FRANKLIN CAPITAL CORP
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly period ended June 30, 2002

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 incorporation or organization)	(I.R.S. Employer Identification No.)
450 Park Avenue, 10th 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 X No

The number of shares of common stock outstanding as of August 12, 2002 was 1,064,500.

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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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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FRANKLIN CAPITAL CORPORATION

BALANCE SHEETS

ASSETS

Marketable investment securities, at market value (cost: June 30, 2002 - $57,660; December 31, 2001 - $34,675) (Note 2)
Investments, at fair value (cost: June 30, 2002 - $3,640,000; December 31, 2001 - $3,876,430) (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)

STOCKHOLDERS' EQUITY

Convertible preferred stock, $1 par value, cumulative 7% dividend: 5,000,000 shares authorized; 16,450 shares issued and outstanding at June 30, 2002 and December 31, 2001 (Liquidation preference $1,645,000) (Note 4)
Common stock, $1 par value: 5,000,000 shares authorized; 1,505,888 shares issued:1,065,100 shares outstanding at June 30, 2002 and 1,074,700 at December 31,2001 (Note 6)
Additional paid-in capital
Unrealized appreciation (depreciation) of investments (Notes 2 and 3)
Accumulated deficit

Deduct common stock held in treasury, at cost, 440,788 shares at June 30, 2002, and 431,188 shares at December 31, 2001 (Note 4)

Net assets (See Note 9 for per share information)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 2002	2001
INVESTMENT INCOME		
Interest and dividend income	$560	$14,8
Management fees	120,000	--
	120,560	14,8
EXPENSES		
Salaries and employee benefits	212,115	225,0
Professional fees	35,325	41,3
Rent	28,242	29,7
Insurance	10,982	10,5
Directors' fees	501	5
Taxes other than income taxes	9,194	8,5
Newswire and promotion	999	1,0
Depreciation and amortization	4,242	4,9
Interest expense	8,850	--
Expenses related to proposed merger	200,000	--
General and administrative	44,565	64,3
	555,015	386,0
Net investment loss from operations	(434,455)	(371,2
Net realized (loss) gain on portfolio of investments:		
Investment securities:		
Affiliated	--	--
Unaffiliated	(309,209)	499,9
Net realized (loss) gain on portfolio of investments	(309,209)	499,9
Benefit for current income taxes	--	(12,2
Net realized (loss) gain	(743,664)	140,8

Increase (decrease) in unrealized appreciation of investments		
Investment securities:		
Affiliated	3,000,000	--
Unaffiliated	(1,585)	(555,1
Increase (decrease) in unrealized appreciation of investments	2,998,415	(555,1
Net increase (decrease) in net assets from operations	2,254,751	(414,3
Preferred dividends	28,787	28,7
Net increase (decrease) in net assets attributable to common stockholders	$2,225,964	($443,1
Basic net increase (decrease) per share in net assets attributable to common stockholders per share (Note 8)	$2.08	($0.
Diluted net increase (decrease) per share in net assets attributable to common stockholders per share (Note 8)	$1.89	($0.

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the Six Months Ended June 30,

Cash flows from operating activities:
Net increase (decrease) in net assets from operations
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash used in operating activities:
Depreciation and amortization
(Increase) decrease in unrealized appreciation of investments
Net realized loss (gain) on portfolio of investments, net of current income taxes

Changes in operating assets and liabilities:
Decrease in other assets
Decrease (increase) in accounts payable and accrued liabilities, excluding change in current income taxes payable

Total adjustments

Net cash used in operating activities

Cash flows from investing activities:
  Proceeds from sale of affiliates
  Proceeds from sale of other investments
  Proceeds from sale of marketable investment securities
  Loan payments from majority-owned affiliate
  Purchases of other investments
  Purchases of marketable investment securities

Net cash provided by investing activities

Cash flows from financing activities:
  Payment of preferred dividends
  Proceeds for conversion right
  Purchases of treasury stock

Net cash provided by (used in) financing activities

Net (decrease) increase in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

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, 2002	2001
(Decrease) increase in net assets from operations:		
Net investment loss	($434,455)	($371
Net realized (loss) gain on portfolio of investments, net of current income taxes	(309,209)	512
Increase (decrease) in unrealized appreciation of investments	2,998,415	(555
Net increase (decrease) in net assets from operations	2,254,751	(414
Capital stock transactions:		
Payment of dividends on preferred stock	(28,787)	(28

Proceeds for conversion right	300,000	
Purchase of treasury stock	(35,246)	(105
Total increase (decrease) in net assets	2,490,718	(548
Net assets at beginning of period	2,652,842	4,387
Net assets at end of period	$ 5,143,560	$ 3,838

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

FRANKLIN CAPITAL CORPORATION

PORTFOLIO OF INVESTMENTS

MARKETABLE INVESTMENT SECURITIES

JUNE 30, 2002 (2)	N S P A
Communications Intelligence Corporation (Common Stock)	
Certificate of Deposit - 1.21%, due 07/03/2002	
Total Marketable Investment Securities (0.8% of total investments and 1.0% of net assets)	

INVESTMENTS, AT FAIR VALUE

JUNE 30, 2002 (2)	INVESTMENT	EQUITY INTEREST	N S P
MAJORITY OWNED AFFILIATE			
Excelsior Radio Networks, Inc.	Common stock and warrants	100.00%	
Total Excelsior Radio Networks, Inc. (83.9% of total investments and 106.9% of net assets)		56.41%	

(Radio production and advertising sales)		(fully diluted)
AFFILIATES		
Excom Ventures, LLC		
(0.0% of total investments and 0.0% of net assets)	Units	18.64%
(Purchase evaluation software)		
OTHER INVESTMENTS		
Alacra Corporation		
(15.3% of total investments and 19.4% of net assets)	Convertible Preferred Stock	1.68%
(Internet-based information provider)		
Investments, at Fair Value		

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(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, 2002

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. For the six months ended June 30, 2002 and for the years ended December 31, 2001, and 2000, the Corporation has incurred a net investment loss from operations of approximately $0.7 million, $1.4 million, and $2.3 million, respectively, and has a working capital deficiency of approximately $1.4 million at June 30, 2002. (Working capital is defined as total liabilities less liquid assets.) These conditions raise substantial doubt about the Corporation's ability to continue as a going concern. In order to alleviate the substantial doubt about the Corporation's ability to continue as a going concern, the Corporation is seeking a merger partner or an alternative financing source. 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.

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, 2002 and 2001.

At June 30, 2002 and 2001, the Corporation held cash and cash equivalents primarily in money market funds at two commercial banking institutions, and one broker/dealer.

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 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

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.

DEPRECIATION AND AMORTIZATION

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.

NET INCREASE (DECREASE) IN NET ASSETS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

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

RECLASSIFICATION

Certain amounts in prior years have been reclassified to conform with the current year presentation.

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. INCOME TAXES

For the six months ended June 30, 2002 and 2001, Franklin's tax (provision) benefit was based on the following:

Net investment loss from operations	$
Net realized (loss) gain on portfolio of investments	
Increase (decrease) in unrealized appreciation	
Pre-tax book income (loss)	$

Tax (provision) benefit at 34% on $2,014,636 and

$(1,569,154), respectively	$
State and local, net of Federal benefit	
Other	
Change in valuation allowance	
	--
	$
	==

The components of the tax provision are as follows:

	--
Current state and local tax provision	$
Deferred tax expense	
	--
Provision for income taxes	$
	==

Deferred income tax provision 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, 2002 and December 31, 2001, significant deferred tax assets and liabilities consist of:

	--
	--
Deferred Federal and state benefit from net operating loss carryforward	$
Deferred Federal and state provision on unrealized (appreciation) depreciation of investments	(
Valuation allowance	(
	--
Deferred taxes	$
	==

At December 31, 2001, Franklin had net operating loss carryforwards for income tax purposes of approximately $5,291,000 that will begin to expire in 2011. At a 36% effective tax rate the after-tax net benefit from this loss would be approximately $1,905,000.

4. STOCKHOLDERS' EQUITY

The accumulated deficit at June 30, 2002, consists of accumulated net realized gains of $4,657,000 and accumulated investment losses of $11,907,000.

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. During the six months ended June 30, 2002, Franklin purchased 9,600 shares of its common stock for an aggregate price of $35,246. As of June 30, 2002, the Corporation has repurchased 491,950 shares of its common stock of which 440,788 shares remain in treasury at June 30, 2002.

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 (see Note 6). 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 Court of the Southern District of New York. On July 12, 2002, Franklin filed a motion to dismiss the complaint. Franklin believes that plaintiffs' claims are without merit and intends to defend this lawsuit vigorously, though the outcome cannot be predicted at this time. An unfavorable outcome in this lawsuit may have a material adverse effect on Franklin's business, financial condition and results of operations.

6. TRANSACTIONS WITH AFFILIATES

On February 1, 2001, Franklin sold to Avery Communications, Inc. ("Avery") 1,183,938 shares of common stock and 350,000 shares of preferred stock of Avery representing Franklin's entire holding in Avery, for $1,557,617 plus accrued dividends on the preferred stock for a realized gain net of expenses of $137,759. As part of the sale Franklin retained the right to receive 1,533,938 shares of Primal Solutions, Inc. ("Primal") a then wholly-owned subsidiary of Avery. On February 13, 2001, Primal announced that Avery had completed a spin-off of Primal and Franklin received 1,533,938 fully registered and marketable shares of Primal. During the year ended December 31, 2001, Franklin sold 1,150,000 shares of Primal for total proceeds of $53,861, realizing a loss of $130,139. During the six months ended June 30, 2002, Franklin sold its remaining position of 383,938 shares for total proceeds of $28,715, realizing a loss of $32,715.

On August 28, 2001, Franklin along with Sunshine Wireless LLC ("Sunshine") purchased the assets of Winstar Radio Networks, Global Media and Winstar Radio Productions (collectively "WRN") for a total purchase price of $6.25 million. Change Technology Partners, Inc. ("Change"), a public company, provided $2.25 million of senior financing for the deal. The acquisition was consummated through eCom Capital Inc., subsequently renamed Excelsior Radio Networks, Inc. ("Excelsior"), a then wholly-owned subsidiary of

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Franklin. Franklin's total investment was $2.5 million consisting of $1.5 million in cash and a $1 million note payable to WRN. The note was due February 28, 2002 with interest at 3.54% and has a right of set-off against certain representations and warranties made by WRN. In October 2001, a legal proceeding was filed against WRN, which also named Franklin as a defendant, in which the representations and warranties made by WRN have been challenged. Until the time that this action is settled the due date of the note is extended indefinitely (see Note 5). Additionally, Franklin provided a $150,000 note receivable to Excelsior. The note bore interest at 10% per annum and was issued for a ninety-day rolling period. 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. As of June 30, 2002, this note has been repaid. In contemplation of a proposed merger agreement between Franklin and Change (see Note 11), Franklin sold to Change 250,000 shares of common stock in Excelsior for $250,000. Franklin is obligated to repurchase the 250,000 shares of Excelsior's common stock by August 29, 2002, for $250,000 plus interest at an annual rate of 10% from December 4, 2001 to the date of repurchase. After its repurchase of the shares from Change, Franklin will own 56.4% of Excelsior on a fully diluted basis and will have 64.7% of voting control. In addition, Franklin has the right to nominate four directors to Excelsior's seven-person board of directors.

At the closing, Franklin entered into a services agreement with Excelsior whereby Franklin will provide Excelsior with certain services. In consideration for the services provided, for a period of six months Franklin would receive $30,000 per month and be reimbursed for all direct expenses. Subsequently, Franklin's monthly fee will be determined by a majority of the non-Franklin directors; however, said management fee will be no less than $15,000 per month. Franklin will continue to be reimbursed for all direct expenses. Finally, Franklin's chief financial officer will serve in that capacity for Excelsior and his salary and benefits will be allocated between Excelsior and Franklin on an 80/20 basis. During the six months ended June 30, 2002, Franklin earned $210,000 in management fees and was reimbursed $60,468 for salary and benefits for Franklin's chief financial officer, which was recorded as a reduction of expenses on Franklin.

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 of 115% to 120% of the average closing 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.

Change and Sunshine, both existing stockholders of Excelsior, loaned Excelsior an aggregate amount of $7,000,000 to finance the initial consideration of the Dial Acquisition. The obligations under the loans are secured by certain of Excelsior's assets.

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.

Franklin accounts for the options issued to employees under APB Opinion No. 25, under which no compensation cost has been recognized. Pro forma information determined consistent with the fair value method required by FASB Statement No. 123, is as follows for the years ended:

	June 30, 2002	June 30, 2001
Net increase (decrease) in net assets attributable to common stockholders:		
As reported	$ 1,957,061	($1,625,053)
Pro forma	$ 1,954,694	($1,644,046)
Basic net increase (decrease) in net assets attributable to common stockholders per share:		
As reported	$ 1.83	($ 1.49)
Pro forma	$ 1.83	($ 1.51)

Diluted net increase (decrease) in net assets attributable to common stockholders per share:		
As reported	$ 1.69	($ 1.49)
Pro forma	$ 1.69	($ 1.51)

No options were granted during the six months ended June 30, 2002 and 2001.

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

	June 30, 2002	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	39,375	$ 11.27
Granted	--	--
Exercised	--	--
Forfeited	18,750	$ 11.13
Expired	--	--
Outstanding at end of period	20,625	$ 11.39
Exercisable at end of period	20,625	$ 11.39

The options issued under the SIP have a remaining contractual life of 6.5 years. The options issued under the SOP have a remaining contractual life of 7.6 years.

8. NET INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO COMMON STOCKHOLDERS PER SHARE

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

	Three Months ended June 30,	
	2002	2001
Numerator:		
Net increase (decrease) in net assets from operations	$ 2,254,751	($ 414,312
Preferred stock dividends	(28,787)	(28,788

Numerator for basic and diluted earnings per share - net increase (decrease) in net assets attributable to common stockholders	$ 2,225,964	($ 443,100
Denominator:		
Denominator for basic increase (decrease) in net assets from operations - weighted - average shares	1,069,232	1,086,081
Conversion of preferred stock	123,375	--

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Denominator for diluted increase (decrease) in net assets from operations - weighted - average shares	1,192,607	1,086,081
Basic net increase (decrease) in net assets from operations per share	$2.08	($0.41
Diluted net increase (decrease) in net assets from operations per share	$1.89	($0.41

The following securities have been excluded from the dilutive per share computation as they are antidilutive:

Preferred stock convertible into 123,375 shares of common stock was antidilutive for the three and six months ended June 30, 2001. Stock options were antidilutive for the three and six months ended June 30, 2002.

For additional information on the above securities, see Note 7.

9. NET ASSET VALUE PER SHARE

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

Numerator:
Numerator for net asset value per common share, as if converted basis
Liquidation value of convertible preferred stock

Numerator for net asset value per share
attributable to common stockholders

Denominator:

Number of common shares outstanding,
denominator for net asset value per share
attributable to common stockholders

Number of shares of common stock to be
issued upon conversion of preferred stock

Denominator for net asset value per common
share as if converted basis

Net asset value per share attributable to common stockholders

Net asset value per common share, as if converted basis

10. PURCHASES AND SALES OF INVESTMENT SECURITIES

The cost of purchases and proceeds from sales of investment securities excluding short-term investments, aggregated $22,985 and $78,715 respectively, for the six months ended June 30, 2002, and $561,544 and $2,947,141 respectively, for the six months ended June 30, 2001.

11. MERGER WITH CHANGE TECHNOLOGY PARTNERS, INC.

On July 1, 2002, Franklin executed its right to terminate the merger agreement that had been entered into on December 4, 2001, between Change Technology Partners, Inc. ("Change") and Franklin pursuant to which Change would have been merged with and into Franklin. Had the merger gone through Change shareholders would have owned approximately 80% of Franklin with the balance held by Franklin's current stockholders.

Concurrently with the execution of the merger agreement, the parties entered into a stock purchase agreement pursuant to which Change agreed to purchase 250,000 shares of common stock of Excelsior from Franklin for an aggregate purchase price of $250,000. Since the merger between Franklin and Change has terminated pursuant to the terms of the merger agreement, Franklin is required to repurchase all of such common stock from Change at a repurchase price equal to $250,000, plus interest thereon at an annual rate of 10% from December 4, 2001 to the date of repurchase. Franklin is obligated to repurchase the shares no later than August 29, 2002. As of June 30, 2002, the $250,000 for the repurchase as well as $200,000 in estimated expenses related to the merger have been accrued for by Franklin.

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 generally accepted accounting principles 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 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, $6,811,870 and $5,143,560 at June 30, 2002, versus $4,098,866 and $2,921,745 at December 31, 2001. Net asset value per share attributable common stockholders and on an as if converted basis was $3.28 and $4.33, respectively at June 30, 2002, versus $1.19 and $2.44 at December 31, 2001.

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, 2000	DECEMBER 31, 2001
Investments, at cost	$3,697,660	$3,911,105
Unrealized appreciation (depreciation)	2,854,015	(182,233)
Investments, at fair value	$6,551,675	$3,728,872

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. For the six months ended June

30, 2002 and for the years ended December 31, 2001, and 2000, the Corporation has incurred a net investment loss from operations of approximately $0.7 million, $1.4 million, and $2.3 million, respectively, and has a working capital deficiency of approximately $1.4 million at June 30, 2002. (Working capital is defined as total liabilities less liquid assets.) These conditions raise substantial doubt about the Corporation's ability to continue as a going concern. In order to alleviate the substantial doubt about the Corporation's ability to continue as a going concern, the Corporation is seeking a merger partner or an alternative financing source. 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.

MERGER WITH CHANGE TECHNOLOGY PARTNERS, INC.

On July 1, 2002, Franklin executed its right to terminate the merger agreement that had been entered into on December 4, 2001, between Change Technology Partners, Inc. ("Change") and Franklin pursuant to which Change would have been merged with and into Franklin. Had the merger gone through Change shareholders would have owned approximately 80% of Franklin with the balance held by Franklin's current stockholders.

Concurrently with the execution of the merger agreement, the parties entered into a stock purchase agreement pursuant to which Change agreed to purchase 250,000 shares of common stock of Excelsior from Franklin for an aggregate purchase price of $250,000. Since the merger between Franklin and Change has terminated pursuant to the terms of the merger agreement, Franklin is required to repurchase all of such common stock from Change at a repurchase price equal to $250,000, plus interest thereon at an annual rate of 10% from December 4, 2001 to the date of repurchase. Franklin is obligated to repurchase the shares no later than August 29, 2002. As of June 30, 2002, the $250,000 for the repurchase as well as $200,000 in estimated expenses related to the merger have been accrued for by Franklin.

INVESTMENTS

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

EXCELSIOR

At June 30, 2002, the Corporation had an investment in Excelsior, formerly known as eCom Capital, Inc., valued at $5,500,000, which represents 83.9% of the Corporation's total assets and 106.9% of its net assets. After its repurchase of the shares from Change, Franklin will own 56.4% on a fully diluted basis and have 64.7% of voting control.

Excelsior is a majority-owned affiliate of Franklin and was incorporated in 1999 under the laws of the State of Delaware. Excelsior had no 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. Excelsior's principal executive offices are located at 450 Park Avenue, 10th Floor, New York, NY 10022.

On April 3, 2002, Dial Communications Global Media, Inc. ("DCGM"), a newly formed wholly-owned subsidiary of Excelsior Radio Networks, Inc. ("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 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 bearing interest at 4.5% issued by DCGM 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 stock that may be issued pursuant to the terms of the Purchase Agreement or the promissory notes issued in consideration of the Dial Acquisition.

The assets purchased in the Dial Acquisition were combined with Excelsior's Global Media division to create a national radio sales representation company with 2001 advertising sales revenues of almost $50 million and a client roster of over fifty independent radio production companies.

Excelsior creates, produces, distributes and is a sales representative for national radio programs and offers other miscellaneous services to the radio industry. Excelsior offers radio programs to the industry in exchange for commercial broadcast time, which Excelsior sells to national advertisers. Excelsior currently offers approximately 150 programs to over 2,000 radio stations across the country. The group of radio stations who contract with Excelsior to broadcast a particular program constitutes a radio network. Excelsior derives its revenue from selling the commercial broadcast time on its radio networks to advertisers desiring national coverage.

Excelsior currently produces 23 network programs targeting the most popular radio formats, including adult contemporary, rock, urban oldies, album oriented rock, comedy and country. Excelsior produces both short form and long form programs. Short form features are two to three minute daily vignettes and include such programs as "African Americans Making History." Long form programs, such as "Walt `Baby' Love's The Countdown" and "Gospel Traxx," "Keeping The Seventies Alive," "Behind the Hits" and "All Star Mix Party" are programs that range from one to four hours in length. Excelsior offers these programs to radio stations free of charge. The radio stations airing these programs become networks for Excelsior to sell advertising time. Excelsior sells the commercial broadcast time inside of these networks to advertisers desiring national coverage.

On August 28, 2001, the Corporation purchased $2,500,000 worth of Excelsior Common Stock and issued a secured note for $150,000. 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. On November 28, 2001, $75,000 of the secured note was paid back to Franklin. On February 28, 2002, the remaining $75,000 of the secured note was paid back to Franklin. As part of the merger agreement between Franklin and Change, Franklin sold to Change 250,000 shares of its common stock in Excelsior. Franklin is obligated to repurchase the 250,000 shares of Excelsior's common stock by August 29, 2002, for $250,000 plus interest at an annual rate of 10% from December 4, 2001 to the date of repurchase.

ALACRA CORPORATION

At June 30, 2002, the Corporation had an investment in Alacra Corporation ("Alacra"), valued at $1,000,000, which represents 14.7% of the Corporation's total assets and 19.4% 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(TM), a fast, easy, cost-effective way to identify and retrieve profiles of privately held companies around the world; compbook(TM), a tool for company peer analysis; and Portal B(TM), 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.

EXCOM VENTURES, LLC

At June 30, 2002, the Corporation had an investment in Excom Ventures, LLC ("Excom") valued at $0. Excom was formed as a limited liability holding company for the purpose of investing in Expert Commerce, Inc. ("Expert Commerce"). Expert Commerce is a Business-to-Business purchase evaluation engine that simulates the way people make decisions. Based on intelligent and proven technology, the engine helps structure complex decisions and provides an audit trail to justify transactions, empowering buyers to make purchase decisions with confidence.

On June 26, 2000, the Corporation purchased $140,000 worth of Excom Units. At December 31, 2001, the Board of Franklin had determined that this investment had no value and had marked these securities down to reflect that determination.

PRIMAL SOLUTIONS, INC.

The Corporation no longer has an investment in Primal Solutions, Inc.

("Primal"). On February 13, 2001, Primal was spun-off from Avery Communications, Inc. ("Avery"). As a result of this spin-off Franklin received 1,533,938 fully registered and marketable shares of common stock of Primal at an allocated cost basis of $245,430. During the six months ended June 30, 2002, Franklin sold its remaining position of 383,938 shares for total proceeds of $28,715, realizing a loss of $32,715.

STRUCTURED WEB, INC.

At June 30, 2002, the Corporation had an investment in Structured Web, Inc. ("Structured Web") valued at $0. Structured Web develops web building blocks to enable small businesses to create and manage their own digital nerve system easily and at an affordable price. Structured Web's object-based proprietary technology enables customers to choose from a growing selection of "WebBlocks" including content, communication, commerce and services.

On August 8, 2000, the Corporation purchased $350,000 worth of Structured Web convertible preferred stock. On May 30, 2002, the Corporation sold its position in Structured Web for $50,000 realizing a loss of $300,000. As part of the sale price, the Corporation maintained the right to receive 50% of any proceeds received by the purchaser in excess of the $50,000 purchase price. The Corporation has valued this right at $0, as it cannot be determined at this time if the Corporation will receive any funds from this right.

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 $212,109 and $57,359 for the six months ended June 30, 2002 and 2001, respectively. The increase in investment income for the six months ended June 30, 2002 when compared to June 30, 2001, was primarily the result of the receipt of a management fee from Excelsior. The Corporation had investment income of $120,560 and $14,802 for the three months ended June 30, 2002 and 2001, respectively. The increase in investment income for the three months ended June 30, 2002 when compared to June 30, 2001, was primarily the result of a management fee from Excelsior.

Operating expenses were $901,005 and $818,747 for the six months ended and $555,015 and $386,093 for the three months ended June 30, 2002 and 2001, 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. The Corporation accrued $200,000 in expenses related to the terminated merger with Change. The Corporation was reimbursed approximately $60,000 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.

Net investment losses from operations were $688,896 and $761,388 for the six months ended and $434,455 and $371,291 for the three months ended June 30, 2002 and 2001, 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, 2002 and 2001, the Corporation realized net (losses) gains before taxes of ($332,716) and $724,955 respectively, from the disposition of various investments.

UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS:

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

Unrealized appreciation of investments, decreased by $1,532,721 during the six months ended June 30, 2001, primarily from unrealized losses due to the decrease in value of Franklin's investment in Go America as well as the sale of a significant portion of Franklin's holdings in Go America. This decrease was partially offset by the sale of Franklin's investment in Avery Communications.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. For the six months ended June 30, 2002 and for the years ended December 31, 2001, and 2000, the Corporation has incurred a net investment loss from operations of approximately $0.5 million, $1.4 million, and $2.3 million, respectively, and has a working capital deficiency of approximately $1.4 million at June 30, 2002. (Working capital is defined as total liabilities less liquid assets.) These conditions raise substantial doubt about the Corporation's ability to continue as a going concern. In order to alleviate the substantial doubt about the Corporation's ability to continue as a going concern, the Corporation is seeking a merger partner or an alternative financing source. 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. Franklin is obligated to repurchase the 250,000 shares of Excelsior's common stock by August 29, 2002 for $250,000 plus interest at an annual rate of 10% from December 4, 2001 to the date of repurchase. As of June 30, 2002, the $250,000 for the repurchase as well as $200,000 in estimated expenses related to the merger have been accrued for by Franklin.

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.

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.

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.

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 year-end financial statements. Franklin is seeking financing alternatives 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.

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."

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 defendents 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 (see Note 6). 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 Court of the Southern District of New York. On July 12, 2002, Franklin filed a motion to dismiss the complaint. Franklin believes that plaintiffs' claims are without merit and intends to defend this lawsuit vigorously, though the outcome cannot be predicted at this time. An unfavorable

outcome in this lawsuit may have a material adverse effect on Franklin's business, financial condition and results of operations.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

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 99.1 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. The Corporation filed a report on Form 8-K on April 3, 2002 announcing the acquisition of the Dial Entities and filed a report on Form 8-K on July 1, 2002 announcing the termination of the merger with Change Technology Partners, Inc.

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 14, 2002

By: /s/

Stephen L. Brown
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

/s/

Hiram M. Lazar
CHIEF FINANCIAL OFFICER