FRANKLIN CAPITAL CORP
Form 10-Q
May 17, 2004

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 March 31, 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 May 14, 2004 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

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BALANCE SHEETS

ASSETS

Marketable investment securities, at market value (cost: March 31, 2004 - $26,249 and December 31, 2003 - $40,899) (Notes 2 and 6)

Investments, at fair value (cost: March 31, 2004 - $1,850,000; December 31, 2003 - $1,908,804) (Notes 2 and 6)

Excelsior Radio Networks, Inc.

Other investments

Cash and cash equivalents (Note 2)

Other assets

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Notes payable (Note 6)

Accounts payable and accrued liabilities

TOTAL LIABILITIES

Commitments and contingencies (Note 5)

STOCKHOLDERS' EQUITY

Convertible preferred stock, $1 par value, cumulative 7% dividend: 5,000,000 shares authorized; 10,950 issued and outstanding at March 31, 2004 and December 31, 2003, respectively (Liquidation preference $1,095,000) (Note 4)

Common stock, $1 par value: 5,000,000 shares authorized; 1,505,888 shares issued: 1,020,100 shares outstanding at March 31, 2004 and December 31, 2003 (Note 7)

Paid-in capital
Unrealized appreciation of investments
Accumulated deficit

Deduct: 485,788 shares of common stock held in treasury,
at cost, at March 31, 2004 and December 31, 2003 (Note 4)

Net assets (Note 9 for per share information)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF OPERATIONS
(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31,

INVESTMENT INCOME
Interest income
Management fees

EXPENSES
Salaries and employee benefits
Professional fees
Rent
Insurance
Directors' fees
Taxes other than income taxes
Depreciation and amortization
Interest expense
General and administrative

Net investment loss from operations

Net realized gain (loss) on portfolio of investments: Investment securities:
Affiliated
Unaffiliated

Total investment securities

Net realized loss on portfolio of investments

(Decrease) increase in unrealized appreciation of investments: Investment securities:
Affiliated
Unaffiliated
Other increase in unrealized appreciation (Note 6)

Total investment securities

Net decrease in net assets from operations

Preferred dividends

Net decrease in net assets attributable to common stockholders

Basic and diluted net decrease in net assets per common share (Note 8)

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS
(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31,

Cash flows from operating activities:
Net decrease in net assets from operations
Adjustments to reconcile net decrease in net assets to net cash used in operating activities:
Depreciation and amortization
Increase in unrealized appreciation of investments
Net realized gain on portfolio of investments

Changes in operating assets and liabilities:
Decrease (increase) in other assets

Increase (decrease) in accounts payable and accrued liabilities

Total adjustments

Net cash used in operating activities

Cash flows from investing activities:
Proceeds from sale of marketable investment securities
Proceeds from sale of securities in affiliate
Purchases of securities in affiliate
Purchases of marketable investment securities

Net cash provided by (used in) investing activities

Cash flows from financing activities:
Payment of preferred dividends
Decrease in note payable
Purchases of treasury stock

Net cash used in financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS
(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31,	2
Decrease in net assets from operations:	
Net investment loss	($
Net realized gain on portfolio of investments	
Increase in unrealized appreciation of investments	

Net decrease in net assets from operations	(
Capital stock transactions:	
Payment of dividends on preferred stock	
Purchase of treasury stock	
Total decrease in net assets	(
Net assets at beginning of period	2,
Net assets at end of period	$ 1,

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

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FRANKLIN CAPITAL CORPORATION

PORTFOLIO OF INVESTMENTS
(UNAUDITED)

MARKETABLE INVESTMENT SECURITIES

MARCH 31, 2004 (2)	NUMBER OF SHARES
Principal Financial Group common stock (Note 6)	4,338
Certificate of Deposit - 0.7%, due 05/03/2004	
Total Marketable Investment Securities (6.1% of total investments and 9.7% of net assets)	

Investments, at Fair Value

MARCH 31, 2004 (2)	INVESTMENT	EQUITY INTEREST	NUMBER OF SHARES

MAJORITY OWNED AFFILIATE			
Excelsior Radio Networks, Inc.	Common stock	34.00%	850,000
Excelsior Radio Networks, Inc.	Warrants	-	87,111
Total Excelsior Radio Networks, Inc. (60.4% of total investments and 96.7% of assets) (Radio production and advertising sales)		13.01% (fully diluted)	
OTHER INVESTMENTS			
Alacra Corporation (33.5% of total investments and 56% of net assets) (Internet-based information provider)	Convertible Preferred Stock	1.68%	321,543
Total Other Investments			
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
MARCH 31, 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 $1,000,000 at March 31, 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 Corporation is currently seeking 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.

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 three months ended March 31, 2004 and 2003.

At March 31, 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.

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 three months ended March 31, 2004, and 2003, Franklin's tax (provision) benefit was based on the following:

	2004	2003
Net investment loss from operations	$ (292,683)	$ (273,727)
Net realized gain on portfolio of investments	49,478	--
Increase in unrealized appreciation	102,759	47,544
Pre-tax book loss	$ (140,446)	$ (226,183)

	2004	2003
Federal tax benefit at 34% on $(140,446) and $(226,183), respectively	$ 48,000	$ 77,000
Other	1,000	7,000
Change in valuation allowance	(49,000)	(84,000)
	$ --	$ --

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 March 31, 2004 and 2003, significant deferred tax assets and liabilities consist of:

Asset (Liability)

	March 31, 2004	December 31, 2003
Deferred Federal and state benefitfrom net operating loss carryforward..................	$2,691,000	$ 2,605,000
Deferred Federal and state (provision) benefit on unrealized (appreciation) depreciation of investments..................	(414,000)	(377,000)
Valuation allowance...........................	(2,277,000)	(2,228,000)
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 March 31, 2004, consists of accumulated net realized gains of $5,555,000 and accumulated investment losses of $14,138,000.

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 March 31, 2004 and December 31, 2003, the Corporation has purchased 536,950 shares of its common stock of which 485,788 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 three months ended March 31, 2004 and 2003, was approximately $18,000 and $9,000, respectively. For the three months ended March 31, 2004, and 2003, the Corporation collected rents of $9,000 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.

6. MARKETABLE INVESTMENT SECURITIES AND INVESTMENTS AT FAIR VALUE

Franklin valued its position in Excelsior at $2.00 per common share based on the sale of 58,804 common shares to Sunshine on March 19, 2004 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. 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 three months ended March 31, 2003, Franklin earned $45,000 in management fees and was reimbursed $36,000 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 on 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. 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. There can be no guarantee that Franklin will be able to continue to sell shares of Excelsior to Sunshine.

After giving effect to the purchase of the common stock, Sunshine owns 66% and the Corporation owns 34% 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% of Excelsior.

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 ($154,563 at March 31, 2004) within marketable

investments on the accompanying balance sheet and as other increase in unrealized appreciation 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 three months ended:

	March 31, 2004		March 31, 2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	20,625	$11.39	20,625	$11.39
Granted	--	--	--	--
Exercised	--	--	--	--
Forfeited	--	--	--	--
Expired	--	--	--	--
Outstanding at end of year	20,625	$11.39	20,625	$11.39

Exercisable at end of year	20,625	$11.39	20,625	$11.39
Weighted average fair value of options granted	--		--	

The options issued under the SIP have a remaining contractual life of 4.8 years. The options issued under the SOP have a remaining contractual life of 6.8 years.

8. NET 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:

	March 31, 2004	March 31, 2003
Numerator:		
Net decrease in net assets from operations	($140,446)	($226,183)
Preferred stock dividends	(19,164)	(19,164)
Numerator for basic and diluted earnings per share - net increase in net assets attributable to common stockholders	($159,610)	($245,347)

	2004	2003
Denominator:		
Denominator for basic and diluted decrease in net assets from operations - weighted - average shares	1,020,100	1,045,187
Basic and diluted net decrease in net assets from operations per share	$(0.16)	$ (0.23)

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 March 31, 2004	Period Ended March 31, 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:

	March 31, 2004	December 31, 2003
Numerator:		
Numerator for net asset value per common share, as if converted basis	$ 1,864,528	$ 2,024,138
Liquidation value of convertible preferred stock	(1,095,000)	(1,095,000)
Numerator for net asset value per share attributable to common stockholders	$ 769,528	$ 929,138
Denominator:		
Number of common shares outstanding, denominator for net asset value per share attributable to common stockholders	1,020,100	1,020,100
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	1,102,225	1,102,225
Net asset value per share attributable to common stockholders	$ 0.75	$ 0.91
Net asset value per common share, as if converted basis	$ 1.69	$ 1.84

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 $138,180, respectively, for the three months ended March 31, 2004; $87,446 and $0, respectively, for the three months ended March 31, 2003.

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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 10Q.

OVERVIEW

During the three months ended March 31, 2004, the Corporation realized approximately $50,000 in gains on its sale of Excelsior common stock. 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. 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 ($154,563 at March 31, 2004) within marketable investments on the accompanying balance sheet and as other increase in unrealized appreciation in the accompanying statement 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.

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.

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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, $3,156,465 and $1,864,528 at March 31, 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 $0.75 and $1.69, respectively at March 31, 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:

	MARCH 31, 2004	DECEMBER 31, 2003
Investments, at cost	$1,876,249	$1,949,703
Unrealized appreciation	1,108,225	1,005,466
Investments, at fair value	$2,984,474	$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 $1,000,000 at March 31, 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 or be able to obtain alternative financing. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

INVESTMENTS

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 March 31, 2004, the Corporation had an investment in Alacra Corporation ("Alacra"), valued at $1,000,000, which represents 31.7% of the Corporation's total assets and 53.6% 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 March 31, 2004, the Corporation had an investment in Excelsior Radio Networks, Inc. ("Excelsior"), formerly known as eCom Capital, Inc., valued at $1,803,662, which represents 57.1% of the Corporation's total assets and 96.7% of its net assets. This valuation represents the same value as the last sales price realized by the Corporation for sales of 58,804 and 375,000 shares of Excelsior's common stock on March 19, 2004 and October 8, 2003, respectively. 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. After giving effect to the purchase of the common stock, Sunshine owns 66% and the Company owns 34% 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% of Excelsior. Franklin continues to maintain a seat on the board of directors of Excelsior.

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 $165 and $45,678 for the three months ended March 31, 2004 and 2003, respectively. The decrease in investment income for the three months ended March 31, 2004 when compared to March 31, 2003, was primarily the result of the management agreement with Excelsior that expired on December 31, 2003.

Operating expenses were $292,848 and $319,405 for the three months ended March 31, 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 consist of general legal fees, audit and tax fees and investment related legal fees. The Corporation was reimbursed approximately $36,000 for salary and benefit expense for its chief financial officer under the terms of the management agreement with Excelsior for the three months ended March 31, 2003. This reimbursement has been recorded as a reduction in operating expenses.

Net investment losses from operations were $292,683 and $273,727 for the three months ended March 31, 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

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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 three months ended March 31, 2004 and 2003, the Corporation realized net losses before taxes of $49,478 and $0 respectively, primarily from the disposition of a portion of the Corporation's Excelsior holdings.

UNREALIZED APPRECIATION OF INVESTMENTS:

Unrealized appreciation of investments, increased by $102,759 during the three months ended March 31, 2004, primarily due to the receipt of shares in Principal Financial Group ("PFG"), offset by an unrealized loss due to the sale of a portion of the Corporation's Excelsior holdings. 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 ($154,563 at March 31, 2004) within marketable investments on the accompanying balance sheet and as other increase in unrealized appreciation in the accompanying statement of operations.

Unrealized appreciation of investments, increased by $47,544 during the three months ended March 31, 2003, 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 $1,000,000 at March 31, 2004. This condition raises substantial doubt about the Corporation's ability to continue as a going concern. The Corporation is seeking alternative financing. There can be no assurance that the Corporation would be able to obtain alternative financing. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

Cash and cash equivalents decreased by $125,329 to $98,896 for the three months ended March 31, 2004, compared to a decrease of $466,793 for the three months ended March 31, 2003.

Operating activities used $229,097 of cash for the three months ended March 31, 2004, compared to using $346,474 for the three months ended March 31, 2003.

Operating activities for the three months ended March 31, 2004, exclusive of changes in operating assets and liabilities, used $292,683 of cash, as the Corporation's net decrease in net assets from operations of $140,446 included non-cash charges for unrealized gains of $102,759 and net realized gains of $49,478. For the three months ended March 31, 2003, operating activities, exclusive of changes in operating assets and liabilities, used $269,483 of cash, as the Corporation's net decrease in net assets from operations of $226,183 included non-cash charges for depreciation and amortization of $4,244 and unrealized gains of $47,544.

Changes in operating assets and liabilities increased cash $63,586 for the three months ended March 31, 2004, principally due to an increase in the level of accounts payable and accrued expenses and a decrease in other assets. For the three months ended March 31, 2003, changes in operating assets and liabilities resulted in the use of $76,991 of cash.

The principal factor in the $122,932 cash provided by investing activities for the three months ended March 31, 2004 was the sale of common shares of Excelsior. For the three months ended March 31, 2003, the $87,444 cash used in investing activities was the purchase of additional common shares and warrants of Excelsior.

Cash used in financing activities for the three months ended March 31, 2004 of $19,164 was for preferred dividends. Financing activities for the three months ended March 31, 2003 used $32,875 primarily from the payment of preferred dividends of $19,164 and the purchase of treasury stock of $10,005.

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

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of the portfolio may adversely affect Franklin's ability to dispose of loans and securities at times when it may be advantageous to liquidate such investments.

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

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

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

FRANKLIN IS DEPENDENT UPON KEY MANAGEMENT PERSONNEL FOR FUTURE SUCCESS. Franklin is dependent for the selection, structuring, closing and monitoring of its investments on the diligence and skill of its senior management members and other management members. The future success of the Corporation depends to a significant extent on the continued service and coordination of its senior management team, particularly the Chairman and Chief Executive Officer. The departure of any of the executive officers or key employees could materially adversely affect the Corporation's ability to implement its business strategy. Franklin does not maintain key man life insurance on any of its officers or employees.

THERE IS SUBSTANTIAL DOUBT AS TO FRANKLIN'S ABILITY TO CONTINUE AS A GOING CONCERN. Franklin has determined that it may not have sufficient cash and cash equivalents to meet its working capital requirements over the next fiscal year. Franklin's independent auditors have issued an opinion in which the independent auditors have indicated that there is substantial doubt as to Franklin's ability to continue as a going concern as noted in their explanatory paragraph within their opinion, which is noted in Franklin's 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."

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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

The Corporation's chief executive officer and chief financial officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of a date (the "Evaluation Date") within 90 days before the filing date of this annual report. Based on such evaluation, they have concluded that, as of the Evaluation Date, the information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no significant changes in the Corporation's internal controls or in other factors that could significantly affect these controls during the period covered by this quarterly report.

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 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 the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
Exhibit 32.1	Certification of Chief Executive Officer Pursuant To 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) REPORTS ON FORM 8-K. The Corporation filed a report on Form 8-K on April 1, 2004 announcing 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. These may include a reorganization, re-capitalization, acquisitions, dispositions of assets, a sale or merger. There is no assurance that any of the foregoing alternatives will occur.

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: May 14, 2004

By: /s/ Stephen L. Brown

Stephen L. Brown
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

/s/ Hiram M. Lazar

Hiram M. Lazar
CHIEF FINANCIAL OFFICER