FRANKLIN CAPITAL CORP
Form 10-K
March 31, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2002 — 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	The American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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 ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K. ____

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 10, 2003 was $1,117,458 based on the last sale price as quoted by The American Stock Exchange on such date (officers, directors and 5% stockholders are considered affiliates for the purposes of this calculation).

The number of shares of common stock outstanding as of March 10, 2003 was

1,042,900.

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FORWARD LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

Franklin Capital Corporation (the "Registrant", "Franklin," or the "Corporation") was incorporated on March 31, 1987, under the laws of the state of Delaware and operates as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). The Corporation's common stock, par value $1.00 per share, has been listed on The American Stock Exchange since October 1, 1987.

As a BDC, the Corporation's objective is to achieve capital appreciation through long-term investments in businesses believed to have favorable growth potential. In the past the Corporation participated in start-up and early stage financing, expansion or growth financing, leveraged buy-out financing and restructurings in a variety of industries. At December 31, 2002, Franklin had $4,632,338 in assets.

EXCELSIOR RADIO NETWORKS, INC.

On August 28, 2001, Franklin along with Sunshine Wireless LLC ("Sunshine") purchased the assets of Winstar Radio Networks, Global Media and Winstar Radio Productions (collectively "WRN") for a total purchase price of $6.25 million. The acquisition was consummated through eCom Capital Inc., subsequently renamed Excelsior Radio Networks, Inc. ("Excelsior"), a then wholly-owned subsidiary of Franklin. Franklin's total investment was $2.5 million consisting of $1.5 million in cash and a $1 million note payable to WRN. The note was due February 28, 2002 with interest at 3.54% and has a right of set-off against certain representations and warranties made by WRN. In October 2001, a legal proceeding was filed against WRN, which also named Franklin as a defendant, in which the representations and warranties made by WRN have been challenged. Until the time that this action is settled the due date of the note is extended indefinitely. (See Item 3 Legal Proceedings) Additionally, Franklin provided a $150,000 note receivable to Excelsior. In connection with this note, Franklin was granted warrants to acquire 12,879 shares of Excelsior common stock at an exercise price of $1.125 per share. The note bears interest at 10% per annum and is issued for a ninety-day rolling period. As of December 31, 2002, this note has been repaid. 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 for Excelsior.

At the closing, Franklin entered into a services agreement with Excelsior whereby Franklin provides Excelsior with certain management services. In consideration for the services provided, for a period of six months from the closing of the transaction, Franklin received $30,000 per month and was reimbursed for all direct expenses. Since then, Franklin's monthly fee is determined by a majority of the non-Franklin directors on Excelsior's board; however, the management fee will be no less than $15,000 per month and Franklin will continue to be reimbursed for all direct expenses through December 31, 2003. Finally, Franklin's chief financial officer serves as Excelsior's chief financial officer, and his salary and benefits are allocated between Excelsior and Franklin 80% and 20%, respectively. During the year ended December 31, 2002, Franklin earned $450,000 in management fees and was reimbursed $120,936 for salary and benefits for Franklin's chief financial officer, which was recorded as a reduction of expenses of Franklin.

On April 3, 2002, Dial Communications Global Media, Inc. ("Newco"), a newly formed wholly-owned subsidiary of Excelsior, completed the acquisition of substantially all of the assets of Dial Communications Group, Inc. ("DCGI"), and Dial Communications Group, LLC ("DCGL" and together with DCGI, the "Dial Entities") used in connection with the Dial Entities' business of selling advertising relating to radio programming (the "Dial Acquisition"). The Dial

Acquisition was completed pursuant to

the Asset Purchase Agreement (the "Purchase Agreement"), dated as of April 1, 2002, by and among the Dial Entities, Franklin and Excelsior. Immediately prior to the closing of the transactions contemplated by the Purchase Agreement, Excelsior assigned all of its rights and obligations under the Purchase Agreement, as well as certain other assets and liabilities relating to the portion of Excelsior's business dedicated to the sale of advertising relating to radio programming, to Newco.

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

Sunshine along with Change Technology Partners, Inc. ("Change") both existing stockholders of Excelsior, loaned Excelsior an aggregate amount of $7,000,000 to finance the initial consideration of the Dial Acquisition. The obligations under the loans are secured by certain of Excelsior's assets.

PROPOSED MERGER WITH CHANGE TECHNOLOGY PARTNERS, INC.

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

CURRENT PORTFOLIO OF INVESTMENTS

The Corporation invests primarily in equity securities, for example common stock, preferred stock, convertible preferred stock or other equity derivatives such as options, warrants or rights to acquire stock. As of December 31, 2002, the Corporation's portfolio of investments is a composite of illiquid investments in developing companies.

The Corporation has invested a substantial portion of its assets in private companies. The current portfolio, other than Excelsior is invested in securities issued by a company involved in Internet software and information services.

EXCELSIOR

Franklin's most significant investment is in Excelsior. As of December 31, 2002, Franklin owned 59.1% of Excelsior (29.3% on a fully diluted basis).

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Excelsior is a subsidiary of Franklin and was incorporated in 1999 under the laws of the State of Delaware. Excelsior had no operations until August 2001 when a group led by Franklin invested in Excelsior for the purpose of acquiring certain assets from Winstar Radio Networks, LLC, Winstar Global Media, Inc. and Winstar Radio Productions, LLC.

On April 3, 2002, Excelsior purchased Dial Communications, whose assets were combined with Excelsior's Global Media division to create a national radio sales representation company with 2001 advertising sales revenues of almost $50 million and a client roster of over forty independent radio production companies.

Excelsior creates, produces, distributes and is a sales representative for national radio programs and offers other miscellaneous services to the radio industry. Excelsior offers radio programs to the industry in exchange for commercial broadcast time, which Excelsior sells to national advertisers. Excelsior currently offers approximately 100 programs to over 2,000 radio stations across the country. The group of radio stations who contract with Excelsior to broadcast a particular program constitutes a radio network. Excelsior derives its revenue from selling the commercial broadcast time on its radio networks to advertisers desiring national coverage.

Excelsior currently produces over 20 network programs targeting the most popular radio formats, including adult contemporary, rock, urban oldies, album oriented rock, comedy and country. Excelsior produces both short form and long form programs. Short form features are two to three minute daily vignettes and include such programs as "African Americans Making History." Long form programs, such as "Walt `Baby' Love's The Countdown" and "Gospel Traxx," "Keeping The Seventies Alive," "Behind the Hits" and "All Star Mix Party" are programs that range from one to four hours in length. Excelsior offers these programs to radio stations free of charge. The radio stations airing these programs become networks for Excelsior to sell advertising time. Excelsior sells the commercial broadcast time inside of these networks to advertisers desiring national coverage.

Franklin's goal is to work with management in order to enhance the value of Excelsior's current network. In order to do this, Excelsior will increase its marketing efforts to radio stations across the United States. The marketing efforts will focus primarily on the top 50 media markets. By increasing its network presence in the top 50 media markets, Excelsior will be able to charge a higher spot rate for its advertising time. The spot rate is the price a national advertiser pays per commercial aired on Excelsior's network. Excelsior currently has a network of over 2,000 radio affiliates, and with over 10,000 radio stations in the United States, Excelsior anticipates significantly expanding its network. However, there can be no assurance that Excelsior will be able to expand its operations.

Excelsior intends to focus its programming growth with both short-form and long-form programs. For example during 2002, Excelsior announced the launching of two new shows: "Daily Dose" and the "Ross Brittain Morning Prep Show." Daily Dose is a morning prep show that is a joint venture between Excelsior and The Source Magazine, "Ross Brittain Morning Prep Show" is a morning prep show written by Mr. Brittain, a nationally recognized morning disc jockey. Excelsior believes that it has developed a niche in short-form programming specifically in the prep services that it provides to radio stations. Moreover, Excelsior believes that it has a strong presence in urban programming. Developing more programming that complements its existing programs will provide Excelsior with more broadcast commercial inventory to sell on its network. A typical short form program will have 2 to 4 commercials available for sale while a typical long form program has 8 to 48 commercials available for sale. Excelsior intends to offer additional programming in the future through internal development, joint ventures, and the acquisition of businesses or assets that complement Excelsior's operations.

The creation of a radio network allows Excelsior to sell the acquired commercial broadcast inventory to advertisers desiring national coverage. Rates for the sale of network advertising are established on the basis of audience delivery or ratings and the demographic composition of the listening audience. Thus, if Excelsior expands its network, as previously discussed, it will be able to charge more for broadcast commercial time on the network. In addition to being able to charge more for its advertising time, by expanding its programming, there will also be more commercial broadcast inventory available for sale by Excelsior.

Excelsior sells commercial broadcast time by guaranteeing certain ratings and demographics. There can be no assurance that the guarantee will be achieved. If the radio network on which the commercial broadcast time is sold does not achieve the guarantee, Excelsior may be obligated to offer the advertiser additional advertising time on the same radio network or on an alternate radio network. These "make goods" or "bonus spots" are the predominant means whereby Excelsior satisfies such obligations to advertisers. Alternatively, Excelsior could be obligated to refund or credit a portion of the advertising revenue derived from such sales. Historically, Excelsior has not had to refund any cash received as revenues.

According to the National Association of Broadcasters ("NAB"), there are approximately 10,000 commercial radio stations in the United States. Excelsior currently has broadcast commercial time on over 2,000 of these radio stations. Radio is one of the most cost effective forms of advertising given its wide reach and low cost in comparison to print and television media. Radio advertising is attractive to advertisers for a variety of reasons:

- short lead time between commercial production and broadcast time;
- low cost of commercial production; and
- the fact that most radio listening occurs away from home, closer to the point of purchase.

Radio stations attempt to develop formats, such as news/talk, music or other types of entertainment programming, in order to appeal to a target listening audience that will attract local, regional, and national advertisers to their station. Most radio stations do not have the creative and financial resources to produce nationally accepted programming. As a result, radio stations look to syndicators, such as Excelsior, to enhance their existing local programming. As a national network, Excelsior licenses radio stations to air its programs in exchange for commercial broadcast time on the station. Excelsior then resells the advertising time to advertisers requiring national coverage. The commercial broadcast time may vary from market to market within a specified time period depending on the requirements of the particular radio station. The advertising rates are based upon audience ratings for the specific demographic the advertiser is trying to reach. These ratings are determined by Arbitron Research Company, which periodically measures the percentage of the radio audience in a market area listening to a specific radio station during a specific time period.

COMPETITION

Competition for radio advertising is very intense. The industry is made up of a variety of competitive forces, including: (1) ownership groups, which own blocks of radio stations across the industry; (2) syndicators, like Excelsior, that offer programming and marketing services to radio stations; and (3) independent producers and distributors that offer programs or services to radio stations. Several of Excelsior's syndicating competitors also are associated with major radio station group owners. In addition, many of these competitors have recognized brand names and will pay compensation to radio stations to broadcast their network commercials.

Excelsior's largest competitors that are associated with an ownership group are Westwood One, Premier Radio Networks, and ABC Radio Networks. Excelsior estimates that these competitors account for about 80% of the network advertising revenues. Excelsior is a leader of the syndication companies not associated with an ownership group. The principal competitive factors in the radio industry are the quality and creativity of programming and the ability to provide advertisers with a cost-effective method of reaching the target demographic. In this respect, Excelsior has positioned itself by adding top producers like Walt "Baby" Love, Mike Harvey, John Tesh, Talk Radio Network featuring Michael Savage, WOR Radio featuring Joan Rivers and Jim Cramer. Excelsior's principal operating strategy is to continue to provide high quality programming in the most popular formats. Excelsior has developed and expanded its network through internal operations and will look to continue this in the future as well as acquire assets and businesses that compliment Excelsior's operations.

GOVERNMENT REGULATIONS

Radio broadcasting and station ownership are regulated by the Federal Communication Commission ("FCC"). Excelsior, as a producer and distributor of radio programs, is generally not subject to regulation by the FCC. The FCC regulates the radio stations that air Excelsior's programs. The radio station affiliates are ultimately responsible for what material is broadcast on their airwaves.

EMPLOYEES

As of February 1, 2003, Excelsior had 64 full time employees. In addition, Excelsior maintains continuing relationships with over 40 independent hosts, writers, and producers. Excelsior is not party to any collective bargaining agreements. Excelsior believes its relationship with its employees and independent contractors is good.

OTHER INVESTMENTS

See "Management's Discussion and Analysis of Financial Condition."

PRESENTATION OF FINANCIAL INFORMATION

Franklin presents its financial statements in accordance with Securities and Exchange Commission ("SEC") regulations in the format applicable to investment companies and with accounting principles generally accepted in the United States. Generally, investments are reported at fair market value rather than cost, including investments in wholly-owned subsidiaries. Because of such reporting requirements, the operating results of Excelsior are not included in the consolidated operating results of Franklin, and instead, Franklin reports only the fair value of its investment in such companies.

ILLIQUIDITY OF INVESTMENTS

A majority of the Corporation's investments consist of securities acquired directly from the issuer in private transactions. They may be subject to restrictions on resale or otherwise be illiquid. Franklin anticipates that there may not be an established trading market for such securities. Additionally, many of the securities that the Corporation may invest in will not be eligible for sale to the public without registration under the Securities Act of 1933, which could prevent or delay any sale by the Corporation of such investments or reduce the amount of proceeds that might otherwise be realized therefrom. Restricted securities generally sell at a price lower than similar securities not subject to restrictions on resale. Further, even if a portfolio company registers its securities and becomes a reporting corporation under the Securities Exchange Act of 1934, the Corporation may be considered an insider by virtue of its board representation and would be restricted in sales of such corporation's securities.

MANAGERIAL ASSISTANCE

The Corporation, as a BDC, is required by the 1940 Act to make significant managerial assistance available to its portfolio companies. "Making available significant managerial assistance" as defined in the 1940 Act with respect to a BDC such as Franklin means (a) any arrangement whereby a BDC, through its directors, officers, employees or general partners, offers to provide, and if accepted, does so provide significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company; or (b) the exercise of a controlling influence over the management or policies of a portfolio company by a BDC acting individually or as a part of a group acting together which controls such portfolio company. The nature, timing and amount of managerial assistance provided by the Corporation vary depending upon the particular requirements of each portfolio company.

In connection with its managerial assistance, the Corporation may be represented by one or more of its officers or directors on the board of directors of a portfolio company. The Corporation's goal has been to assist each portfolio company in establishing its own independent and effective board of directors and management.

NEED FOR FOLLOW-ON INVESTMENTS

Following its initial investments in portfolio companies, the Corporation has made additional investments in such portfolio companies as "follow-on" investments, in order to increase its investment in a portfolio company, and exercised warrants, options or convertible securities that were acquired in the original financing. Such follow-on investments may be made for a variety of reasons including: 1) to increase the Corporation's exposure to a portfolio company, 2) to acquire securities issued as a result of exercising convertible securities that were purchased in a prior financing, 3) to preserve or reduce dilution of Franklin's proportionate ownership in a subsequent financing, or 4) in an attempt to preserve or enhance the value of the Corporation's investment. There can be no assurance that the Corporation will make follow-on investments or have sufficient funds to make such investments; the Corporation will have the discretion to make any follow-on investments as it determines, subject to the availability of capital resources. The failure to make such follow-on investments may, in certain circumstances, jeopardize the continued viability of a portfolio company and the Corporation's initial investment, or may result in a missed opportunity for the Corporation to increase its participation in a successful operation. Even if the Corporation has sufficient capital to make a desired follow-on investment, the Company may, under certain circumstances be prohibited from doing so if such an investment would result in non-compliance with BDC regulations.

COMPETITION

Numerous companies and individuals are engaged in the venture capital business and such business is extremely competitive. The Corporation competes for attractive investment opportunities with venture capital partnerships and corporations, merchant banks, venture capital affiliates of industrial and financial companies, Small Business Investment Companies, other investment companies, pension plans, other BDCs and private individual investors. Many of these competitors have significantly greater resources and managerial capabilities than the Corporation to obtain access to venture capital investments. There can be no assurance that the Corporation will be able to compete against those competitors for attractive investments.

DETERMINATION OF NET ASSET VALUE

Security investments that 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

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the securities are stated at the last quoted bid price. The Board of Directors of the Corporation 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 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.

EMPLOYEES

At December 31, 2002, the Corporation had four employees.

GOVERNMENT REGULATIONS IMPACTING FRANKLIN

Franklin operates in a highly regulated environment as a BDC. The following discussion generally summarizes certain regulations.

A BDC is defined and regulated by the 1940 Act. It is an investment company that primarily focuses on investing in or lending to small private companies and making managerial assistance available to them. A BDC may use capital provided by public stockholders and from other sources to invest in long-term, private investments in growing small businesses. A BDC provides stockholders the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits, if any, of investing in privately-owned growth companies.

As a BDC, Franklin may not acquire any asset other than "Qualifying Assets" unless, at the time the acquisition is made, Qualifying Assets represent at least 70% of the value of the total assets (the "70% test"). The principal categories of Qualifying Assets relevant to Franklin's business are:

(1) securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company. An eligible portfolio company is defined to include any issuer that (a) is organized and has its principal place of business in the United States, (b) is not an investment company other than an SBIC wholly-owned by a business development company, and (c) does not have any class of publicly traded securities with respect to which a broker may extend margin credit;

(2) securities received in exchange for or distributed with respect to securities described in (1) above or pursuant to the exercise of options, warrants, or rights relating to such securities; and

(3) cash, cash items, government securities and high quality debt securities (within the meaning of the 1940 Act), maturing in one year or less from the time of the investment.

To include certain securities described above as Qualifying Assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance such as

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providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company, or making loans to a portfolio company.

As a BDC, Franklin is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, including debt securities and preferred stock, as long as each class of senior security has an asset coverage of at least 200% immediately after each such issuance.

Franklin has adopted a Code of Ethics that establishes procedures for personal investments and restricts certain transactions by its personnel.

The Corporation is permitted to adopt either a profit-sharing plan pursuant to which management (including disinterested directors) could receive up to 20% of the net after-tax profits of the Corporation or an option plan covering up to 20% of the stock of the Corporation. Presently the Corporation has incentive plans in effect covering 46,875 shares (4.3% on a diluted basis). See "Item 11 Executive Compensation - Compensation Plans - Stock Option Plans."

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

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

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

FRANKLIN'S PORTFOLIO INVESTMENTS ARE RECORDED AT FAIR VALUE AS DETERMINED BY THE BOARD OF DIRECTORS IN ABSENCE OF READILY ASCERTAINABLE PUBLIC MARKET VALUES. Pursuant to the requirements of the 1940 Act, the Corporation's board of directors is required to value each asset quarterly, and Franklin is required to carry the portfolio at a fair market value as determined by the board of directors. Since there is typically no public market for the loans and equity securities of the companies in which Franklin makes investments, the board of directors estimates the fair value of these loans and equity securities

pursuant to written valuation policy and a consistently applied valuation process. Unlike banks, Franklin is not permitted to provide a general reserve for anticipated loan losses; instead, Franklin is required by the 1940 Act to specifically value each individual investment and record an unrealized loss for an asset that it believes has become impaired. Without a readily ascertainable market value, the estimated value of the portfolio of loans and equity securities may differ significantly from the values that would be placed on the portfolio if there existed a ready market for the loans and equity securities. Franklin adjusts quarterly the valuation of the portfolio to reflect the board of directors' estimate of the current realizable value of each investment in the Corporation's portfolio. Any changes in estimated value are recorded in the Corporation's statement of operations as "Net unrealized gains (losses)."

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

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

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

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

ITEM 2. PROPERTIES

Franklin maintains its offices at 450 Park Avenue, New York, New York 10022, where it leases approximately 3,600 square feet of office space pursuant to a lease agreement expiring December 31, 2003. As of December 31, 2002, Franklin had a sublet arrangement with one subtenant for a portion of Franklin's office space.

ITEM 3. LEGAL PROCEEDINGS

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

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

On November 12, 2002, the Corporation held an annual meeting of its common and preferred stockholders. Stephen L. Brown, Irving Levine, Michael P. Rolnick, Laurence I. Foster and David T. Lender were elected to serve as directors of the Corporation for a term of one year or until their successors are duly elected and qualified. The number of common and preferred shares, voting together as a single class, voted for and against each director is as follows:

	FOR	WITHHELD
Stephen L. Brown	982,581	10,989
David Lender	990,418	3,152
Laurence I. Foster	990,418	3,152
Michael P. Rolnick	990,418	3,152
Irving Levine*	11,350	0
Peter D. Gottlieb*	11,350	0

* - Only preferred stockholders voted for these directors.

In addition, stockholders were asked to ratify the selection of Ernst & Young LLP as the Corporation's independent auditors for the fiscal year ended December 31, 2002. 991,396 shares voted for, 1,570 shares voted against and 604 shares abstained from ratifying Ernst & Young LLP as the Corporation's independent auditors.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

STOCK TRANSFER AGENT

Mellon Investor Services, 85 Challenger Road, Overpack Center, Ridgefield Park, NJ 07660 (Telephone (800) 851-9677) serves as transfer agent for the Corporation's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

MARKET PRICES

The Corporation's common stock is traded on The American Stock Exchange under the symbol "FKL." The following table sets forth the range of the high and low selling price of the Corporation's shares during each quarter of the last two years, as reported by the American Stock Exchange.

2002 QUARTER ENDING	LOW	HIGH
March 31	$ 3.76	$ 4.24
June 30	$ 3.46	$ 4.02
September 30	$ 2.90	$ 3.72
December 31	$ 1.45	$ 2.97

2001 QUARTER ENDING	LOW	HIGH
March 31	$ 5.875	$ 8.125
June 30	$ 4.875	$ 5.75
September 30	$ 4.65	$ 5.05
December 31	$ 4.09	$ 4.87

DIVIDENDS

The Corporation paid $115,152, $115,150 and $98,633 in dividends to preferred stockholders during 2002, 2001 and 2000, respectively, and has not paid any dividends to common stockholders during the past two years.

STOCKHOLDERS

As of March 10, 2003, there were 568 registered shareholders of record of the Corporation's common stock. The Corporation has 5,000,000 shares of common stock authorized, of which 1,505,888 are issued and 1,042,900 shares are outstanding at March 10, 2003. The Corporation has 5,000,000 shares of convertible preferred stock authorized, of which 16,450 were issued on February 22, 2000 and 10,950 shares are outstanding at March 10, 2003. (See Item 7 Management's Discussion and Analysis of Financial Condition - Liquidity and Capital Resources.)

ITEM 6. SELECTED FINANCIAL DATA

The following tables should be read in conjunction with the Financial Statements included in Item 8 of this Form 10-K.

BALANCE SHEET DATA
FINANCIAL POSITION AS OF DECEMBER 31:

	2002	2001	2000
Total assets	$4,632,338	$4,098,866	$5,766,712
Liabilities	$1,364,798	$1,177,121	$187,632
Net asset value	$3,267,540	$2,921,745	$5,579,080
Net asset value per share attributable to common stockholders	$2.07	$1.19	$3.58

Net asset value per share, as if converted basis	$2.89	$2.44	$4.57
Shares outstanding	1,049,600	1,074,700	1,098,200

OPERATING DATA FOR THE YEAR ENDED DECEMBER 31:

	2002	2001	2000*
Investment income	$455,081	$192,697	$115,015
Expenses	$1,985,450	$1,579,382	$2,372,797
Net investment loss from operations	$(1,530,369)	$(1,386,685)	$(2,257,782)
Net realized gain on portfolio of investments, net of current income taxes	$237,326	$522,131	$1,195,875
Net increase (decrease) in unrealized appreciation of investments, net of deferred income taxes	$1,663,304	$(1,553,756)	$(3,365,513)
Net increase (decrease) in net Assets attributable to common stockholders	$255,110	$(2,533,460)	$(4,526,053)
Basic and diluted net increase (decrease) in net assets from operations per weighted average number of shares outstanding	$0.24	$(2.34)	$(4.14)

* Expenses in the year ended December 31, 2000 include non-cash compensation of $349,644 due to the exercise of employee incentive stock options.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE INFORMATION CONTAINED IN THIS SECTION SHOULD BE READ IN CONJUNCTION WITH THE CORPORATION'S 2002 FINANCIAL STATEMENTS AND NOTES THERETO IN ITEM 8.

CRITICAL ACCOUNTING POLICIES

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

STATEMENT OF OPERATIONS

The Corporation accounts for its operations under accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of its financial performance is captioned "Net increase (decrease) in net assets from operations," which is composed of the following:

- "Net investment loss from operations," which is the difference between the Corporation's income from interest, dividends and fees and its operating expenses;

- "Net realized gain on portfolio of investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost;

- any applicable income tax provisions (benefits); and

- "Net increase (decrease) in unrealized appreciation of investments," which is the net change in the fair value of the Corporation's investment portfolio, net of any increase (decrease) in deferred income taxes that would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio.

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

FINANCIAL CONDITION

The Corporation's total assets and net assets were, respectively, $4,632,338 and $3,267,540 at December 31, 2002 versus $4,098,866 and $2,921,745 at December 31, 2001. Net asset value per share attributable to common stockholders and on an as if converted basis was $2.07 and $2.89 at December 31, 2002, respectively, versus $1.19 and $2.44, respectively, at December 31, 2001. The change in total assets and net assets is primarily attributable to a increase in the fair market value of the Corporation's investments.

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

	DECEMBER 31, 2002	DECEMBER 31, 2001
Investments, at cost	$2,511,479	$3,911,105
Unrealized appreciation (depreciation), net of deferred taxes	1,471,071	(182,233)
Investments, at fair value	$3,992,550	$3,728,872

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 December 31, 2002, the Corporation had an investment in Alacra Corporation ("Alacra"), valued at $1,000,000, which represents 21.6% of the Corporation's total assets and 30.6% of its net assets. Alacra, headquartered in New York and London, is a leading provider of Internet-based online information services. Alacra provides a service called .xls, which aggregates and cross-indexes over 70 premier business databases, delivering information directly to Microsoft Excel, HTML, Microsoft Word or PDF formats at the desktop. Other products include privatesuite(TM), a fast, easy, cost-effective way to identify and retrieve profiles of privately held companies around the world; compbook(TM), a tool for company peer analysis; and Portal BTM, a fully integrated business information portal.

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

EXCELSIOR RADIO NETWORKS

At December 31, 2002, the Corporation had an investment in Excelsior Radio Networks, Inc. ("Excelsior"), formerly known as eCom Capital, Inc., valued at $2,957,875, which represents 63.9% of the Corporation's total assets and 90.5% of its net assets. 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. See Item 1 Business - Current Portfolio Investments - Excelsior.

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, 2002, 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 in connection with the proposed merger with Change. 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.

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 stock, 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 interest and dividend income of $5,081 in 2002, $72,697 in 2001, and $93,015 in 2000. The decrease in 2002 from 2001 was the result of the sale of the Avery preferred stock on February 1, 2001. The Corporation earned management fees of $450,000 in 2002, and $120,000 in 2001 in from its majority-owned affiliate, Excelsior. The Corporation had $22,000 in other income during 2000 representing a patent infringement settlement.

Operating expenses were $1,985,450 in 2002, $1,579,382 in 2001, and $2,372,797 in 2000. A majority of the Corporation's operating expenses consist of employee compensation (which for 2000 included a non-cash charge of $349,644 due to the cashless exercise of incentive options), office and rent expense, other expenses related to identifying and reviewing investment opportunities and professional fees. Professional fees consist of general legal fees, audit and tax fees, consulting fees and investment related legal fees. During 2002, the Corporation incurred professional fees related to the terminated merger with Change of $490,782.

Net investment losses from operations were $1,530,369 in 2002, $1,386,685 in 2001, and $2,257,782 in 2000.

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 three years ended December 31, 2002, 2001, and 2000, the Corporation realized net gains before taxes of $237,658, $520,455, and $1,215,875, respectively, from the disposition of various investments.

During 2002, Franklin realized a gain of $726,804 from the sale of 773,196 shares of Excelsior Radio Networks, Inc. common stock. This gain was offset by a loss of $300,000 from the sale of 188,425 shares of Structured Web common stock, a previous portfolio holding of the Corporation, a loss of $140,000 from the write down of Excom Ventures, a previous portfolio holding of the Corporation which was determined to be a worthless security, a loss of $32,715 from the sale of 363,938 shares of Primal common stock as well as a realized net loss of $16,430 from sale of marketable securities.

During 2001, Franklin realized a gain of $598,617 from the sale of 434,024 shares of Go America, Inc. ("Go America") common stock, an investment Franklin has held since 1995, a gain of $87,013 from the sale of 1,183,938 shares of Avery common stock, and a gain of $50,750 from the sale of 350,000 shares of Avery preferred stock. These gains were offset by a loss of $130,139 from the sale of

1,150,000 shares of Primal common stock as well as a realized net loss of $85,786 from the sale of various marketable securities.

During 2000, Franklin realized a gain of $956,576 from the sale of 241,131 shares of Communication Intelligence Corporation ("CIC") common stock, an investment Franklin has held since 1996, a gain of $161,531 from the sale of 202,000 shares of Avery common stock, and a gain of $843,663 from the sale of 105,760 shares of Go America common stock. Additionally, gains of $3,819 were realized on tail payments from partnerships liquidated during 1999. These gains were offset by a loss of $440,057 from the write-off of the Corporation's investment in eMattress.com and a loss of $300,626 from the write-off of the Corporation's investment in TradingNews, Inc as well as a realized net loss of $9,031 from the sale of various marketable securities.

UNREALIZED APPRECIATION OF INVESTMENTS

Unrealized appreciation of investments, net of deferred taxes, increased by $1,663,304 during the year ended December 31, 2002, due primarily to the increased valuation of Excelsior.

Unrealized appreciation of investments, net of deferred taxes, decreased by $1,553,756 during the year ended December 31, 2001, primarily from the sale of Franklin's position in Go America common stock and the sale of Franklin's position in Avery Communications. The changes in the value of the investments occurred during a period of extreme volatility of publicly traded, small capitalization, high technology stocks. The volatility of the overall market will continue to impact on the performance of the Corporation's investments. The value of the Corporation's investments will vary on a quarterly basis.

Unrealized appreciation of investments, net of deferred taxes, decreased by $3,365,513 during the year ended December 31, 2000, primarily from the decreased value of Avery Communications and the sale of Franklin's position in CIC common stock and CIC Standby Ventures, L.P. ("CIC Ventures").

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 $800,000 at December 31, 2002. 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 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 increased by $282,463 to $562,191 for the year ended December 31, 2003, compared to an decrease of $367,837 for the year ended December 31, 2001.

Operating activities used $1,282,171 of cash for the year ended December 31, 2002, compared to providing $1,365,563 for the year ended December 31, 2001.

Operating activities for the year ended December 31, 2002, exclusive of changes in operating assets and liabilities, used $1,513,400 of cash, as the Corporation's net increase in net assets from operations of $370,262 included non-cash charges for depreciation and amortization of $16,969, realized gains of $237,327 and unrealized gains of $1,663,304. For the year ended December 31, 2001, operating activities, exclusive of changes in operating assets and liabilities, used $1,366,691 of cash, as the Corporation's net loss of $2,418,310 included non-cash charges of depreciation and amortization of $19,994, realized gains of $522,131 and unrealized losses of $1,553,756.

Changes in operating assets and liabilities increased cash $231,229 for the year ended December 31, 2002, principally due an increase in the level of accounts payable and accrued expenses. For the year ended December 31, 2001, changes in operating assets and liabilities produced $1,128 of cash.

The principal factor in the $1,637,284 of cash provided by investing activities in the year ended December 31, 2002 was the sale of a portion of the Corporation's holding in Excelsior for $1,500,000. In the year ended December 31, 2001, the principal factor in the $1,236,750 cash provided by investing activities was proceeds from the sale of Avery Communications of $1,564,282 and Go America of $1,044,782, partially offset by an investment in Excelsior of $1,500,000.

Cash used in financing activities for the year ended December 31, 2002 of $72,650 resulted from payment of preferred dividends of $115,152, the redemption of preferred stock of $137,500 and the purchase of treasury stock of $71,815 offset by the issuance of certain rights to convert promissory notes issued from Excelsior to Dial into Franklin stock of $300,000. Financing activities used $239,024 in the prior year's comparable period for the payment of preferred dividends of $115,150 and the purchase of treasury stock of $123,874.

Franklin is obligated under an operating lease, which provides for annual minimum rental payments through December 31, 2003 of $149,600.

On February 22, 2000, the Corporation issued $1,645,000 of convertible preferred stock. The stock was issued at a price of $100 per share and has a 7% quarterly dividend. The stock is convertible into Franklin common stock at a conversion price of $13.33 per common share. On December 31, 2002 the Corporation redeemed from certain preferred stockholders 5,500 shares of convertible preferred stock for $25.00 per share.

ITEM 7A. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FRANKLIN CAPITAL CORPORATION

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

The schedules for which provision is made in the applicable regulation of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and, therefore, have been omitted

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors
Franklin Capital Corporation

We have audited the accompanying balance sheets of Franklin Capital Corporation as of December 31, 2002 and 2001, including the portfolio of investments as of December 31, 2002, and the related statements of operations, cash flows and changes in net assets for each of the three years in the period ended December 31, 2002, and the financial highlights for each of the five years in the period ended December 31, 2002. These financial statements and financial highlights are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included the confirmation of securities owned as of December 31, 2002 by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Franklin Capital Corporation at December 31, 2002 and 2001, the results of its operations, cash flows and changes in net assets for each of the three years in the period ended December 31, 2002, and the financial highlights for each of the five years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that Franklin Capital Corporation will continue as a going concern. The Corporation has incurred recurring operating losses and as more fully described in Note 1, has a working capital deficiency. These conditions raise substantial doubt about the Corporation's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. 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.

ERNST & YOUNG LLP

New York, New York
March 7, 2003

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FRANKLIN CAPITAL CORPORATION

Balance Sheets

December 31,	2002	2001

ASSETS

Marketable investment securities, at market value (cost: December 31, 2002 and 2001 - $34,675) (Note 2)	$34,675	$34,675
Investments, at fair value (cost: December 31, 2002 - $2,476,804; December 31, 2001 - $3,876,430) (Note 2)		
Excelsior Radio Networks, Inc.	2,957,875	2,325,000
Other investments	1,000,000	1,369,197
	3,957,875	3,694,197
Cash and cash equivalents (Note 2)	562,191	279,728
Other assets	77,597	90,266
TOTAL ASSETS	$4,632,338	$4,098,866

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Notes payable (Note 6)	$951,817	$1,000,000
Accounts payable and accrued liabilities	412,981	177,121
TOTAL LIABILITIES	1,364,798	1,177,121
Commitments and contingencies (Note 5)		
STOCKHOLDERS' EQUITY		
Convertible preferred stock, $1 par value, cumulative 7% dividend: 5,000,000 shares authorized; 10,950 and 16,450 issued and outstanding at December 31, 2002 and 2001, respectively (Liquidation preference $1,095,000 and $1,645,000) (Note 4)	10,950	16,450
Common stock, $1 par value: 5,000,000 shares authorized; 1,505,888 shares issued: 1,049,600 and 1,074,700 shares outstanding at December 31, 2002 and 2001, respectively (Note 7)	1,505,888	1,505,888
Paid-in capital	10,439,610	10,271,610
Unrealized appreciation (depreciation) of investments, net of deferred income taxes (Notes 2 and 3)	1,481,071	(182,233)
Accumulated deficit	(7,578,808)	(6,170,614)
	5,858,711	5,441,101
Deduct: 456,288 and 431,188 shares of common stock held in treasury, at cost, at December 31, 2002 and 2001, respectively (Note 4)	(2,591,171)	(2,519,356)

Net assets (Note 9 for per share information)	3,267,540	2,921,745
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$4,632,338	$4,098,866

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

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FRANKLIN CAPITAL CORPORATION

Statements of Operations

For the Year Ended December 31,	2002	2001
INVESTMENT INCOME		
Interest on short term investments and money market accounts	$5,081	$45,953
Dividend income	--	26,744
Income from majority-owned affiliates (Note 6)	450,000	120,000
Other income	--	--
	455,081	192,697
EXPENSES		
Salaries and employee benefits (Note 7)	862,970	933,081
Professional fees	191,900	168,618
Rent (Note 5)	98,982	126,134
Insurance	58,036	41,955
Directors' fees	2,003	18,802
Taxes other than income taxes	39,709	40,394
Newswire and promotion	1,181	5,707
Depreciation and amortization	16,969	19,994
Interest expense	35,401	11,988
Expenses related to terminated merger	490,782	--
General and administrative	187,517	212,709
	1,985,450	1,579,382
Net investment loss from operations	(1,530,369)	(1,386,685)
Net realized gain on portfolio of investments:		
Investment securities:		
Affiliated	254,088	7,613
Unaffiliated	(16,430)	512,842
Total investment securities	237,658	520,455
Other than investment securities	--	--

Net realized gain on portfolio of investments	237,658	520,455
Provision (benefit) for current income taxes	331	(1,676)
Net realized loss	(1,293,042)	(864,554)
Increase (decrease) in unrealized appreciation of investments, net of deferred income taxes:		
Investment securities:		
Affiliated	1,663,304	279,699
Unaffiliated	--	(1,833,455)
Total investment securities	1,663,304	(1,553,756)
Other than investment securities	--	--
Deferred income tax benefit	--	--
Increase (decrease) in unrealized appreciation of investments, net of deferred income taxes	1,663,304	(1,553,756)
Net increase (decrease) in net assets from operations	370,262	(2,418,310)
Preferred dividends	115,152	115,150
Net increase (decrease) in net assets attributable to common stockholders	$255,110	($2,533,460)
Basic and diluted net increase (decrease) in net assets per share attributable to common stockholders (Note 8)	$0.24	($2.34)

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

FRANKLIN CAPITAL CORPORATION

Statements of Cash Flows

For the Year Ended December 31,	2002
Cash flows from operating activities:	
Net increase (decrease) in net assets from operations	$370,26
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash used in operating activities:	
Depreciation and amortization	16,96

Non-cash compensation expense from cashless exercise of officer options	-
(Increase) decrease in unrealized appreciation of investments, net of deferred taxes	(1,663,30
Net realized gain on portfolio of investments, net of current income taxes	(237,32
Changes in operating assets and liabilities:	
Decrease in receivable from disposal of investments	-
(Increase) decrease in other assets	(4,30
Increase (decrease) in accounts payable and accrued liabilities	235,52
Total adjustments	(1,652,43
Net cash used in operating activities	(1,282,17
Cash flows from investing activities:	
Proceeds from sale of majority-owned affiliate	1,500,00
Proceeds from sale of affiliate	78,71
Proceeds from sale of other investments	-
Proceeds from sale of marketable investment securities	6,55
Loan payments received from majority-owned affiliate	75,00
Loan to majority owned affiliate	-
Purchases of investment in majority-owned affiliate	-
Purchase of investment in affiliate	-
Purchases of other investments	-
Purchases of marketable investment securities	(22,98
Net cash provided by investing activities	1,637,28
Cash flows from financing activities:	
Proceeds from issuance of preferred stock	-
Payments of preferred dividends	(115,15
Cash paid to common stockholders in lieu of fractional shares due to stock split of common shares	-
Decrease in note payable	(48,18
Proceeds from conversion right	300,00
Redemption of preferred stock	(137,50
Purchases of treasury stock	(71,81
Net cash (used in) provided by financing activities	(72,65
Net increase (decrease) in cash and cash equivalents	282,46
Cash and cash equivalents at beginning of year	279,72
Cash and cash equivalents at end of year	$562,19

Supplemental disclosure of cash flow information:	
Non-cash liability issued in connection with purchase of majority owned affiliate	-

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

For the Year Ended December 31,	2002	2001
Increase (decrease) in net assets from operations:		
Net investment loss	($1,530,369)	($1,386,685)
Net realized gain on portfolio of investments, net of current income taxes	237,327	522,131
Increase (decrease) in unrealized appreciation of investments, net of deferred income taxes	1,663,304	(1,553,756)
Net increase (decrease) in net assets from operations	370,262	(2,418,310)
Capital stock transactions:		
Issuance of preferred stock	--	--
Payment of dividends on preferred stock	(115,152)	(115,150)
Issuance of stock from treasury for exercise of officer options	--	--
Cash paid to common shareholders in lieu of fractional shares	--	--
Proceeds for conversion right	300,000	--
Redemption of preferred stock	(137,500)	--
Purchase of treasury stock	(71,815)	(123,874)
Total increase (decrease) in net assets	345,795	(2,657,335)
Net assets at beginning of year	2,921,745	5,579,080
Net assets at end of year	$3,267,540	$2,921,745

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

FRANKLIN CAPITAL CORPORATION

FINANCIAL HIGHLIGHTS

For the Year Ended December 31,	2002(1)	2001(1)	2000(1)	1999
PER SHARE OPERATING PERFORMANCE (2):				
Net asset value attributable to common stockholders, beginning of year	$1.19	$3.58	$7.70	$5.61
Net investment loss	(1.44)	(1.28)	(2.07)	(1.38)
Net gain (loss) on portfolio of investments (realized and unrealized) after taxes	1.78	(0.95)	(1.98)	3.35
Total from investment operations	0.34	(2.23)	(4.05)	1.97
Less dividends and distributions:				
Distributions from accumulated deficit and earnings	0.00	0.00	0.00	0.00
Total dividends and distributions	0.00	0.00	0.00	0.00
Capital stock transactions	0.54	(0.16)	(0.07)	0.12
Net asset value attributable to common stockholders, end of year	$2.07	$1.19	$3.58	$7.70
Market value per share, end of year	$1.62	$4.18	$8.00	$6.83
TOTAL INVESTMENT RETURN:				
Based on market value per share (%)	(58.85)	(47.75)	17.13	95.24
RATIOS TO AVERAGE NET ASSETS:				
Expenses (%)	56.61	37.67	25.99	24.97
Net investment loss from operations (%)	(43.64)	(33.08)	(24.73)	(23.86)
RATIOS/SUPPLEMENTAL DATA:				
Net assets at end of period (000 omitted)	$3,268	$2,922	$5,579	$8,440
Portfolio turnover rate (%)	37	89	24	36

(1) - Includes liquidation preference of preferred stockholders.
(2) - Calculated based on weighted average number of shares outstanding during the period.

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

FRANKLIN CAPITAL CORPORATION

PORTFOLIO OF INVESTMENTS

MARKETABLE INVESTMENT SECURITIES

DECEMBER 31, 2002 (2)	NUMBER SHARES PRINCI AMOUNT
Certificate of Deposit - 1.15%, due 01/04/2003	
Total Marketable Investment Securities (0.9% of total investments and 1.1% of net assets)	

INVESTMENTS, AT FAIR VALUE

DECEMBER 31, 2002 (2)	INVESTMENT	EQUITY INTEREST	NUMBER SHARES PRINCI AMOUNT
MAJORITY OWNED AFFILIATE			
Excelsior Radio Networks, Inc.	Common stock	59.07%	1,476,
Excelsior Radio Networks, Inc.	Warrants	--	87,
Total Excelsior Radio Networks, Inc. (74.1% of total investments and 90.5% of net assets) (Radio production and advertising sales)		29.26% (fully diluted)	
OTHER INVESTMENT			
Alacra Corporation (25.0% of total investments and 30.6% of net assets)	Convertible Preferred Stock	1.68%	321,
(Internet-based information provider)			
Investments, at Fair Value			

(1) Book cost equals tax cost for all investments

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

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

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

1. DESCRIPTION OF BUSINESS

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

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. The Corporation has a working capital deficiency of approximately $800,000 at December 31, 2002. (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 years ended December 31, 2002, 2001 and 2000.

At December 31, 2002 and 2001, the Corporation held cash and cash equivalents primarily in money market funds at two commercial banking institutions, and two broker/dealers.

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.

STOCK-BASED COMPENSATION

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

	December 31, 2002	December 31, 2001	December 31, 2000
Net increase (decrease) in net assets attributable to common stockholders:			
As reported	$255,110	$(2,533,460)	$(4,526,053)

Add:			
Stock-based employee compensation expense included in reported net increase (decrease) in net assets attributable to common stockholders	--	--	223,772
Deduct:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	4,734	37,985	140,585
Pro forma	$250,376	$(2,571,445)	$(4,442,866)
Basic and diluted net increase (decrease) in net assets attributable to common stockholders:			
As reported	$0.24	$(2.34)	$(4.14)
Pro forma	$0.23	$(2.37)	$(4.06)

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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".

RECLASSIFICATION

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

3. INCOME TAXES

For the years ended December 31, 2002, 2001 and 2000, Franklin's tax (provision) benefit was based on the following:

	2002	2001	2000
Net investment loss from operations	$(1,530,369)	$(1,386,685)	$(2,257,782)
Net realized gain on portfolio of investments	237,657	520,455	1,215,875
Increase (decrease) in unrealized appreciation	1,663,304	(1,553,756)	(3,716,513)

Pre-tax book income (loss)	$ 370,592	$(2,419,986)	$(4,758,420)

	2002	2001	2000
Federal tax (provision) benefit at 34% on $370,592, $(2,419,986), and $(4,758,420), respectively	$ (126,000)	$ 823,000	$ 1,618,000
State and local, net of Federal benefit	--	1,000	(13,000)
Other	(22,000)	5,000	(130,000)
Change in valuation allowance	148,000	(827,000)	(1,144,000)
	$ --	$ 2,000	$ 331,000

The components of the tax benefit are as follows:

	2002	2001	2000
Current state and local tax benefit (expense)	$ --	$ 2,000	$ (20,000)
Deferred tax benefit	--	--	351,000
Benefit for income taxes	$ --	$ 2,000	$ 331,000

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

At December 31, 2002 and 2001, significant deferred tax assets and liabilities consist of:

	Asset (Liability)	
	December 31, 2002	December 31, 2001
Deferred Federal and state benefit from net operating loss carryforward	$ 2,356,000	$ 1,905,000
Deferred Federal and state (provision) benefit on unrealized (appreciation) depreciation of investments	(533,000)	66,000
Valuation allowance	(1,823,000)	(1,971,000)
Deferred taxes	$ --	$ --

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FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

4. STOCKHOLDERS' EQUITY

The accumulated deficit at December 31, 2002, consists of accumulated net realized gains of $5,170,000 and accumulated investment losses of $12,749,000.

On February 22, 2000, the Corporation issued 16,450 shares of convertible preferred stock with a par value of $100 for $1,645,000. The 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), resulting in 123,375 shares of common stock. The convertible preferred stock has antidilution provisions, which can change the conversion price in certain circumstances if the Corporation issues additional shares of common stock. The holder has the right to convert the shares of convertible preferred stock at any time until February 22, 2010 into common stock. Upon liquidation, dissolution or winding up of the Corporation, the stockholders of the convertible preferred stock are entitled to receive $100 per share plus any accrued and unpaid dividends before distributions to any holder of the Corporation's common stock.

On December 31, 2002, the Corporation redeemed from certain preferred stockholders 5,500 shares of convertible preferred stock for $25.00 per share.

On April 26, 2000, the Corporation declared a three-for-two stock split of the Corporation's Common Stock in the form of a stock dividend to shareholders of record on May 15, 2000, and payable June 7, 2000. The stock split has been reflected in the accompanying financial statements and all applicable references as to the number of common shares and per share information have been restated.

The Board of Directors has authorized Franklin to repurchase up to an aggregate of 525,000 shares of its common stock in open market purchases on the American Stock Exchange when such purchases are deemed to be in the best interest of the Corporation and its stockholders. As of December 31, 2001, the Corporation had purchased 482,350 shares of its common stock of which 431,188 remained in treasury. During the year ended December 31, 2002, the Corporation purchased 25,100 shares of its common stock at a total cost of $71,815. To date, Franklin has repurchased 507,450 shares of its common stock of which 456,288 shares remain in treasury at December 31, 2002.

5. COMMITMENTS AND CONTINGENCIES

Franklin is obligated under an operating lease, which provides for annual minimum rental payments through December 31, 2003 of $149,600.

Rent expense for the years ended December 31, 2002, 2001 and 2000, was approximately $99,000, $126,000, and $104,000, respectively. For the years ended December 31, 2002, 2001 and 2000, the Corporation collected rents of $59,000, $24,000, and $40,000, respectively, from subtenants under month-to-month leases, for a portion of its existing office space that is reflected as a reduction in rent expense for that period. Of the amount collected from subtenants during the year ended December 31, 2000, $30,000, was received from a corporation included in Franklin's investment portfolio.

On October 15, 2001, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed a lawsuit against Franklin, Sunshine Wireless, LLC ("Sunshine") and four other defendants affiliated with Winstar Communications, Inc. in the Superior Court of the State of California for the County of Los Angeles. The lawsuit, which has subsequently been removed to the United States District Court for the Central District of California, alleges that the Winstar defendents conspired to commit fraud and breached their fiduciary duty to the plaintiffs in connection with the acquisition of the plaintiffs' radio production and distribution business. The complaint further alleges that Franklin and Sunshine joined the alleged conspiracy. The business was initially acquired by certain entities affiliated with Winstar Communications and, subsequently, the assets of such business were sold to Franklin and Sunshine (see Note 6). Concurrently with such purchase, Franklin transferred such assets to Excelsior. The plaintiffs seek recovery of damages in excess of $10,000,000, costs and attorneys' fees. On January 7, 2002, Franklin filed a motion to dismiss the lawsuit or, in the alternative, to transfer venue to the United States District Court of the Southern District of New York. The plaintiffs filed a motion opposing Franklin's request on January 28, 2002. Franklin's motion for dismissal was granted on February 25, 2002, due to improper venue. On June 7, 2002, the plaintiffs filed their complaint to the United States District of the Southern District of New York. On July 12, 2002, Franklin filed a motion to dismiss the complaint. On February 25, 2003, the case against Franklin and Sunshine was dismissed; however, the plaintiffs may file an appeal. An unfavorable outcome in this lawsuit may have a material adverse effect on Franklin's business, financial condition and results of operations

6. TRANSACTIONS WITH AFFILIATES

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

On August 28, 2001, Franklin along with Sunshine Wireless LLC ("Sunshine") purchased the assets of Winstar Radio Networks, Global Media and Winstar Radio Productions (collectively "WRN") for a total purchase price of $6.25 million. Change Technology Partners, Inc. ("Change"), a public company, provided $2.25 million of senior financing for the deal. The acquisition was consummated through eCom Capital Inc., subsequently renamed Excelsior Radio Networks, Inc. ("Excelsior"), a then wholly-owned subsidiary of Franklin. Franklin's total investment was $2.5 million consisting of $1.5 million in cash and a $1 million note payable to WRN. The note is due February 28, 2002 with interest at 3.54% and has a right of set-off against certain representations and warranties made by WRN. In October 2001, a legal proceeding was filed against WRN, which also named Franklin as a defendant, in which the representations and warranties made by WRN have been challenged. Until the time that this action is settled the due date of the note is extended indefinitely (see Note 5). Additionally, Franklin provided a $150,000 note receivable to Excelsior. The note bears interest at 10% per annum and is issued for a ninety-day rolling period. In connection with this note, Franklin was granted warrants to acquire 12,879 shares of Excelsior common stock at an exercise price of $1.125 per share. As of December 31, 2002, this note has been repaid. In contemplation of the proposed merger agreement between Franklin and Change (see Note 11), Franklin sold to Change 250,000 shares of common stock in Excelsior for $250,000. On October 3, 2002, Franklin sold 773,196 shares of common stock in Excelsior for $1.94 per share for total proceeds of $1,500,000 realizing a gain of $726,804.

At the closing, Franklin entered into a services agreement with Excelsior whereby Franklin provides Excelsior with certain services. In consideration for the services provided, for a period of six months Franklin received $30,000 per month and was reimbursed for all direct expenses. Since then, Franklin's monthly fee is determined by a majority of the non-Franklin directors; however, said management fee will be no less than $15,000 per month and Franklin will continue to be reimbursed for all direct expenses through December 31, 2003. Finally, Franklin's chief financial officer serves in that capacity for Excelsior and his salary and benefits are allocated between Excelsior and Franklin on an 80/20 basis. During the years ended December 31, 2002, and 2001, Franklin earned $450,000 and $120,000,

respectively, in management fees and was reimbursed $120,936 and $40,156, respectively, for salary and benefits for Franklin's chief financial officer, which was recorded as a reduction of expenses on Franklin.

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

The total purchase price for the Dial Acquisition will be an amount between $8,880,000 and $13,557,500. The initial consideration for the Dial Acquisition consisted of $6,500,000 in cash and a three-year promissory note bearing interest at 4.5% issued by DCGM in favor of DCGL in the aggregate principal amount of $460,000. In addition, the Purchase Agreement provides for the minimum payment of $1,920,000 of additional consideration, which is subject to increase to a maximum amount of $6,597,500 based upon the attainment of certain revenue and earnings objectives in 2002 and 2003. The additional consideration will be comprised of both cash and two additional promissory notes issued by DCGM in favor of DCGL, each with an initial aggregate principal amount of $460,000 bearing interest at 4.5% that is subject to increase upon the attainment of such revenue and earnings objectives. Each of the promissory notes issued in consideration of the Dial Acquisition is convertible into shares of Franklin's common stock at a premium ranging from 115% to 120% of the average closing prices of Franklin's common stock during a specified pre and post closing measurement period. Excelsior has paid to Franklin an amount equal to $300,000 in consideration of Franklin's obligations in connection with any Franklin common stock that may be issued pursuant to the terms of the Purchase Agreement or the promissory notes issued in consideration of the Dial Acquisition. For each share of common stock Franklin is required to issue under the Purchase Agreement or the promissory notes, Franklin will receive 0.86 shares of common stock in Excelsior.

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