FRANKLIN CAPITAL CORP
Form 10-Q
November 14, 2003

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 September 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 incorporation or organization)	(I.R.S. Employer Identification No.)
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 X 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 __X___

The number of shares of common stock outstanding as of November 3, 2003 was 1,020,100.

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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 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

	SEPTEMBER 30, 2003 (UNAUDITED)	DECEMBER 31, 2002
ASSETS		
Marketable investment securities, at market value (cost: September 30, 2003 - $40,899; December 31, 2002 - $34,675) (Note 2)	$ 37,424	$ 34,675
Investments, at fair value (cost: September 30, 2003 - $2,283,804; December 31, 2002 - $3,876,430) (Note 2)		
Excelsior Radio Networks, Inc.	2,671,270	2,957,875
Other investments	1,000,000	1,000,000
	3,671,270	3,957,875
Cash and cash equivalents (Notes 1 & 2)	25,987	562,191
Other assets	85,573	77,597
TOTAL ASSETS	$3,820,254	$4,632,338

LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Note payable	$ 940,609	$ 951,817
Accounts payable and accrued liabilities	547,688	412,981
TOTAL LIABILITIES	1,488,297	1,364,798
Commitments and contingencies (Note 5)		
STOCKHOLDERS' EQUITY		
Convertible preferred stock, $1 par value, cumulative 7% dividend: 5,000,000 shares		

authorized; 10,950 shares issued and outstanding at September 30, 2003 and December 31, 2002 (Liquidation preference $1,095,000) (Note 4)	10,950	10,950
Common stock, $1 par value: 5,000,000 shares authorized; 1,505,888 shares issued: 1,040,100 shares outstanding at September 30, 2003 and 1,049,600 at December 31,2002 (Note 6)	1,505,888	1,505,888
Additional paid-in capital	10,439,610	10,439,610
Unrealized appreciation of investments (Notes 2 and 3)	1,383,991	1,481,071
Accumulated deficit	(8,403,750)	(7,578,808)
	4,936,689	5,858,711
Deduct common stock held in treasury, at cost, 465,788 shares at September 30, 2003, and 456,288 shares at December 31, 2002 (Note 4)	(2,604,732)	(2,591,171)
Net assets (See Note 9 for per share information)	2,331,957	3,267,540
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,820,254	$4,632,338

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

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FRANKLIN CAPITAL CORPORATION

STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2003	2002	NINE M SEP 2003
INVESTMENT INCOME			
Interest and dividend income	$ 90	$ 110	$ 848
Management fees	45,000	120,000	135,000
	45,090	120,110	135,848
EXPENSES			
Salaries and employee benefits	111,660	195,957	422,854
Professional fees	30,000	35,325	132,605
Rent	18,404	15,768	53,655
Insurance	16,714	17,843	52,037
Directors' fees	2,001	501	6,003
Taxes other than income taxes	6,196	7,525	31,523
Newswire and promotion	--	1,001	--
Depreciation and amortization	4,242	4,242	12,729

Interest expense	12,600	8,850	30,300
Expenses related to cancelled merger	73,500	265,782	73,500
General and administrative	41,456	39,536	143,978
	316,773	592,330	959,184
Net investment loss from operations	(271,683)	(472,220)	(823,336
Net realized gain (loss) on portfolio of investments:			
Investment securities:			
Affiliated	57,900	--	57,900
Unaffiliated	(2,017)	(16,431)	(2,017
Net realized gain (loss) on portfolio of investments	55,883	(16,431)	55,883
Provision for current income taxes	--	331	--
	55,883	(16,762)	55,883
Net realized loss	(215,800)	(488,982)	(767,453
Increase (decrease) in unrealized appreciation of investments			
Investment securities:			
Affiliated	383,450	(885,000)	(93,605
Unaffiliated	(3,475)	5,985	(3,475
Increase (decrease) in unrealized appreciation of investments	379,975	(879,015)	(97,080
Net increase (decrease) in net assets from operations	164,175	(1,367,997)	(864,533
Preferred dividends	19,162	28,787	57,489
Net increase (decrease) in net assets attributable to common stockholders	$145,013	($1,396,784)	($922,022
Basic and diluted net increase (decrease) per share in net assets attributable to common stockholders (Note 8)	$0.14	($1.31)	($0.88

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS
(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30,	2003	2002
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	($864,533)	$ 646,639
Adjustments to reconcile net (decrease) increase in net assets from operations to net cash used in operating activities:		
Depreciation and amortization	12,729	12,727
Decrease (increase) in unrealized appreciation of investments	97,080	(2,157,233)
Net realized (gain) loss on portfolio of investments, net of current income taxes	(55,882)	349,477
Changes in operating assets and liabilities:		
Increase in other assets	(20,705)	(11,428)
Decrease in accounts payable and accrued liabilities, excluding change in current income taxes payable	134,707	617,532
Total adjustments	167,929	(1,188,925)
Net cash used in operating activities	(696,604)	(542,286)
Cash flows from investing activities:		
Proceeds from sale of securities in majority-owned affiliate	250,900	--
Proceeds from sale of other investments	--	78,715
Proceeds from sale of marketable investment securities	28,924	6,554
Loan payments from majority-owned affiliate	--	75,000
Purchases of marketable investment securities	(37,166)	(22,985)
Net cash provided by investing activities	242,658	137,284
Cash flows from financing activities:		
Payment of preferred dividends	(57,489)	(86,362)
Decrease in note payable	(11,208)	(47,930)
Proceeds for conversion right	--	300,000
Purchases of treasury stock	(13,561)	(37,322)
Net cash (used in) provided by financing activities	(82,258)	128,386
Net decrease in cash and cash equivalents	(536,204)	(276,616)
Cash and cash equivalents at beginning of period	562,191	279,728
Cash and cash equivalents at end of period	$ 25,987	$ 3,112

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

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FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2003	2002
Increase (decrease) in net assets from operations:		
Net investment loss	($271,683)	($472,220)
Net realized gain (loss) on portfolio of investments, net of current income taxes	55,883	(16,762)
Increase (decrease) in unrealized appreciation of investments	379,975	(879,015)
Net increase (decrease) in net assets from operations	164,175	(1,367,997)
Capital stock transactions:		
Payment of dividends on preferred stock	(19,162)	(28,787)
Proceeds for conversion right	--	--
Purchase of treasury stock	--	(2,076)
Total increase (decrease) in net assets	145,013	(1,398,860)
Net assets at beginning of period	2,186,944	5,143,560
Net assets at end of period	$2,331,957	$3,744,700

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

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FRANKLIN CAPITAL CORPORATION

PORTFOLIO OF INVESTMENTS

MARKETABLE INVESTMENT SECURITIES

SEPTEMBER 30, 2003 (2)	NUMBER O SHARES O PRINCIPA AMOUNT (
Certificate of Deposit - 0.65%, due 11/03/2003	
Xplor Technology	7,50
Total Marketable Investment Securities (1.0% of total investments and 1.6% of net assets)	

INVESTMENTS, AT FAIR VALUE

SEPTEMBER 30, 2003 (2)	INVESTMENT	EQUITY INTEREST	NUMBER O SHARES O PRINCIPA AMOUNT (
MAJORITY OWNED AFFILIATE			
Excelsior Radio Networks, Inc.	Common stock and warrants	51.35%	1,370,91
Total Excelsior Radio Networks, Inc. (72.0% of total investments and 114.6% of net assets) (Radio production and advertising sales)		22.09% (fully diluted)	
OTHER INVESTMENTS			
Alacra Corporation (27.0% of total investments and 42.9% of net assets)	Convertible Preferred Stock	1.68%	321,54
(Internet-based information provider)			
Investments, at Fair Value			

(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
SEPTEMBER 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 September 30, 2003. (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 will seek to sell assets or find an alternative financing source. There can be no assurance that the Corporation would be able to obtain 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.

On October 8, 2003, Franklin sold to Sunshine Wireless, LLC ("Sunshine") 375,000 shares of the common stock of Excelsior at $2.00 per share for an aggregate of $750,000, realizing a gain of $375,000 (See Note 11). This asset sale reduced Franklin's working capital deficiency to approximately $700,000. Franklin continues to have a working capital deficiency primarily due to a note payable of $940,609 to Winstar Communications, Inc. ("Winstar") in connection with the acquisition of assets from Winstar (see Note 6). This note is taken into account in calculating the working capital deficit as it is assumed to be payable within the next year. Due to an action in which Franklin is a named party (see Note 5), the due date of this note has been extended indefinitely and it is uncertain as to when this note will come due. Franklin continues to seek adequate alternative financing rather than additional asset sales in order to alleviate the going concern issue.

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 nine months ended September 30, 2003 and 2002.

At September 30, 2003 and 2002, the Corporation held cash and cash equivalents primarily in money market funds at two commercial banking institutions, and one broker/dealer.

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Net (decrease) increase 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".

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:

	September 30, 2003	September 30, 2002
Net (decrease) increase in net assets attributable to common stockholders:		
As reported	$ (922,022)	$560,277
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	--	6,312
Pro forma	$ (922,022)	$553,965
Basic and diluted net (decrease) increase in net assets attributable to common stockholders:		
As reported	$(0.88)	$0.52
Pro forma	$(0.88)	$0.52

RECLASSIFICATION

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

3. INCOME TAXES

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

	2003	2002
Net investment loss from operations	$(823,336)	$(1,161,116)
Net realized gain (loss) on portfolio of investments	55,883	(349,147)
(Decrease) increase in unrealized appreciation	(97,080)	2,157,233
Pre-tax book (loss) income	$(864,533)	$ 646,970

	2003	2002

Tax benefit (provision) at 34% on $(864,533) and $646,970, respectively	$ 294,000	$ (220,000)
State and local, net of Federal benefit	--	--
Other	45,000	(155,000)
Change in valuation allowance	(339,000)	375,000
	$ --	$ --

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 September 30, 2003 and December 31, 2002, significant deferred tax assets and liabilities consist of:

	Asset (Liability)	
	September 30, 2003	September 30, 2002
Deferred Federal and state benefit from net operating loss carryforward	$ 2,660,000	$ 2,356,000
Deferred Federal and state provision on unrealized (appreciation) depreciation of investments	(498,000)	(533,000)
Valuation allowance	(2,162,000)	(1,823,000)
Deferred taxes	$ --	$ --

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

The accumulated deficit at September 30, 2003, consists of accumulated net realized gains of $5,168,000 and accumulated investment losses of $13,572,000.

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 nine months ended September 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 September 30, 2003.

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 and four other defendants affiliated with Winstar 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 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. 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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FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. EXCELSIOR RADIO NETWORKS, INC.

Franklin valued its position in Excelsior at $2.00 per common share based on the sale of 375,000 common shares to Sunshine on October 8, 2003 (See Note 11) and the receipt of an unsolicited non-binding expression of interest by Excelsior from a third party at a price greater than $2.00 per common share.

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.

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 nine months ended September 30, 2003, and 2002, Franklin earned $135,000 and $330,000, respectively, in management fees and was reimbursed $108,000 and $90,702, respectively, for salary and benefits for Franklin's chief financial officer, which was recorded as a reduction of expenses on Franklin.

Excelsior issued notes, each with an initial aggregate principal amount of $460,000 in connection with the acquisition of substantially all of the assets of Dial Communications Group, Inc., and Dial Communications Group, LLC in April 2002. Each of the promissory notes is convertible into shares of Franklin's common stock at a premium ranging from 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 promissory notes. For each share of common stock Franklin is required to issue under the promissory notes, Franklin will receive 0.86 shares of common stock in Excelsior. The note holders have entered into advanced discussions with Excelsior to amend the conversion feature so that the notes would become convertible into stock appreciation rights on Excelsior's common stock rather than convertible into Franklin's common stock. It is expected that this agreement will be signed after the filing of this 10Q but prior to year-end. If the agreement is not signed, then the note holders will continue to hold the right to convert the notes into shares of Franklin's common stock.

Franklin along with Sunshine initially purchased Excelsior on August 28, 2001. On October 3, 2002, Franklin sold 773,196 common shares for $1.94 per share for $1,500,000 realizing a gain of $726,804. On August 12, 2003, Franklin sold 193,000 common shares for $1.30 per share for $250,900 realizing a gain of $57,900. Franklin has stock appreciation rights on these commons shares as follows, a) in the event that Excelsior is sold on or before August 8, 2004 for gross proceeds of no less than $40,000,000, then Franklin shall be entitled to receive fifty percent (50%) of any net value above $1.30 per share not to exceed proceeds to Franklin of $1.94 per share, and b) in the event that Excelsior is sold on or before August 8, 2005 for gross proceeds of no less than $40,000,000, then Franklin shall be entitled to receive fifty percent (50%) of any net value above $1.30 per share not to exceed proceeds to Franklin of $1.625 per share. On October 8, 2003, Franklin sold additional shares to Sunshine (Note 11). There can be no guarantee that Franklin will be able to continue to sell shares of Excelsior to Sunshine.

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

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 nine months ended:

	September 30, 2003		September 30, 2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	20,625	$11.39	39,375	$11.27
Granted	--	--	--	--
Exercised	--	--	--	--
Forfeited	--	--	18,750	$11.13
Expired	--	--	--	--
Outstanding at end of period	20,625	$11.39	20,625	$11.39
Exercisable at end of period	20,625	$11.39	20,625	$11.39

The options issued under the SIP have a remaining contractual life of 4.2 years. The options issued under the SOP have a remaining contractual life of 6.3 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 September 30,		Nine months September
	2003	2002	2003
Numerator:			
Net increase (decrease) in net assets from operations	$ 164,175	($1,367,997)	($864,533)
Preferred stock dividends	(19,162)	(28,787)	(57,489)
Numerator for basic and diluted earnings per share - net increase (decrease) in net assets attributable to common stockholders	$ 145,013	($1,396,784)	($922,022)

Denominator:			
Denominator for basic and diluted increase (decrease) in net assets from operations - weighted - average shares	1,040,100	1,064,593	1,042,262
Basic and diluted net increase (decrease) in net assets from operations per share	$0.14	($1.31)	($0.88)
	=====	======	======

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

9. NET ASSET VALUE PER SHARE

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

	September 30, 2003	December 31, 2002
Numerator:		
Numerator for net asset value per common share, as if converted basis	$2,331,957	$3,267,540
Liquidation value of convertible preferred stock	(1,095,000)	(1,095,000)
Numerator for net asset value per share attributable to common stockholders	$1,236,957	$2,172,540
	==========	==========
Denominator:		
Number of common shares outstanding, denominator for net asset value per share attributable to common stockholders	1,040,100	1,049,600
Number of shares of common stock to be issued upon conversion of preferred stock	82,125	82,125
Denominator for net asset value per common share as if converted basis	1,122,225	1,131,725
	==========	==========
Net asset value per share attributable to common stockholders	$1.19	$2.07
	=====	=====

Net asset value per common share, as if converted basis	$2.08	$2.89
	=====	=====

10. PURCHASES AND SALES OF INVESTMENT SECURITIES

The cost of purchases and proceeds from sales of investment securities excluding short-term investments, aggregated $37,166 and $271,398 respectively, for the nine months ended September 30, 2003, and $22,985 and $85,269 respectively, for the nine months ended September 30, 2002.

11. SUBSEQUENT EVENT

On October 8, 2003, Franklin sold to Sunshine 375,000 shares of the common stock of Excelsior for an aggregate purchase price of $750,000, realizing a gain of $375,000, pursuant to a stock purchase agreement between Sunshine and Franklin. Franklin has stock appreciation rights on these common shares such that if Excelsior is sold and the purchaser of the common shares from Franklin receives more than $3.50 per share, Franklin is entitled to receive 80% of the value greater than $3.50 per share. After giving effect to the purchase of the common stock, Sunshine owns approximately 63.6% and the Company owns 36.4% of the issued and outstanding common stock, and voting power, of Excelsior. On a fully diluted basis, after giving effect to the exercise of the outstanding warrants and the conversion of Sunshine's outstanding preferred stock of Excelsior into common stock, the Corporation owns approximately 13.8% of Excelsior.

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 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, $3,820,254 and $2,331,957 at September 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 $1.19 and $2.08, respectively at September 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:

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Investments, at cost	$2,324,703	$2,511,479
Unrealized appreciation	1,383,991	1,481,071
Investments, at fair value	$3,708,694	$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 of approximately $1,400,000 at September 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.

On October 8, 2003, Franklin sold to Sunshine Wireless, LLC ("Sunshine") 375,000 shares of the common stock of Excelsior at $2.00 per share for an aggregate of $750,000, realizing a gain of $375,000 (See Note 11 to the financial statements). This asset sale reduced Franklin's working capital deficiency to approximately $700,000. Franklin continues to have a working capital deficiency primarily due to a note payable of $940,609 to Winstar Communications, Inc. ("Winstar") in connection with the acquisition of assets from Winstar (see Note 6 to the financial statements). This note is taken into account in calculating the working capital deficit as it is assumed to be payable within the next year. Due to an action in which Franklin is a named party (see Note 5 to the financial statements), the due date of this note has been extended indefinitely and it is uncertain as to when this note will come due. Franklin continues to seek adequate alternative financing rather than additional asset sales in order to alleviate the going concern issue.

INVESTMENTS

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

EXCELSIOR

At September 30, 2003, the Corporation has an investment in Excelsior, valued at $2,671,270, which represents 69.9% of the Corporation's total assets and 114.6% of its net assets.

Franklin valued its position in Excelsior at $2.00 per common share based on the sale of 375,000 common shares to Sunshine on October 8, 2003 (See Note 11) and the receipt of an unsolicited non-binding expression of interest by Excelsior from a third party at a price greater than $2.00 per common share.

Excelsior 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 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 100 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 issued notes, each with an initial aggregate principal amount of $460,000 in connection with the acquisition of substantially all of the assets of Dial Communications Group, Inc., and Dial Communications Group, LLC in April 2002. Each of the promissory notes is convertible into shares of Franklin's common stock at a premium ranging from 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 promissory notes. For each share of common stock Franklin is required to issue under the promissory notes, Franklin will receive 0.86 shares of common stock in Excelsior. The note holders have entered into advanced discussions with Excelsior to amend the conversion feature so that the notes would become convertible into shares of Excelsior's common stock rather than Franklin's common stock. It is expected that this agreement will be signed after the filing of this 10Q but prior to year-end. If the agreement is not signed, then the note holders will continue the hold right to convert the notes into shares of Franklin's common stock.

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. 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 $1.125 per share for $0.50 per warrant. On August 12, 2003, Franklin sold 193,000 common shares for $1.30 per share for total proceeds of $250,900 realizing a gain of $57,900. Franklin has stock appreciation rights on these common shares as follows, a) in the event that Excelsior is sold on or before August 8, 2004 for gross proceeds of no less than $40,000,000, then Franklin shall be entitled to receive fifty percent (50%) of any net value above $1.30 per share not to exceed proceeds to Franklin of $1.94 per share, and b) in the event that the Excelsior is sold on or before August 8, 2005 for gross proceeds of no less than $40,000,000, then Franklin shall be entitled to receive fifty percent (50%) of any net value above $1.30 per share not to exceed proceeds to Franklin of $1.625 per share.

On October 8, 2003, Franklin sold to Sunshine 375,000 shares of the common stock of Excelsior for an aggregate purchase price of $750,000, realizing a gain of $375,000, pursuant to a stock purchase agreement between Sunshine and Franklin. Franklin has stock appreciation rights on these common shares such that if Excelsior is sold and the purchaser of the common shares from Franklin receives more than $3.50 per share, Franklin is entitled to receive 80% of the value greater than $3.50 per share. After giving effect to the purchase of the common stock, Sunshine owns approximately 63.6% and the Company owns 36.4% of the issued and outstanding common stock, and voting power, of Excelsior. On a fully diluted basis, after giving effect to the exercise of the outstanding warrants and the conversion of Sunshine's outstanding preferred stock of Excelsior into common stock, the Corporation owns approximately 13.8% of Excelsior. Franklin continues to maintain a seat on the board of directors of Excelsior.

ALACRA CORPORATION

At September 30, 2003, the Corporation has an investment in Alacra Corporation ("Alacra"), valued at $1,000,000, which represents 26.2% of the Corporation's total assets and 42.9% 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. Franklin has the right to have the preferred stock redeemed by Alacra for face value plus accrued dividends on December 31, 2005. 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 $135,848 and $332,219 for the nine months ended September 30, 2003 and 2002, respectively. The decrease in investment income for the nine months ended September 30, 2003 when compared to September 30, 2002, was primarily the result of the decrease in the management fee from Excelsior. The Corporation had investment income of $45,090 and $120,110 for the three months ended September 30, 2003 and 2002, respectively. The decrease in investment income for the three months ended September 30, 2003 when compared to September 30, 2002, was primarily the result of a decrease in the management fee from Excelsior.

Operating expenses were $959,184 and $1,493,335 for the nine months ended and $316,773 and $592,330 for the three months ended September 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 incurred $465,782 in expenses related to a terminated merger. In 2003, the Corporation settled with two vendors related to the terminated merger for an additional $73,500. The Corporation was reimbursed approximately $108,000 and $90,702 for the nine months ended September 30, 2003 and 2002 respectively, 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 $823,336 and $1,161,116 for the nine months ended and $271,683 and $472,220 for the three months ended September 30, 2003 and 2002, respectively. The decrease resulted primarily from the decrease in expenses related to the cancelled merger.

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 nine months ended September 30, 2003 and 2002, the Corporation realized net losses before taxes of $55,883 and $349,147 respectively, from the disposition of various investments.

UNREALIZED APPRECIATION OF INVESTMENTS:

Unrealized appreciation of investments, decreased by $97,080 during the nine months ended September 30, 2003, primarily from the sale of a portion of Excelsior.

Unrealized appreciation of investments, increased by $2,157,233 during the nine months ended September 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 September 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.

On October 8, 2003, Franklin sold to Sunshine Wireless, LLC ("Sunshine") 375,000 shares of the common stock of Excelsior at $2.00 per share for an aggregate purchase price of $750,000, realizing a gain of $375,000 (See Note 11 to the financial statements). This asset sale reduced Franklin's working capital deficiency to approximately $700,000. Franklin continues to have a working capital deficiency primarily due to a note payable of $940,609 to Winstar Communications, Inc. ("Winstar") in connection with the acquisition of assets from Winstar (see Note 6 to the financial statements). This note is taken into account in calculating the working capital deficit as it is assumed to be payable within the next year. Due to an action in which Franklin is a named party (see Note 5 to the financial statements), the due date of this note has been extended indefinitely and it is uncertain as to when this note will come due. Franklin continues to seek adequate alternative financing rather than additional asset sales in order to alleviate the going concern issue.

Cash and cash equivalents decreased by $536,204 to $25,987 for the nine months ended September 30, 2003, compared to a decrease of $279,728 for the nine months ended September 30, 2002.

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Operating activities used $696,604 of cash for the nine months ended September 30, 2003, compared to using $542,286 for the nine months ended September 30, 2002.

Operating activities for the nine months ended September 30, 2003, exclusive of changes in operating assets and liabilities, used $810,606 of cash, as the Corporation's net decrease in net assets from operations of $864,533 included non-cash charges for depreciation and amortization of $12,729, unrealized losses of $97,080 and realized gains of $55,882. For the nine months ended September 30, 2002, operating activities, exclusive of changes in operating assets and liabilities, used $1,148,390 of cash, as the Corporation's net increase in net assets from operations of $646,639 included non-cash charges of depreciation and amortization of $12,727, unrealized gains of $2,157,233 and realized losses of $349,477.

Changes in operating assets and liabilities increased cash $114,002 for the nine months ended September 30, 2003, principally due to an increase in the level of accounts payable and accrued expenses. For the nine months ended September 30, 2002, changes in operating assets and liabilities produced $606,104 of cash.

The sale of a portion of Excelsior provided $250,900 of cash offset by the net purchase of marketable securities of $8,242 of cash provided in investing activities for the nine months ended September 30, 2003. For the nine months ended September 30, 2002, the principal factor in the $137,284 cash provided by investing activities was repayment of a loan to 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 nine months ended September 30, 2003 of $82,258 resulted primarily from payment of preferred dividends of $57,489 and the purchase of treasury stock of $13,561. Financing activities provided by $128,386 in the prior year's comparable period from the proceeds for conversion rights offset by the payment of preferred dividends of $86,362 and the purchase of treasury stock of $37,322.

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.

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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.

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 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."

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, 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.

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 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: November 14, 2003

By: /s/ Stephen L. Brown

Stephen L. Brown
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

/s/ Hiram M. Lazar

Hiram M. Lazar
CHIEF FINANCIAL OFFICER