----
Cash flows from financing activities:	
Payment of preferred dividends	(38,327)
Decrease in note payable	(7,110)
Proceeds for conversion right	-
Purchases of treasury stock	(13,561)
	-----
Net cash (used in) provided by financing activities	(58,998)
	-----
Net decrease in cash and cash equivalents	(450,670)
Cash and cash equivalents at beginning of period	562,191
	-----
Cash and cash equivalents at end of period	\$ 111,521
	=====

The accompanying notes are an integral part of these financial statements.

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS  
(UNAUDITED)

THREE MONTHS ENDED	
JUNE 30,	
2003	2002

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Decrease in net assets from operations:		
Net investment loss	(\$277,926)	(\$434,455)
Net realized loss on portfolio of investments,	-	(309,209)
(Decrease) increase in unrealized appreciation of investments	(524,599)	2,998,415
	-----	-----
Net (decrease) increase in net assets from operations	(802,525)	2,254,751
Capital stock transactions:		
Payment of dividends on preferred stock	(19,163)	(28,787)
Proceeds for conversion right	-	300,000
Purchase of treasury stock	(3,556)	(35,246)
	-----	-----
Total (decrease) increase in net assets	(825,244)	2,490,718
	-----	-----
Net assets at beginning of period	3,012,188	2,652,842
	-----	-----
Net assets at end of period	\$2,186,944	\$5,143,560
	=====	=====

The accompanying notes are an integral part of these financial statements.

FRANKLIN CAPITAL CORPORATION

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PORTFOLIO OF INVESTMENTS

-----

MARKETABLE INVESTMENT SECURITIES

-----

JUNE 30, 2003 (2)

-----

Certificate of Deposit - 1.05%, due 08/04/2003

Total Marketable Investment Securities (0.7% of total investments and 1.2% of net assets)

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INVESTMENTS, AT FAIR VALUE

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JUNE 30, 2003(2)	INVESTMENT	EQUITY INTEREST
MAJORITY OWNED AFFILIATE		
Excelsior Radio Networks, Inc.	Common stock and warrants	59.07%
Total Excelsior Radio Networks, Inc. (70.7% of total investments and 113.4% of net assets) (Radio production and advertising sales)		29.26% (fully dil)
OTHER INVESTMENTS		
Alacra Corporation (28.5% of total investments and 45.7% of net assets)  (Internet-based information provider)  Investments, at Fair Value	Convertible Preferred Stock	1.68%

(1) Book cost equals tax cost for all investments

(2) Total investments refers to investments and marketable investment securities.

The accompanying notes are an integral part of these financial statements.

FRANKLIN CAPITAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

1. DESCRIPTION OF BUSINESS

Franklin Capital Corporation ("Franklin", or the "Corporation") is a Delaware corporation operating as a Business Development Company ("BDC") under the Investment Company Act of 1940 (the "Act"). A BDC is a specialized type of investment company under the Act. A BDC must be primarily engaged in the business of furnishing capital and making available managerial expertise to companies that do not have ready access to capital through conventional financial channels. Such companies are termed "eligible portfolio companies". The Corporation, as a BDC, generally may invest in other securities; however, such investments may not exceed 30% of the Corporation's total asset value at the time of any such investment.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. The Corporation has a working capital deficiency of approximately \$1,400,000 at June 30, 2003. (Working capital is defined as total liabilities less liquid assets.) This condition raises substantial doubt about the Corporation's ability to continue as a going concern. The Corporation is currently seeking financing. There can be no



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assurance that the Corporation would be able to obtain alternative financing. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

#### STATEMENTS OF CASH FLOWS

For purposes of the Statements of Cash Flows, Franklin considers only highly liquid investments such as money market funds and commercial paper with maturities of 90 days or less at the date of their acquisition to be cash equivalents.

The Corporation paid no interest or income taxes during the six months ended June 30, 2003 and 2002.

At June 30, 2003 and 2002, the Corporation held cash and cash equivalents primarily in money market funds at one commercial banking institution.

#### VALUATION OF INVESTMENTS

Security investments which are publicly traded on a national exchange or Nasdaq Stock Market are stated at the last reported sales price on the day of valuation or, if no sale was reported on that date, then the securities are stated at the last quoted bid price. The Board of Directors of Franklin (the "Board of Directors") may determine, if appropriate, to discount the value where there is an impediment to the marketability of the securities held.

Investments for which there is no ready market are initially valued at cost and, thereafter, at fair value based upon the financial condition and operating results of the issuer and other pertinent factors as determined in good faith by the Board of Directors. The financial condition and operating results have been derived utilizing both audited and unaudited data. In the absence of a ready market for an investment, numerous assumptions are inherent in the valuation process. Some or all of these assumptions may not materialize. Unanticipated events and circumstances may occur subsequent to the date of the valuation and values may change due to future events. Therefore, the actual amounts

#### FRANKLIN CAPITAL CORPORATION NOTES TO FINANCIAL STATEMENTS (CONTINUED)

eventually realized from each investment may vary from the valuations shown and the differences may be material. Franklin reports the unrealized gain or loss resulting from such valuation in the Statements of Operations.

#### GAINS (LOSSES) ON PORTFOLIO OF INVESTMENTS

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Amounts reported as realized gains (losses) are measured by the difference between the proceeds of sale or exchange and the cost basis of the investment without regard to unrealized gains (losses) reported in the prior periods. Gains (losses) are considered realized when sales or dissolution of investments are consummated.

### INCOME TAXES

Franklin does not qualify for pass through tax treatment as a Regulated Investment Company under Subchapter M of the Internal Revenue Code for income tax purposes. Therefore, the Corporation is taxed under Regulation C.

Franklin accounts for income taxes in accordance with the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). The significant components of deferred tax assets and liabilities are principally related to the Corporation's net operating loss carryforward and its unrealized appreciation of investments.

### STOCK-BASED COMPENSATION

The Corporation has elected to follow APB Opinion 25, "Accounting for Stock Issued to Employees," to account for its Non-Qualified Stock Option Plan under which no compensation cost is recognized because the option exercise price is equal to at least the market price of the underlying stock on the date of grant. Had compensation cost for these plans been determined at the grant dates for awards under the alternative accounting method provided for in SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123," net income and earnings per share, on a pro forma basis, would have been:

	JUNE 30, 2003	JUNE 30, 2002
	-----	-----
Net (decrease) increase in net assets attributable to common stockholders:		
As reported	\$(1,067,035)	\$1,957,061
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	-	2,367
	-----	-----
Pro forma	\$(1,067,035)	\$1,954,694
	-----	-----
Basic and diluted net (decrease) increase in net assets attributable to common stockholders:		
As reported	\$(1.02)	\$1.83
Pro forma	\$(1.02)	\$1.83

### DEPRECIATION AND AMORTIZATION

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method at rates based upon estimated useful lives for the respective assets. Leasehold Improvements are included in other assets and are amortized over their useful lives or the remaining life of the lease, whichever is shorter.

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FRANKLIN CAPITAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NET INCREASE (DECREASE) IN NET ASSETS PER COMMON SHARE

Net increase (decrease) in net assets attributable to common stockholders per common share is calculated in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share".

3. INCOME TAXES

For the six months ended June 30, 2003, and 2002, Franklin's tax (provision) benefit was based on the following:

	2003	2002
	-----	-----
Net investment loss from operations	\$ (551,653)	\$ (688,896)
Net realized gain on portfolio of investments	-	(332,716)
(Decrease) increase in unrealized appreciation	(477,055)	3,036,248
	-----	-----
Pre-tax book loss	\$ (1,028,708)	\$2,014,636
	=====	=====
	2003	2002
	-----	-----
Federal tax benefit (provision) at 34% on \$ (1,028,708) and \$2,014,636, respectively	\$ 350,000	\$ (685,000)
Other	17,000	(44,000)
Change in valuation allowance	(367,000)	729,000
	-----	-----
	\$ -	\$ -
	=====	=====

Deferred income tax benefit reflects the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

At June 30, 2003 and 2002, significant deferred tax assets and liabilities consist of:

	ASSET (LIABILITY)	
	June 30, 2003	December 31, 2002
	-----	-----
Deferred Federal and state benefit from net operating loss carryforward	\$ 2,551,000	\$2,356,000
Deferred Federal and state provision on unrealized appreciation of investments	(361,000)	(533,000)
Valuation allowance	(2,190,000)	(1,823,000)
	-----	-----
Deferred taxes	\$ -	\$ -
	=====	=====

At December 31, 2002, Franklin had net operating loss carryforwards for income tax purposes of approximately \$6,544,000 that will begin to expire in 2011. At a 36% effective tax rate the after-tax net benefit from this loss would be approximately \$2,356,000.

4. STOCKHOLDERS' EQUITY

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The accumulated deficit at June 30, 2003, consists of accumulated net realized gains of \$5,131,000 and accumulated investment losses of \$13,300,000.

The Board of Directors has authorized Franklin to repurchase up to an aggregate of 525,000 shares of its common stock in open market purchases on the American Stock Exchange when such purchases are deemed to be in the best interest of the Corporation and its stockholders. As of December 31, 2002, the Corporation had purchased 507,450 shares of its common stock of which 456,288 remained in treasury. During the six months ended June 30, 2003, the Corporation purchased 9,500 shares of its common stock at a total cost of \$13,561. To date, Franklin has repurchased 516,950 shares of its common stock of which 465,788 shares remain in treasury at June 30, 2003.

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### FRANKLIN CAPITAL CORPORATION NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### PREFERRED STOCK -

The preferred stock has a cumulative 7% quarterly dividend and is convertible into the number of shares of common stock by dividing the purchase price for the convertible preferred stock by conversion price in effect (which is currently \$13.33). The convertible preferred stock has antidilution provisions, which can change the conversion price in certain circumstances if the Corporation issues additional shares of common stock. The holder has the right to convert the shares of convertible preferred stock at any time until February 22, 2010 into common stock. Upon liquidation, dissolution or winding up of the Corporation, the stockholders of the convertible preferred stock are entitled to receive \$100 per share plus any accrued and unpaid dividends before distributions to any holder of the Corporation's common stock. On December 31, 2002, the Corporation redeemed from certain preferred stockholders 5,500 shares of convertible preferred stock for \$25.00 per share.

#### 5. COMMITMENTS AND CONTINGENCIES

On October 15, 2001, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed a lawsuit against Franklin, Sunshine Wireless, LLC ("Sunshine") and four other defendants affiliated with Winstar Communications, Inc. in the Superior Court of the State of California for the County of Los Angeles. The lawsuit, which has subsequently been removed to the United States District Court for the Central District of California, alleges that the Winstar defendants conspired to commit fraud and breached their fiduciary duty to the plaintiffs in connection with the acquisition of the plaintiffs' radio production and distribution business. The complaint further alleges that Franklin and Sunshine joined the alleged conspiracy. The business was initially acquired by certain entities affiliated with Winstar Communications and, subsequently, the assets of such business were sold to Franklin and Sunshine. Concurrently with such purchase, Franklin transferred such assets to Excelsior Radio Networks, Inc. ("Excelsior"). The plaintiffs seek recovery of damages in excess of \$10,000,000, costs and attorneys' fees. On January 7, 2002, Franklin filed a motion to dismiss the lawsuit or, in the alternative, to transfer venue to the United States District Court of the Southern District of New York. The plaintiffs filed a motion opposing Franklin's request on January 28, 2002. Franklin's motion for dismissal was granted on February 25, 2002, due to improper venue. On June 7, 2002, the plaintiffs filed their complaint to the United States District of the Southern District of New York. On July 12, 2002, Franklin filed a motion to dismiss the complaint. On February 25, 2003, the case against Franklin and Sunshine was dismissed; however, the plaintiffs may file an appeal. An unfavorable outcome in this lawsuit may have a material adverse effect on

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Franklin's business, financial condition and results of operations.

### 6. TRANSACTIONS WITH AFFILIATES

Franklin issued a \$1,000,000 note as part of the purchase price of Excelsior. This note was due February 28, 2002 with interest at 3.54% but has a right of set-off against certain representations and warranties made by Winstar Radio Networks, Inc. (See Note 5)

On October 1, 2002, Franklin received 74,232 warrants to acquire shares of Excelsior common stock at an exercise price of \$1.20 per share for arranging a refinancing of Excelsior debt. On October 3, 2002, Franklin sold 773,196 shares of common stock in Excelsior for \$1.94 per share for total proceeds of \$1,500,000 realizing a gain of \$726,804.

Franklin entered into a services agreement with Excelsior whereby Franklin provides Excelsior with certain services. Franklin receives a management fee of not less than \$15,000 per month as determined by Excelsior's board. Additionally, Franklin's chief financial officer serves in that capacity for Excelsior and his salary and benefits are allocated between Excelsior and Franklin on an 80/20 basis. During the six months ended June 30, 2003, and 2002, Franklin earned \$90,000 and \$210,000, respectively, in management fees and was reimbursed \$72,000 and \$60,468, respectively, for salary and benefits for Franklin's chief financial officer, which was recorded as a reduction of expenses on Franklin.

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### FRANKLIN CAPITAL CORPORATION NOTES TO FINANCIAL STATEMENTS (CONTINUED)

On April 3, 2002, Dial Communications Global Media, Inc. ("DCGM"), a newly formed wholly-owned subsidiary of Excelsior, a majority-owned affiliate of Franklin, completed the acquisition of substantially all of the assets of Dial Communications Group, Inc. ("DCGI"), and Dial Communications Group, LLC ("DCGL" and together with DCGI, the "Dial Entities") used in connection with the Dial Entities' business of selling advertising relating to radio programming (the "Dial Acquisition"). The Dial Acquisition was completed pursuant to the Asset Purchase Agreement (the "Purchase Agreement"), dated as of April 1, 2002, by and among the Dial Entities, Franklin and Excelsior. Immediately prior to the closing of the transactions contemplated by the Purchase Agreement, Excelsior assigned all of its rights and obligations under the Purchase Agreement, as well as certain other assets and liabilities relating to the portion of Excelsior's business dedicated to the sale of advertising relating to radio programming, to DCGM.

The total purchase price for the Dial Acquisition will be an amount between \$8,880,000 and \$13,557,500. The initial consideration for the Dial Acquisition consisted of \$6,500,000 in cash and a three-year promissory note bearing interest at 4.5% issued by DCGM in favor of DCGL in the aggregate principal amount of \$460,000. In addition, the Purchase Agreement provides for the minimum payment of \$1,920,000 of additional consideration, which is subject to increase to a maximum amount of \$6,597,500 based upon the attainment of certain revenue and earnings objectives in 2002 and 2003. The additional consideration will be comprised of both cash and two additional promissory notes issued by DCGM in favor of DCGL, each with an initial aggregate principal amount of \$460,000 bearing interest at 4.5% that is subject to increase upon the attainment of such revenue and earnings objectives. Each of the promissory notes issued in consideration of the Dial Acquisition is convertible into shares of Franklin's common stock at a premium ranging from 115% to 120% of the average closing

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prices of Franklin's common stock during a specified pre and post closing measurement period. Excelsior has paid to Franklin an amount equal to \$300,000 in consideration of Franklin's obligations in connection with any Franklin common stock that may be issued pursuant to the terms of the Purchase Agreement or the promissory notes issued in consideration of the Dial Acquisition. For each share of common stock Franklin is required to issue under the Purchase Agreement or the promissory notes, Franklin will receive 0.86 shares of common stock in Excelsior.

### 7. STOCK OPTION PLANS

On September 9, 1997, Franklin's stockholders approved two Stock Option Plans: a Stock Incentive Plan ("SIP") to be offered to the Corporation's consultants, officers and employees (including any officer or employee who is also a director of the Corporation) and a Non-Statutory Stock Option Plan ("SOP") to be offered to the Corporation's "outside" directors, (i.e., those directors who are not also officers or employees of Franklin). 112,500 shares of the Corporation's Common Stock have been reserved for issuance under these plans, of which 67,500 shares have been reserved for the SIP and 45,000 shares have been reserved for the SOP. Shares subject to options that terminate or expire prior to exercise will be available for future grants under the Plans. Because the issuance of options to "outside" directors is not permitted under the Act without an exemptive order by the Securities and Exchange Commission, the issuance of options under the SOP was conditioned upon the granting of such order. The order was granted by the Commission on January 18, 2000.

The following is a summary of the status of the Stock Option Plans during the six months ended:

	JUNE 30, 2003		JUNE 30, 2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	20,625	\$11.39	39,375	\$11.27
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	18,750	\$11.13
Expired	-	-	-	-
	-----	-----	-----	-----
Outstanding at end of year	20,625	\$11.39	20,625	\$11.39
	=====	=====	=====	=====
Exercisable at end of year	20,625	\$11.39	20,625	\$11.39
	=====	=====	=====	=====
Weighted average fair value of options granted	-		-	

The options issued under the SIP have a remaining contractual life of 4.5 years. The options issued under the SOP have a remaining contractual life of 6.6 years.

### 8. NET INCREASE (DECREASE) IN NET ASSETS PER COMMON SHARE

The following table sets forth the computation of basic and diluted change in net assets per common share:

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	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Numerator:		
Net (decrease) increase in net assets from operations	\$ (802,525)	\$2,254,751
Preferred stock dividends	(19,163)	(28,787)
	-----	-----
Numerator for basic and diluted earnings per share - net (decrease) increase in net assets attributable to common stockholders	\$ (821,688)	\$2,225,964
	=====	=====
Denominator:		
Denominator for basic (decrease) increase in net assets from operations - weighted - average shares	1,040,931	1,069,232
Basic and diluted net (decrease) increase in net assets from operations per share	\$ (0.79)	\$2.08
	=====	=====

Common shares which would be issued upon conversion of the Corporation's preferred stock or exercise of options have been excluded from the dilutive per share computation as they are antidilutive (see Notes 4 and 7):

	PERIOD ENDED JUNE 30,	
	2003	2002
Preferred stock convertible into common stock	82,125	123,375
Stock options	20,625	20,625

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9. NET ASSET VALUE PER SHARE

The following table sets forth the computation of net asset value per common share attributable to common stockholders:

	JUNE 30,
	2003
Numerator:	
Numerator for net asset value per common share, as if converted basis	\$2,186,944
Liquidation value of convertible preferred stock	(1,095,000)
	-----
Numerator for net asset value per share attributable to common stockholders	\$1,091,944
	-----
Denominator:	
Number of common shares outstanding,	

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denominator for net asset value per share attributable to common stockholders	1,040,100
Number of shares of common stock to be issued upon conversion of preferred stock	82,125
	-----
Denominator for net asset value per common share as if converted basis	1,122,225
	=====
Net asset value per share attributable to common stockholders	\$1.05
	=====
Net asset value per common share, as if converted basis	\$1.95
	=====

10. PURCHASES AND SALES OF INVESTMENT SECURITIES

The cost of purchases and proceeds from sales of investment securities, excluding short-term investments, aggregated \$87,444 and \$87,444, respectively, for the six months ended June 30, 2003; \$22,985 and \$78,715, respectively, for the six months ended June 30, 2002.

11. SUBSEQUENT EVENT

On August 12, 2003, Franklin sold 193,000 common shares of Excelsior to Sunshine for approximately \$251,000. Franklin may receive additional proceeds based on certain contingencies.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

Franklin's discussion and analysis of its financial condition and results of operations are based upon the Corporation's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, the Corporation evaluates its estimates, the most critical of which are those related to the fair value of the portfolio of investments.

STATEMENT OF OPERATIONS

The Corporation accounts for its operations under accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of its financial performance is captioned "Net increase (decrease) in net assets from operations", which is composed of the following: "Net investment loss from operations," which is the difference between the Corporation's income from interest, dividends and fees and its operating expenses; "Net realized gain on portfolio of investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost; any applicable income tax provisions (benefits); and "Net increase (decrease) in unrealized appreciation of investments," which is the net change in the fair value of the Corporation's



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investment portfolio, net of any increase (decrease) in deferred income taxes that would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio.

"Net realized gain (loss) on portfolio of investments" and "Net increase (decrease) in unrealized appreciation of investments" are directly related. When a security is sold to realize a gain, the net unrealized appreciation decreases and the net realized gain increases. When a security is sold to realize a loss, the net unrealized appreciation increases and the net realized gain decreases.

### FINANCIAL CONDITION

The Corporation's total assets and net assets were, respectively, \$3,677,607 and \$2,186,944 at June 30, 2003, versus \$4,632,338 and \$3,267,540 at December 31, 2002. Net asset value per share attributable to common shareholders and on an as if converted basis was \$1.05 and \$1.95, respectively at June 30, 2003, versus \$2.07 and \$2.89 at December 31, 2002.

The Corporation's financial condition is dependent on the success of its investments. A summary of the Corporation's investment portfolio is as follows:

	JUNE 30, 2003	DECEMBER 31, 2002
	-----	-----
Investments, at cost	\$2,503,053	\$2,511,479
Unrealized appreciation	1,004,016	1,481,071
	-----	-----
Investments, at fair value	\$3,507,069	\$3,992,550
	=====	=====

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. The Corporation has a working capital deficiency

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of approximately \$1,400,000 at June 30, 2003. This condition raises substantial doubt about the Corporation's ability to continue as a going concern. There can be no assurance that the Corporation would be able to find a suitable merger partner or be able to obtain alternative financing. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

### INVESTMENTS

Franklin's primary investment is in Excelsior. A description of Franklin's other investment follows the description of Excelsior.

#### EXCELSIOR

At June 30, 2003, the Corporation has an investment in Excelsior, formerly known as eCom Capital, Inc., valued at \$2,480,820, which represents 67.5% of the Corporation's total assets and 113.4% of its net assets.

Excelsior is a majority-owned affiliate of Franklin and was incorporated in 1999 under the laws of the State of Delaware. Excelsior had no

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operations until August 2001 when a group led by Franklin invested in Excelsior for the purpose of acquiring certain assets from Winstar Radio Networks, LLC, Winstar Global Media, Inc. and Winstar Radio Productions, LLC.

On April 3, 2002, Dial Communications Global Media, Inc. ("Newco"), a newly formed wholly-owned subsidiary of Excelsior, completed the acquisition of substantially all of the assets of Dial Communications Group, Inc. ("DCGI"), and Dial Communications Group, LLC ("DCGL" and together with DCGI, the "Dial Entities") used in connection with the Dial Entities' business of selling advertising relating to radio programming (the "Dial Acquisition"). The Dial Acquisition was completed pursuant to the Asset Purchase Agreement (the "Purchase Agreement"), dated as of April 1, 2002, by and among the Dial Entities, Franklin and Excelsior. Immediately prior to the closing of the transactions contemplated by the Purchase Agreement, Excelsior assigned all of its rights and obligations under the Purchase Agreement, as well as certain other assets and liabilities relating to the portion of Excelsior's business dedicated to the sale of advertising relating to radio programming, to Newco.

The total purchase price for the Dial Acquisition will be an amount between \$8,880,000 and \$13,557,500. The initial consideration for the Dial Acquisition consisted of \$6,500,000 in cash and a three year promissory note bearing interest at 4.5% issued by Newco in favor of DCGL in the aggregate principal amount of \$460,000. In addition, the Purchase Agreement provides for the minimum payment of \$1,920,000 of additional consideration, which is subject to increase to a maximum amount of \$6,597,500 based upon the attainment of certain revenue and earnings objectives in 2002 and 2003. The additional consideration will be comprised of both cash and two additional promissory notes bearing interest at 4.5% issued by Newco in favor of DCGL, each with an initial aggregate principal amount of \$460,000 that is subject to increase upon the attainment of such revenue and earnings objectives. Each of the promissory notes issued in consideration of the Dial Acquisition is convertible into shares of Franklin's common stock at a premium of 115% to 120% of the average closing prices of Franklin's common stock during a specified pre and post closing measurement period. The promissory notes are not convertible for at least a one-year period. Excelsior has paid to Franklin an amount equal to \$300,000 in consideration of Franklin's obligations in connection with any Franklin common

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stock that may be issued pursuant to the terms of the Purchase Agreement or the promissory notes issued in consideration of the Dial Acquisition.

On July 14, 2003, Excelsior purchased the assets of MJI Interactive from Premiere Radio Networks.

On August 28, 2001, the Corporation purchased \$2,500,000 worth of Excelsior Common Stock and issued a secured note for \$150,000, which has subsequently been repaid. In connection with this note, Franklin was granted warrants to acquire 12,879 shares of Excelsior common stock at an exercise price of \$1.125 per share. The note has been repaid to Franklin. Franklin sold 250,000 common shares for \$1.00 per share on December 4, 2001 for no gain or loss in connection with a proposed merger with Change Technology Partners, Inc. On October 1, 2002, Franklin received 74,232 warrants to acquire shares of Excelsior common stock at an exercise price of \$1.20 per share for arranging a financing of Excelsior. On October 3, 2002, Franklin sold 773,196 common shares for \$1.94 per share for total proceeds of \$1,500,000 realizing a gain of \$726,804. On January 31, 2003, Franklin purchased and subsequently on May 29, 2003, Franklin sold, 33,750 common shares for \$1.625 per share and 65,199 warrants to acquire shares of Excelsior common stock at an exercise price of

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\$1.125 per share for \$0.50 per warrant.

### ALACRA CORPORATION

At June 30, 2003, the Corporation has an investment in Alacra Corporation ("Alacra"), valued at \$1,000,000, which represents 27.2% of the Corporation's total assets and 45.7% of its net assets. Alacra, headquartered in New York and London, is a leading provider of Internet-based online information services. Alacra provides a service called .xls, which aggregates and cross-indexes over 70 premier business databases, delivering information directly to Microsoft Excel, HTML, Microsoft Word or PDF formats at the desktop. Other products include privatesuite™, a fast, easy, cost-effective way to identify and retrieve profiles of privately held companies around the world; compbook™, a tool for company peer analysis; and Portal BTM, a fully integrated business information portal.

On April 20, 2000, the Corporation purchased \$1,000,000 worth of Alacra Series F Convertible Preferred Stock. In connection with this investment, Franklin was granted observer rights for Alacra Board of Directors meetings.

### RESULTS OF OPERATIONS

#### INVESTMENT INCOME AND EXPENSES:

The Corporation's principal objective is to achieve capital appreciation through long-term investments in businesses believed to have favorable growth potential. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and provides little or no current yield in the form of dividends or interest. The Corporation earns interest income from loans, preferred stocks, corporate bonds and other fixed income securities. The amount of interest income varies based upon the average balance of the Corporation's fixed income portfolio and the average yield on this portfolio.

The Corporation had investment income of \$90,758 and \$212,109 for the six months ended June 30, 2003 and 2002, respectively. The decrease in investment income for the six months ended June 30, 2003 when compared to June 30, 2002, was primarily the result of the decrease in the management fee from Excelsior. The Corporation had investment income of

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\$45,080 and \$120,560 for the three months ended June 30, 2003 and 2002, respectively. The decrease in investment income for the three months ended June 30, 2003 when compared to June 30, 2002, was primarily the result of a decrease in the management fee from Excelsior.

Operating expenses were \$642,411 and \$901,005 for the six months ended and \$323,006 and \$555,015 for the three months ended June 30, 2003 and 2002, respectively. A majority of the Corporation's operating expenses consist of employee compensation, office and rent expense, other expenses related to identifying and reviewing investment opportunities and professional fees. Professional fees consist of general legal fees, audit and tax fees and investment related legal fees. In 2002, the Corporation accrued \$200,000 in expenses related to a terminated merger. The Corporation was reimbursed approximately \$72,000 for salary and benefit expense for its chief financial officer under the terms of the management agreement with Excelsior. This reimbursement has been recorded as a reduction in operating expenses.

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Net investment losses from operations were \$551,653 and \$688,896 for the six months ended and \$277,926 and \$434,455 for the three months ended June 30, 2003 and 2002, respectively. The decrease resulted primarily from the decrease in expenses noted above.

The Corporation has relied and continues to rely to a large extent upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses. Because such sales cannot be predicted with certainty, the Corporation attempts to maintain adequate working capital to provide for fiscal periods when there are no such sales.

### NET REALIZED GAINS AND LOSSES ON PORTFOLIO OF INVESTMENTS:

During the six months ended June 30, 2003 and 2002, the Corporation realized net losses before taxes of \$0 and \$332,716 respectively, from the disposition of various investments.

### UNREALIZED APPRECIATION OF INVESTMENTS:

Unrealized appreciation of investments, decreased by \$477,055 during the six months ended June 30, 2003, primarily from unrealized losses in Excelsior.

Unrealized appreciation of investments, increased by \$3,036,248 during the six months ended June 30, 2002, primarily from unrealized gains in Excelsior.

### TAXES

Franklin does not qualify for pass through tax treatment as a Regulated Investment Company under Subchapter M of the Internal Revenue Code for income tax purposes. The Corporation is taxed under Regulation C of the Code and, therefore, it is subject to federal income tax on the portion of its taxable income and net capital as well as such distribution to its stockholders.

### LIQUIDITY AND CAPITAL RESOURCES

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. The Corporation has a working capital deficiency of approximately \$1,400,000 at June 30, 2003. This condition raises substantial doubt about the Corporation's ability to continue as a going concern. The Corporation is seeking alternative financing. There can be no assurance that the Corporation would be able to obtain alternative

financing. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

Cash and cash equivalents decreased by \$450,670 to \$111,521 for the six months ended June 30, 2003, compared to a decrease of \$98,513 for the six months ended June 30, 2002.

Operating activities used \$400,098 of cash for the six months ended June 30, 2003, compared to using \$436,422 for the six months ended June 30, 2002.

Operating activities for the six months ended June 30, 2003, exclusive

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of changes in operating assets and liabilities, used \$543,166 of cash, as the Corporation's net decrease in net assets from operations of \$628,610 included non-cash charges for depreciation and amortization of \$8,487 and unrealized losses of \$477,055. For the six months ended June 30, 2002, operating activities, exclusive of changes in operating assets and liabilities, used \$680,412 of cash, as the Corporation's net decrease in net assets from operations of \$2,451,058 included non-cash charges of depreciation and amortization of \$8,485, realized losses of \$332,715 and unrealized gains of \$3,036,248.

Changes in operating assets and liabilities increased cash \$143,068 for the six months ended June 30, 2003, principally due to an increase in the level of accounts payable and accrued expenses. For the six months ended June 30, 2002, changes in operating assets and liabilities produced \$243,990 of cash.

The sale of marketable securities of \$8,426 of cash provided in investing activities for the six months ended June 30, 2003. For the six months ended June 30, 2002, the principal factor in the \$130,730 cash provided by investing activities was payment of a loan from Excelsior and the sale of other investments offset by the net purchase and sale of marketable investment securities.

Cash used in financing activities for the six months ended June 30, 2003 of \$58,998 resulted primarily from payment of preferred dividends of \$38,327 and the purchase of treasury stock of \$13,561. Financing activities provided by \$207,179 in the prior year's comparable period from the proceeds for conversion rights offset by the payment of preferred dividends of \$57,575 and the purchase of treasury stock of \$35,246.

### RISK FACTORS

There are significant risks inherent in the Corporation's venture capital business. The Corporation has invested a substantial portion of its assets in small private companies and one bulletin board listed public corporation. Because of the speculative nature of these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that from time to time its venture capital investments may result in a complete loss of the Corporation's invested capital or may be unprofitable. Other investments may appear likely to become successful, but may never realize their potential. Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program. The Corporation has in the past relied and continues to rely to a large extent upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses.

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INVESTING IN PRIVATE COMPANIES INVOLVES A HIGH DEGREE OF RISK. The Corporation's portfolio consists primarily of investments in private companies. Investments in private businesses involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. There is generally no publicly available information about the companies in which Franklin invests, and Franklin relies significantly on the diligence of its employees and agents to obtain information in connection with the Corporation's investment decisions. In addition, some smaller businesses have narrower product lines and market shares than their competitors, and may be more vulnerable to customer preferences, market conditions or economic downturns, which may adversely affect the return on, or the recovery of, the Corporation's investment in such businesses.

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THE PORTFOLIO OF INVESTMENTS IS ILLIQUID. Franklin acquires most of its investments directly from private companies. The majority of the investments in its portfolio will be subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of the portfolio may adversely affect Franklin's ability to dispose of loans and securities at times when it may be advantageous to liquidate such investments.

FRANKLIN'S PORTFOLIO INVESTMENTS ARE RECORDED AT FAIR VALUE AS DETERMINED BY THE BOARD OF DIRECTORS IN ABSENCE OF READILY ASCERTAINABLE PUBLIC MARKET VALUES. Pursuant to the requirements of the 1940 Act, the Corporation's board of directors is required to value each asset quarterly, and Franklin is required to carry the portfolio at a fair market value as determined by the board of directors. Since there is typically no public market for the loans and equity securities of the companies in which Franklin makes investments, the board of directors estimates the fair value of these loans and equity securities pursuant to written valuation policy and a consistently applied valuation process. Unlike banks, Franklin is not permitted to provide a general reserve for anticipated loan losses; instead, Franklin is required by the 1940 Act to specifically value each individual investment and record an unrealized loss for an asset that it believes has become impaired. Without a readily ascertainable market value, the estimated value of the portfolio of loans and equity securities may differ significantly from the values that would be placed on the portfolio if there existed a ready market for the loans and equity securities. Franklin adjusts quarterly the valuation of the portfolio to reflect the board of directors' estimate of the current realizable value of each investment in the Corporation's portfolio. Any changes in estimated value are recorded in the Corporation's statement of operations as "Net unrealized gains (losses)."

FRANKLIN OPERATES IN A COMPETITIVE MARKET FOR INVESTMENT OPPORTUNITIES. Franklin competes for investments with many other companies and individuals, some of whom have greater resources than does Franklin. Increased competition would make it more difficult to purchase or originate investments at attractive prices. As a result of this competition, sometimes Franklin may be precluded from making otherwise attractive investments.

QUARTERLY RESULTS MAY FLUCTUATE AND MAY NOT BE INDICATIVE OF FUTURE QUARTERLY PERFORMANCE. The Corporation's quarterly operating results could fluctuate, and therefore, you should not rely on quarterly results to be indicative of Franklin's performance in future quarters. Factors that could cause quarterly operating results to fluctuate include, among others, variations in the investment origination volume, variation in timing of prepayments, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which Franklin encounters competition in its markets and general economic conditions.

FRANKLIN IS DEPENDENT UPON KEY MANAGEMENT PERSONNEL FOR FUTURE SUCCESS. Franklin is dependent for the selection, structuring, closing and monitoring of its investments on

the diligence and skill of its senior management members and other management members. The future success of the Corporation depends to a significant extent on the continued service and coordination of its senior management team, particularly the Chairman and Chief Executive Officer. The departure of any of the executive officers or key employees could materially adversely affect the Corporation's ability to implement its business strategy. Franklin does not maintain key man life insurance on any of its officers or employees.

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THERE IS SUBSTANTIAL DOUBT AS TO FRANKLIN'S ABILITY TO CONTINUE AS A GOING CONCERN. Franklin has determined that it may not have sufficient cash and cash equivalents to meet its working capital requirements over the next fiscal year. Franklin's independent auditors have issued an opinion in which the independent auditors have indicated that there is substantial doubt as to Franklin's ability to continue as a going concern as noted in their explanatory paragraph within their opinion, which is noted in Franklin's annual financial statements. Franklin is currently seeking alternative sources of financing to continue operating through the current fiscal year. If funds were not raised, Franklin may not be able to continue its operations.

### INVESTMENT IN SMALL, PRIVATE COMPANIES

There are significant risks inherent in the Corporation's venture capital business. The Corporation has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies with risky technologies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Corporation has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program. The Corporation has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses.

### ILLIQUIDITY OF PORTFOLIO INVESTMENTS

Most of the investments of the Corporation are or will be equity securities acquired directly from small companies. The Corporation's portfolio of equity securities is and will usually be subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of the Corporation's portfolio of equity securities may adversely affect the ability of the Corporation to dispose of such securities at times when it may be advantageous for the Corporation to liquidate such investments.

### THE INABILITY OF THE CORPORATION'S PORTFOLIO COMPANIES TO SUCCESSFULLY MARKET THEIR PRODUCTS WOULD HAVE A NEGATIVE IMPACT ON ITS INVESTMENT RETURNS

Even if the Corporation's portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of the Corporation's portfolio companies may not be successful.

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### VALUATION OF PORTFOLIO INVESTMENTS

There is typically no public market of equity securities of the small private companies in which the Corporation invests. As a result, the valuation of the equity securities in the Corporation's portfolio is subject to the good faith determination of the Corporation's Board of Directors. In the absence of a

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readily ascertainable market value, the estimated value of the Corporation's portfolio of equity securities may differ significantly from the values that would be placed on the portfolio if a ready market for the equity securities existed. Any changes in estimated net asset value are recorded in the Corporation's statement of operations as "Change in unrealized appreciation on investments."

### FLUCTUATIONS OF QUARTERLY RESULTS

The Corporation's quarterly operating results could fluctuate as a result of a number of factors. These include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Corporation encounters competition in its markets and general economic conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's business activities contain elements of risk. The Corporation considers a principal type of market risk to be valuation risk. Investments are stated at "fair value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. All assets are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors.

Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program. The Corporation has exposure to public-market price fluctuations to the extent of its publicly traded portfolio.

The Corporation has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential.

Because there is typically no public market for the equity interests of the small companies in which the Corporation invests, the valuation of the equity interests in the Corporation's portfolio is subject to the estimate of the Corporation's Board of Directors. In making its determination, the Board may consider valuation information provided by an independent third party or the portfolio company itself. In the absence of a readily ascertainable market value, the estimated value of the Corporation's portfolio of equity interests may differ significantly from the values that would be placed on the portfolio if a ready market for the equity interests existed. Any changes in valuation are recorded in the Corporation's consolidated statements of operations as "Net increase (decrease) in unrealized appreciation on investments."

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### ITEM 4. CONTROLS AND PROCEDURES

(a) The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934 is recorded, processed,



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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 executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, including the principal executive officer and the principal financial officer, recognizes 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 quarterly report on Form 10-Q, the Company has carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and the Company's principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on such evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective.

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

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

On October 15, 2001, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed a lawsuit against Franklin, Sunshine Wireless, LLC ("Sunshine") and four other defendants affiliated with Winstar Communications, Inc. in the Superior Court of the State of California for the County of Los Angeles. The lawsuit, which has subsequently been removed to the United States District Court for the Central District of California, alleges that the Winstar defendants conspired to commit fraud and breached their fiduciary duty to the plaintiffs in connection with the acquisition of the plaintiffs' radio production and distribution business. The complaint further alleges that Franklin and Sunshine joined the alleged conspiracy. The business was initially acquired by certain entities affiliated with Winstar Communications and, subsequently, the assets of such business were sold to Franklin and Sunshine. Concurrently with such purchase, Franklin transferred such assets to Excelsior. The plaintiffs seek recovery of damages in excess of \$10,000,000, costs and attorneys' fees. On January 7, 2002, Franklin filed a motion to dismiss the lawsuit or, in the alternative, to transfer venue to the United States District Court of the Southern District of New York. The plaintiffs filed a motion opposing Franklin's request on January 28, 2002. Franklin's motion for dismissal was granted on February 25, 2002, due to improper venue. On June 7, 2002, the plaintiffs filed their complaint to the United States District of the Southern District of New York. On July 12, 2002, Franklin filed a motion to dismiss the complaint. On February 25, 2003, the case against Franklin and Sunshine was dismissed, however the plaintiffs may file an appeal. An unfavorable outcome in this lawsuit may have a material adverse effect on Franklin's business, financial condition and results of operations.

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#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES HOLDERS

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

- |              |   |
|--------------|---|
| Exhibit 31.1 | Certification of Chairman and Chief Executive Officer   |
| Exhibit 31.2 | Certification of Chief Financial Officer  |
| Exhibit 32.1 | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted By Section 906 Of The Sarbanes-Oxley Act Of 2002 |
| Exhibit 32.2 | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted By Section 906 Of The Sarbanes-Oxley Act Of 2002 |

(B) REPORTS ON FORM 8-K.

None

SIGNATURE

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.

FRANKLIN CAPITAL CORPORATION

Date: August 12, 2003

By: /s/ Stephen L. Brown

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Stephen L. Brown  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

/s/ Hiram M. Lazar

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Hiram M. Lazar  
CHIEF FINANCIAL OFFICER