FRANKLIN CAPITAL CORP
Form 10-Q
August 16, 2004

UNITED STATES
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, 2004

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 August 11, 2004 was 1,046,350.

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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.

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FRANKLIN CAPITAL CORPORATION

Balance Sheets

	(Unaudited) June 30, 2004
ASSETS	
Marketable investment securities, at market value (cost: June 30, 2004 - $26,249, December 31, 2003 - $40,899) (Note 2)	$26,249
Investments, at fair value (cost: June 30, 2004 - $1,650,000; December 31, 2003 - $1,908,804) (Note 2)	
Excelsior Radio Networks, Inc.	1,739,210
Other investments	1,000,000
	2,739,210
Cash and cash equivalents (Note 2)	274,498
Other assets	52,712
	$3,092,669
TOTAL ASSETS	

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES	
Note payable	$904,714
Accounts payable and accrued liabilities	266,005
TOTAL LIABILITIES	1,170,719
Commitments and contingencies (Note 5)	
STOCKHOLDERS' EQUITY	
Convertible preferred stock, $1 par value, cumulative 7% dividend: 5,000,000 shares authorized; 10,950 issued and outstanding at June 30, 2004 and December 31, 2003 (Liquidation preference $1,095,000) (Note 4)	10,950
Common stock, $1 par value: 5,000,000 shares authorized; 1,505,888 shares issued: 1,046,350 and 1,020,100 shares outstanding at June 30, 2004 and December 31, 2003, respectively (Note 7)	1,505,888
Paid-in capital	10,442,080
Unrealized appreciation of investments	1,089,210
Accumulated deficit	(8,548,721
	4,499,407
Deduct: 459,538 and 485,788 shares of common stock held in treasury, at cost, at June 30, 2004 and December 31, 2003, respectively (Note 4)	(2,577,457
Net assets (See Note 9 for per share information)	1,921,950
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,092,669

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 June 30, 2004	Three Months Ended June 30, 2003
INVESTMENT INCOME		
Interest and dividend income	$50	$80

Management fees	0	45,000
	50	45,080
EXPENSES		
Salaries and employee benefits	127,936	135,629
Professional fees	184,122	72,605
Rent	18,879	26,079
Insurance	17,037	17,910
Directors' fees	2,000	2,001
Taxes other than income taxes	6,037	9,358
Depreciation and amortization	-	4,243
Interest expense	9,002	8,850
General and administrative	32,684	46,331
	397,697	323,006
Net investment loss from operations	(397,647)	(277,926)
Net realized gain on portfolio of investments:		
Investment securities:		
Affiliated	300,000	-
Unaffiliated	-	-
Other realized gain (Note 6)	151,400	-
Net realized gain on portfolio of investments	451,400	-
Net realized gain (loss)	53,753	(277,926)
(Decrease) increase in unrealized appreciation of investments		
Investment securities:		
Affiliated	135,548	(524,599)
Unaffiliated	-	-
Other decrease in unrealized appreciation (Note 6)	(154,563)	-
(Decrease) increase in unrealized appreciation of investments	(19,015)	(524,599)
Net increase (decrease) in net assets from operations	34,738	(802,525)
Preferred dividends	19,161	19,163
Net increase (decrease) in net assets attributable to common stockholders	$15,577	($821,688)
Basic and diluted net increase (decrease) in net assets per common share (Note 8)	$0.02	($0.79)

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

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FRANKLIN CAPITAL CORPORATION

Statements of Cash Flows
(unaudited)

For the Six Months Ended June 30,	2004
Cash flows from operating activities:	
Net decrease in net assets from operations	($105,708)
Adjustments to reconcile net (decrease) in net assets from operations to net cash used in operating activities:	
Depreciation and amortization	-
(Increase) decrease in unrealized appreciation of investments	(83,744)
Net realized gain on portfolio of investments	(500,878)
Changes in operating assets and liabilities:	
Decrease in other assets	25,926
(Decrease) increase in accounts payable and accrued liabilities	(52,135)
Total adjustments	(610,831)
Net cash used in operating activities	(716,539)
Cash flows from investing activities:	
Proceeds from sale of marketable investment securities	171,972
Purchase of majority-owned affiliates	-
Proceeds from sale of majority-owned affiliate	617,608
Purchases of marketable investment securities	(15,248)
Net cash provided by investing activities	774,332
Cash flows from financing activities:	
Payment of preferred dividends	(38,325)
Decrease in note payable	(11,040)
Cash proceeds related to 16B filing.	2,470
Issuance of treasury stock for exercise of director options	39,375
Purchases of treasury stock	-
Net cash used in financing activities	(7,520)
Net increase (decrease) in cash and cash equivalents	50,273
Cash and cash equivalents at beginning of period	224,225
Cash and cash equivalents at end of period	$274,498

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, 2004	Three Months Ended June 30, 2003
Increase (decrease) in net assets from operations:		
Net investment loss	($397,647)	($277,926)
Net realized gain on portfolio of investments,	451,400	-
(Decrease) increase in unrealized appreciation of investments	(19,015)	(524,599)
Net increase (decrease) in net assets from operations	34,738	(802,525)
Capital stock transactions:		
Payment of dividends on preferred stock	(19,161)	(19,163)
Cash proceeds related to 16B filing.	2,470	-
Issuance of stock from treasury for exercise of director options	39,375	-
Purchase of treasury stock	-	(3,556)
Total increase (decrease) in net assets	57,422	(825,244)
Net assets at beginning of period	1,864,528	3,012,188
Net assets at end of period	$1,921,950	$2,186,944

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

FRANKLIN CAPITAL CORPORATION

Portfolio of Investments

Marketable Investment Securities

June 30, 2004 (2)	Numbe Shar
Certificate of Deposit - 0.7%, due 08/02/2004	
Total Marketable Investment Securities (0.9% of total investments and 0.8% of net assets)	

Investments, at Fair Value

June 30, 2004(2)	Investment	Equity Interest	Numbe Shar
Majority Owned Affiliate			
Excelsior Radio Networks, Inc.	Common stock	26.00%	650,
Excelsior Radio Networks, Inc.	Warrants	1.20%	87,
Total Excelsior Radio Networks, Inc. (58.8% of total investments and 84.5% of net assets) (Radio production and advertising sales)		10.20% (fully diluted)	737,
Other Investments			
Alacra Corporation (36.2% of total investments and 52.0% of net assets) (Internet-based information provider)	Convertible Preferred Stock	1.68%	321,
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.

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FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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 $900,000 at June 30, 2004. (Working capital is defined as total liabilities less liquid assets.) This condition raises substantial doubt about the Corporation's ability to continue as a going concern. The 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 June 23, 2004, the Corporation entered into a Letter of Understanding (the "LOU") with Ault Glazer & Company Investment Management LLC ("Ault Glazer"). This LOU sets forth the understandings and agreements of the Corporation and Ault Glazer with respect to the initial steps in the execution of a strategic restructuring and recapitalization plan for the Corporation (the "Restructuring Plan"). Pursuant to the terms of the LOU, on July 30, 2004, the Company filed with the SEC a preliminary proxy statement soliciting the approval by the Corporation's stockholders of a number of proposals relating to the Restructuring Plan. As described more fully in the Corporation's preliminary proxy statement, certain of these proposals are intended to allow the Corporation to attempt to raise additional capital. Even if the Corporation's stockholders approve these proposals, however, there can be no assurance that the Corporation will be able to raise additional capital.

In connection with the Restructuring Plan, Franklin also entered into a Termination Agreement and Release (the "Termination Agreement") with Stephen Brown, Franklin's Chairman and Chief Executive Officer, that contains the terms of Mr. Brown's prospective resignation as an officer and director of Franklin. Please see Note 5 for additional information regarding the Termination Agreement.

Please refer to the preliminary proxy statement filed with the Securities and Exchange Commission on July 30, 2004 for additional descriptions of, and information relating to, the LOU, the Restructuring Plan, the Termination Agreement and the proposals to be voted on by the Corporation's stockholders.

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.

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2004 and 2003.

At June 30, 2004 and 2003, the Corporation held cash and cash equivalents primarily in money market funds at one commercial banking institution.

VALUATION OF INVESTMENTS

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

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

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

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FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NET INCREASE (DECREASE) IN NET ASSETS PER COMMON SHARE

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

3. INCOME TAXES

For the six months ended June 30, 2004, and 2003, Franklin's tax (provision) benefit was based on the following:

	2004	2003
Net investment loss from operations	$ (690,330)	$ (551,653)
Net realized gain on portfolio of investments	500,878	-
Increase in unrealized appreciation	83,744	(477,055)
Pre-tax book loss	$ (105,708)	$(1,028,708)

	2004	2003
Federal tax benefit at 34% on $(105,708) and $(1,028,708), respectively	$ 36,000	$ 350,000
Other	30,000	17,000
Change in valuation allowance	(66,000)	(367,000)
	$ -	$ -

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

At June 30, 2004 and December 31, 2003, significant deferred tax assets and liabilities consist of:

	Asset (Liability)	
	June 30, 2004	Decem 2

Deferred Federal and state benefit from net operating loss carryforward	$ 2,686,000	$ 2,
Deferred Federal and state provision benefit on unrealized appreciation of investments	(392,000)	(
Valuation allowance	(2,294,000)	(2,
Deferred taxes	$ -	$

At December 31, 2003, Franklin had net operating loss carryforwards for income tax purposes of approximately $7,236,000 that will begin to expire in 2011. At a 36% effective tax rate the after-tax net benefit from this loss would be approximately $2,605,000.

4. STOCKHOLDERS' EQUITY

The accumulated deficit at June 30, 2004, consists of accumulated net realized gains of $5,987,000 and accumulated investment losses of $14,535,000.

The Board of Directors has authorized Franklin to repurchase up to an aggregate of 575,000 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 June 30, 2004 and December 31, 2003, the Corporation has purchased 536,950 shares of its common stock of which 459,538 shares remain in treasury.

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.

5. COMMITMENTS AND CONTINGENCIES

Franklin is obligated under an operating lease, which provides for annual minimum rental payments through December 31, 2004 of $105,000.

Rent expense for the six months ended June 30, 2004 and 2003, was approximately $37,000 and $35,000, respectively. For the six months ended June 30, 2004, and 2003, the Corporation collected rents of $18,000 from one subtenant under a month-to-month lease, for a portion of its existing office space that is reflected as a reduction in rent expense for that period.

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. On February 25, 2003, the case against Franklin and Sunshine was dismissed, however the plaintiffs have a right to appeal. The lawsuit alleges that the Winstar defendants conspired to commit fraud and breached their fiduciary duty to the plaintiffs in connection with the acquisition of the plaintiff's radio production and distribution business. The complaint further alleges that Franklin and Sunshine joined the alleged conspiracy. The plaintiffs seek recovery of damages in excess of $10,000,000, costs and attorneys' fees. An unfavorable outcome in an appeal, should it be brought, together with an unfavorable outcome in the lawsuit may have a material adverse effect on Franklin's business, financial condition and results of operations.

As a result of the acquisition by Ault Glazer of more than 30% of the outstanding shares of the common stock of Franklin without the prior approval of the Board, Mr. Stephen L. Brown, Chairman and Chief Executive Officer of Franklin became entitled, if his employment with Franklin were to terminate within one year thereafter, to receive certain severance payments under the terms of his employment agreement and severance compensation agreement with Franklin. In connection with the Restructuring Plan, Franklin entered into the Termination Agreement, which replaces Mr. Brown's employment agreement and severance compensation agreement and provides Mr. Brown with the same rights to severance payments as were provided under the terms of the employment agreement and severance compensation agreement. Pursuant to the Termination Agreement, the amount of severance Mr. Brown would be eligible to receive is $1,093,750. This amount has not been recorded as a liability on the books and records of the Corporation as of June 30, 2004.

6. MARKETABLE INVESTMENT SECURITIES AND INVESTMENTS AT FAIR VALUE

Franklin valued its position in Excelsior Radio Networks, Inc. ("Excelsior") at $2.50 per common share based on the sale of 200,000 common shares to Quince Associates, L.P. ("Quince"), an affiliate of Sunshine, on June 30, 2004 and the subsequent agreement entered into on July 5, 2004 whereby Franklin would sell its remaining position in Excelsior to Quince. (See Note 11)

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. The due date of the note has been extended indefinitely until the action described in Note 5 is settled.

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.

During the six months ended June 30, 2003, Franklin earned $90,000 in management fees and was reimbursed $72,000 for salary and benefits for Franklin's chief financial officer, which was recorded as a reduction of expenses on Franklin under a management services agreement between Franklin and Excelsior. The agreement expired December 31, 2003.

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 January 31, 2003, Franklin purchased and subsequently on May 29, 2003, Franklin cancelled the purchase, 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 $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 total 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 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. On March 19, 2004, Franklin sold to Sunshine 58,804 shares of the common stock of Excelsior for an aggregate purchase price of $117,608, realizing a gain of $58,804, pursuant to a stock purchase agreement between Sunshine and Franklin. On June 30, 2004, Franklin sold to Quince 200,000 shares of the common stock of Excelsior for an aggregate purchase price of $500,000, realizing a gain of $300,000, pursuant to a stock purchase agreement between Quince and Franklin. Franklin has stock appreciation rights on the common shares sold on October 8, 2003 and March 19, 2004, 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. Franklin has stock appreciation rights on the common shares sold on June 30, 2004 such that in the event of net proceeds from a liquidation of Excelsior exceed $3.00 (or an amount equal to $3.00 plus $0.50 multiplied by the number of years, up to 5 years elapsed since June 30, 2004), Franklin will be entitled to receive 80% of the value greater than $3.00 (or such other applicable amount) per share.

After giving effect to the purchase of the common stock on June 30, 2004, Sunshine owns 74% and the Corporation owns 26% 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 10% of Excelsior.

On July 5, 2004 Franklin entered into an agreement with Quince to sell its remaining interest in Excelsior. Please see Note 11 for additional information on the terms of this agreement.

In 2001, Franklin maintained group life and dental insurance with Principal Financial Group ("PFG"). Upon the demutualization of PFG in October 2001, Franklin received 4,338 common shares of PFG. However, Franklin did not receive any notification for the receipt of such shares. In 2004 Franklin became aware of its ownership of PFG common shares, and recorded the fair value of such shares within marketable investments. On April 23, 2004, Franklin sold the common shares of PFG for $151,400, which was recorded as other realized gains in the accompanying statement of operations.

7. STOCK OPTION PLANS

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

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

	June 30, 2004		June
	Shares	Weighted Average Exercise Price	Shares
Outstanding at beginning of year	20,625	$11.39	20,625
Granted	26,250	$ 1.50	-
Exercised	26,250	$ 1.50	-
Forfeited	-	-	-
Expired	-	-	-
Outstanding at end of period	20,625	$11.39	20,625
Exercisable at end of period	20,625	$11.39	20,625
Weighted average fair value of options granted	$1.50		-

The options issued under the SIP have a remaining contractual life of 4.5 years. The options issued under the SOP have a remaining contractual life of 6.5 years.

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

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

	Three Months ended June 30, 2004	Three Months ended June 30, 2003
Numerator:		
Net increase (decrease) in net assets from operations	$34,738	$(802,525)
Preferred stock dividends	(19,161)	(19,163)

Numerator for basic and diluted earnings per share - net increase (decrease) in net assets attributable to common stockholders	$15,577	$(821,688)
Denominator:		
Denominator for basic increase (decrease) in net assets from operations - weighted - average shares	1,027,888	1,040,931
Basic and diluted net increase (decrease) in net assets from operations per share	$0.02	$(0.79)

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

	Period ended June 30,	
	2004	2003
Preferred stock convertible into common stock	82,125	82,125
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:

	June 30, 2004
Numerator:	
Numerator for net asset value per common share, as if converted basis	$1,921,950
Liquidation value of convertible preferred stock	(1,095,000)
Numerator for net asset value per share attributable to common stockholders	$ 826,950
Denominator:	
Number of common shares outstanding, denominator for net asset value per share attributable to common stockholders	1,046,350
Number of shares of common stock to be issued upon conversion of preferred stock	82,125
Denominator for net asset value per common	

share as if converted basis	1,128,475
Net asset value per share attributable to common stockholders	$0.79
Net asset value per common share, as if converted basis	$1.70

10. PURCHASES AND SALES OF INVESTMENT SECURITIES

The cost of purchases and proceeds from sales of investment securities, excluding short-term investments, aggregated $15,248 and $789,580, respectively, for the six months ended June 30, 2004; $87,444 and $87,444, respectively, for the six months ended June 30, 2003.

11. SUBSEQUENT EVENT

On July 5, 2004, Franklin entered into an agreement to sell Franklin's remaining interest in Excelsior to Quince. The transactions contemplated by this agreement are subject to Franklin shareholder approval. Should the shareholders approve the sale, Franklin would sell 650,000 shares of Excelsior common stock for $2.50 per share, warrants exercisable for 74,232 shares of Excelsior common stock at an exercise price of $1.20 per share for $1.30 per warrant, and warrants exercisable for 12,789 shares of Excelsior common stock at an exercise price of $1.125 per share for $1.375 per warrant. Franklin may receive additional proceeds based on certain contingencies. Please refer to Franklin's preliminary proxy statement filed with the SEC on July 30, 2004 for additional information related to this proposed sale.

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

The following "Overview" section is a brief summary of the significant issues addressed in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). Investors should read the relevant sections of the MD&A for a complete discussion of the issues summarized below. The entire MD&A should be read in conjunction with Item 1. Financial Statements appearing elsewhere in this Form 10-Q.

OVERVIEW

During the six months ended June 30, 2004, the Corporation realized approximately $359,000 in gains on its sale of Excelsior common stock and approximately $142,000 in gains on its sale of marketable securities. The Corporation continues to rely on the increase in the value of its investments and the ability to sell them in order to fund its ongoing operations.

On June 23, 2004, the Corporation entered into a letter of understanding (the "LOU") with Ault Glazer & Company Investment Management LLC ("Ault Glazer"), which indirectly beneficially owns or controls a significant percentage of the Corporation's voting stock. The LOU sets forth the understandings and agreements of the Corporation and Ault Glazer with respect to the initial steps in the execution of a strategic restructuring and recapitalization plan for the Corporation (the "Restructuring Plan"). In connection with the LOU, on June 23, 2004, the Corporation increased the size of the Board of Directors and appointed Milton "Todd" Ault, III to fill the resulting vacancy on the Board of Directors. Likewise, the Corporation agreed to take all necessary actions, including the preparation and mailing of all necessary preliminary and definitive proxy statements, to call and hold a special meeting of the Corporation's stockholders (the "Special Meeting") for the purpose of approving certain proposals (as described below) relating to the Restructuring Plan. The LOU also outlines certain parameters for the operation of the Corporation's business prior to the Special Meeting and subsequent steps for the Restructuring Plan that both the Corporation and Ault Glazer have agreed to use commercially reasonable efforts to take following the Special Meeting.

The proposals that the Corporation's stockholders will be asked to approve at the special meeting include each of the following:

- The election of four directors to hold office until the next annual meeting of stockholders or until their successors have been duly elected and qualified (two of whom are to be elected by the holders of the Corporation's Common Stock, voting together as a single class, and two of whom are to be elected by the holders of Preferred Stock, voting as a separate class)

- The approval of the amendment and restatement of the Corporation's certificate of incorporation to: (i) increase the authorized number of shares of Common Stock from 5,000,000 shares to 50,000,000 shares; (ii) increase the authorized number of shares of Preferred Stock from 5,000,000 shares to 10,000,000 shares; (iii) provide for the exculpation of director liability to the fullest extent permitted by law; and (iv) provide for the classification of the Corporation's Board of Directors into three classes of directors;

- The approval of the sale by the Corporation to Quince of all of the shares of common stock, and warrants to purchase shares of common stock, of Excelsior beneficially owned by the Corporation;

- The approval of the issuance of an aggregate of up to 5,000,000 shares of the Corporation's Common Stock, and warrants to purchase an aggregate of up to 1,500,000 additional shares of the Corporation's Common Stock upon terms that are approved by a majority of the Board of Directors consistent with its fiduciary duties and consistent with prevailing market terms (which may require a discount from the then-current market price of the Common Stock) for such issuances at the time of such issuances;

- The approval of the sale of equity securities of the Corporation to certain "interested stockholders" (as such term is defined in Section 203 of the Delaware General Corporation Law (the "DGCL")) on terms that are approved by a majority of the Board of Directors consistent with its fiduciary duties and consistent with prevailing market terms for such issuances at the time of such issuances

Each of the above proposals, and any action by the Corporation in pursuit of any transactions described in such proposals, is subject to the approval by the Corporation's stockholders at the Special Meeting.

As a result of the acquisition by Ault Glazer of more than 30% of the outstanding shares of the common stock of Franklin without the prior approval of the Board, Mr. Stephen L. Brown, Chairman and Chief Executive Officer of Franklin became entitled, if his employment with Franklin were to terminate within one year thereafter, to receive certain severance payments under the terms of his employment agreement and severance compensation agreement with Franklin. In connection with the Restructuring Plan, Franklin also entered into a Termination Agreement and Release (the "Termination Agreement") with Mr. Brown which contains the terms of Mr. Brown's prospective resignation from Franklin and replaces Mr. Brown's employment agreement and severance compensation agreement. The Termination Agreement provides that, upon the election of the new slate of members of the Board of Directors and the approval of Franklin's sale of Excelsior common stock and warrants to purchase Excelsior common stock to Quince at the Special Meeting, Mr. Brown will resign as an officer and director of Franklin. Pursuant to the Termination Agreement, the amount of severance Mr. Brown would be eligible to receive is $1,093,750. This amount has not been recorded as a liability on the books and records of the Corporation as of June 30, 2004.

Please refer to the preliminary proxy statement filed with the SEC on July 30, 2004 for additional descriptions of, and information relating to, the LOU, the Restructuring Plan, the Termination Agreement and the proposals to be voted on by the Corporation's stockholders.

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.

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 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.

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 (decrease) increase 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 (decrease) increase in unrealized appreciation of investments," which is the net change in the fair value of the Corporation's investment portfolio, net of any (decrease) increase 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 (decrease) increase 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, $3,092,669 and $1,921,950 at June 30, 2004, versus $3,258,032 and $2,024,138 at December 31, 2003. Net asset value per share attributable to common shareholders and on an as if converted basis was $0.79 and $1.70, respectively at June 30, 2004, versus $0.91 and $1.84 at December 31, 2003.

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, 2004	DECEMBER 31, 2003
Investments, at cost	$1,676,249	$1,949,703
Unrealized appreciation	1,089,210	1,005,466
Investments, at fair value	$2,765,459	$2,955,169

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 $900,000 at June 30, 2004. 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, should it seek to do so, or be able to obtain alternative financing.

Pursuant to the terms of the LOU, on July 30, 2004, the Company filed with the SEC a preliminary proxy statement soliciting the approval by the Corporation's stockholders of a number of proposals relating to the Restructuring Plan. As described more fully in the "Overview" section of this Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of this Quarterly Report on Form 10-Q, and in the Corporation's preliminary proxy statement, certain of these proposals are intended to allow the Corporation to attempt to raise additional capital. Even if the Corporation's stockholders approve these proposals, however, there can be no assurance that the Corporation will be able to raise additional capital. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

INVESTMENTS

The Corporation's financial condition is dependent on the success of its investments. The Corporation has invested a substantial portion of its assets in thinly capitalized companies including one development stage company that may lack management depth.

Alacra Corporation

At June 30, 2004, the Corporation had an investment in Alacra Corporation ("Alacra"), valued at $1,000,000, which represents 32.3% of the Corporation's total assets and 52.0% of its net assets. Alacra, based in New York, is a leading global provider of business and financial information. Alacra provides a diverse portfolio of fast, sophisticated online services that allow users to quickly find, analyze, package and present mission-critical business information. Alacra's customers include more than 750 leading financial institutions, management consulting, law and accounting firms and other corporations throughout the world.

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 on Alacra board of directors meetings.

Excelsior Radio Networks

At June 30, 2004, the Corporation had an investment in Excelsior, formerly known as eCom Capital, Inc., valued at $1,739,210, which represents 52.5% of the Corporation's total assets and 84.5% of its net assets. This valuation represents the same value as the last sales price realized by the Corporation for the sale of 200,000 shares of Excelsior's common stock on June

30, 2004 as well as an agreement reached on July 5, 2004 to sell Franklin's remaining position in Excelsior. Excelsior produces and syndicates programs and services heard on more than 2,000 radio stations nationwide across most major formats. Through its Dial Communications Global Media sales subsidiary, Excelsior sells the advertising inventory radio stations provide, in exchange for the Excelsior content. The programming and content includes prep services as well as long form and short form programming. Additionally, Dial Communications Global Media has a number of independent producer clients, which range from talk and music programs to news and traffic services.

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. As of December 31, 2003, the secured note was paid back to Franklin. Franklin sold 250,000 common shares for $1.00 per share on December 4, 2001 for no gain or loss. 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 cancelled the purchase, 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. On March 19, 2004, Franklin sold to Sunshine 58,804 shares of common stock of Excelsior for an aggregate purchase price of $117,608, realizing a gain of $58,804, pursuant to a stock purchase agreement between Sunshine and Franklin. Franklin has stock appreciation rights on the common shares sold on both October 8, 2003 and March 19, 2004, 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. On June 30, 2004, Franklin sold to Quince 200,000 shares of the common stock of Excelsior for an aggregate purchase price of $500,000, realizing a gain of $300,000, pursuant to a stock purchase agreement between Quince and Franklin. Franklin has stock appreciation rights on the common shares sold on June 30, 2004 such that in the event of net proceeds from a liquidation of Excelsior exceed $3.00 (or an amount equal to $3.00 plus $0.50 multiplied by the number of years, up to 5 years elapsed since June 30, 2004), Franklin will be entitled to receive 80% of the value greater than $3.00 (or such other applicable amount) per share.

After giving effect to the purchase of the common stock on June 30, 2004, Sunshine owns 74% and the Corporation owns 26% 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 10% of Excelsior.

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On July 5, 2004, Franklin entered into an agreement to sell to Quince Franklin's remaining interest in Excelsior. The transactions contemplated by this agreement are subject to shareholder approval. Should the shareholders approve the sale, Franklin would sell 650,000 shares of Excelsior common stock for $2.50 per share, warrants exercisable for 74,232 shares of Excelsior common stock at an exercise price of $1.20 per share for $1.30 per warrant, and warrants exercisable for 12,789 shares of Excelsior common stock at an exercise price of $1.125 per share for $1.375 per warrant. Franklin may receive additional proceeds based on certain contingencies. Please refer to Franklin's preliminary proxy statement filed with the SEC on July 30, 2004 for additional information related to this proposed sale.

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 $215 and $90,758 for the six months ended and $50 and $45,080 for the three months ended June 30, 2004 and 2003, respectively. The decrease in investment income for the six and three months ended June 30, 2004 when compared to June 30, 2003, was primarily the result of the management agreement with Excelsior expiring on December 31, 2003.

Operating expenses were $690,545 and $642,411 for the six months ended and $397,697 and $323,006 for the three months ended June 30, 2004 and 2003, 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. Included in compensation is a $40,000 bonus paid to an officer of the Corporation during 2003. Professional fees were $139,000 higher in 2004 due to costs incurred due to the LOU with Ault Glazer. The Corporation was reimbursed approximately $72,000 for salary and benefit expense for its chief financial officer under the terms of the management agreement with Excelsior for the six months ended June 30, 2003. This reimbursement has been recorded as a reduction in operating expenses.

Net investment losses from operations were $690,330 and $551,653 for the six months and $397,647 and $277,926 for the three months ended June 30, 2004 and 2003, respectively.

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, 2004 and 2003, the Corporation realized net gains before taxes of $500,878 and $0 respectively, primarily from the disposition of a portion of the Corporation's Excelsior holdings and the

sale of common shares of Principal Financial Group ("PFG"). In 2001, Franklin maintained group life and dental insurance with PFG. Upon the demutualization of PFG in October 2001, Franklin received 4,338 common shares of PFG. However, Franklin did not receive any notification for the receipt of such shares. In 2004 Franklin became aware of its ownership of PFG common shares, and recorded the fair value of such shares within marketable investments.

UNREALIZED APPRECIATION OF INVESTMENTS:

Unrealized appreciation of investments, increased by $83,744 during the six months ended June 30, 2004, primarily due an increase in the value of the Corporation's Excelsior holdings.

Unrealized appreciation of investments, decreased by $477,055 during the six months ended June 30, 2003, primarily from unrealized losses 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 $900,000 at June 30, 2004. This condition raises substantial doubt about the Corporation's ability to continue as a going concern.

Pursuant to the terms of the LOU, on July 30, 2004, the Company filed with the SEC a preliminary proxy statement soliciting the approval by the Corporation's stockholders of a number of proposals relating to the Restructuring Plan. As described more fully in the "Overview" section of this Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of this Quarterly Report on Form 10-Q, and in the Corporation's preliminary proxy statement, certain of these proposals are intended to allow the Corporation to attempt to raise additional capital. Even if the Corporation's stockholders approve these proposals, however, there can be no assurance that the Corporation will be able to raise additional capital. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

Cash and cash equivalents increased by $224,225 to $274,498 for the six months ended June 30, 2004, compared to a decrease of $450,670 for the six months ended June 30, 2003.

Operating activities used $716,539 of cash for the six months ended June 30, 2004, compared to using $400,098 for the six months ended June 30, 2003.

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Operating activities for the six months ended June 30, 2004, exclusive of changes in operating assets and liabilities, used $690,330 of cash, as the Corporation's net decrease in net assets from operations of $105,708 included non-cash charges for unrealized losses of $83,744 and net realized gains of $500,878. For the six months ended June 30, 2003, operating activities, exclusive of changes in operating assets and liabilities, used $543,166 of cash, as the Corporation's net decrease in net assets from operations of $1,028,708 included non-cash charges for depreciation and amortization of $8,487 and unrealized losses of $477,055.

Changes in operating assets and liabilities decreased cash $26,209 for the six months ended June 30, 2004, principally due to a decrease in the level of accounts payable and accrued expenses and a decrease in other assets. For the six months ended June 30, 2003, changes in operating assets and liabilities resulted in proceeds of $143,068 of cash.

The principal factor in the $774,332 cash provided by investing activities for the six months ended June 30, 2004 was the sale of common shares of Excelsior and the sale of common shares of PFG. For the six months ended June 30, 2003, the $8,426 cash provided in investing activities was from the sale of marketable investment securities.

Cash used in financing activities for the six months ended June 30, 2004 of $7,520 was for preferred dividends of $38,325 and payments against the note payable of $11,040 offset by $39,375 for the issuance of treasury stock for the exercise of director options as well as $2,470 of proceeds related to a 16B filing. Financing activities for the six months ended June 30, 2003 used $58,998 primarily from payment of preferred dividends of $38,327, the purchase of treasury stock of $13,561, as well as $7,110 of payments against the note payable.

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.

The Restructuring Plan provides for the resignation of Stephen Brown as Chairman and Chief Executive Officer of the Corporation pursuant to the Termination Agreement and the resignation of the current members of senior management and the Board of Directors, and calls for the election of new directors and officers of the Corporation. These new directors and officers have

not previously been involved with the Corporation. Profitability of the Corporation would be dependent on this new management, as opposed to current management. As a result, there can be no assurance that the new senior management would operate the Corporation in a profitable manner.

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.

Pursuant to the terms of the LOU, on July 30, 2004, the Company filed with the SEC a preliminary proxy statement soliciting the approval by the Corporation's stockholders of a number of proposals relating to the Restructuring Plan. As described more fully in the "Overview" section of this Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of this Quarterly Report on Form 10-Q, and in the Corporation's preliminary proxy statement, certain of these proposals are intended to allow the Corporation to attempt to raise additional capital. Even if the Corporation's stockholders approve these proposals, however, there can be no assurance that the Corporation will be able to raise additional capital. If funds are not raised, Franklin may not be able to continue its operations.

RESTRUCTURING PLAN

The Restructuring Plan would shift Franklin's investment strategy away from the radio and telecommunications industry and to refocus it on the medical products/health care solutions industry and the financial services industry. Specifically, the sale of Excelsior, if approved by Franklin's shareholders, would represent a shift of Franklin's investment strategy away from the radio and telecommunications industry and new management would refocus this strategy on the medical products/health care solutions industry and the financial services industry. Franklin has not invested in these industries in the past and therefore has not compiled a track record regarding the financial performance to be expected in connection with these new investments. There can be no assurance regarding the return on, or the recovery of, Franklin's investments in businesses in these industries, and whether such investments will be profitable.

Moreover, there are a number of inherent risks for entities doing business in the medical produces/health care solutions industry, including a complex array of regulatory requirements. These risks could have a material adverse effect on the profitability of the businesses in which Franklin invests, which in turn could have a material adverse effect on the return on, or the recovery of, Franklin's investment in such businesses.

The Restructuring Plan provides for the resignation of Stephen Brown as Chairman and Chief Executive Officer of the Corporation pursuant to the Termination Agreement and the resignation of the current members of senior management and the Board of Directors, and calls for the election of new directors and officers of the Corporation. These new directors and officers have not previously been involved with the Corporation. Profitability of the Corporation would be dependent on this new management, as opposed to current management. As a result, there can be no assurance that the new senior management would operate the Corporation in a profitable manner.

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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.

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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

The Corporation's management evaluated, with the participation of the Corporation's principal executive and principal financial officers, the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of June 30, 2004. Based on their evaluation, the Corporation's principal executive and principal financial officers concluded that the Corporation's disclosure controls and procedures were effective as of June 30, 2004.

There has been no change in the Corporation's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Corporations fiscal quarter ended June 30, 2004, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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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. On February 25, 2003, the case against Franklin and Sunshine was dismissed, however the plaintiffs have a right to appeal. The lawsuit alleges that the Winstar defendants conspired to commit fraud and breached their fiduciary duty to the plaintiffs in connection with the acquisition of the plaintiff's radio production and distribution business. The complaint further alleges that Franklin and Sunshine joined the alleged conspiracy. The plaintiffs seek recovery of damages in excess of $10,000,000, costs and attorneys' fees. An unfavorable outcome in an appeal, should it be brought, together with an unfavorable outcome in the lawsuit may have a material adverse effect on Franklin's business, financial condition and results of operations.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

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 the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as amended
Exhibit 31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as amended
Exhibit 32.1	Certification of Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350 (furnished herewith)
Exhibit 32.2	Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350 (furnished herewith)

(B) REPORTS ON FORM 8-K.

1. The Corporation filed a Current Report on Form 8-K on April 1, 2004 announcing, under Item 5

that its Board of Directors had authorized the retention of a financial advisor to advise Franklin on various strategic, financial and business alternatives available to it to maximize shareholder value.

2. The Corporation filed a report on Form 8-K on May 25, 2004 announcing, under Item 5, that the Board of Directors had met with Ault Glazer and describing the substance of that meeting.

3. The Corporation furnished a report on Form 8-K on June 2, 2004 announcing, under Item 9, that the Board of Directors had responded to a letter received from Ault Glazer demanding that the Board of Directors and all officers of Franklin immediately resign.

4. The Corporation filed a report on Form 8-K on June 24, 2004 announcing, under Item 5, that the Board of Directors had entered into the LOU with Ault Glazer.

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 13, 2004

By: /s/ Stephen L. Brown

Stephen L. Brown
Chairman and Chief Executive Officer

/s/ Hiram M. Lazar

Hiram M. Lazar
Chief Financial Officer

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EXHIBIT INDEX

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