FRANKLIN CAPITAL CORP
Form 10-Q
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly period ended SEPTEMBER 30, 2001

or

_ Transition report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

For the transition period from ________________ to ___________________.

Commission File No. 1-9727

FRANKLIN CAPITAL CORPORATION
(Exact name of registrant specified in its charter)

DELAWARE	13-3419202
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
450 Park Avenue, 10th Floor, New York, New York	10022
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 486-2323

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

The number of shares of common stock outstanding as of October 31, 2001 was 1,074,700.

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FORWARD LOOKING STATEMENTS

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

FRANKLIN CAPITAL CORPORATION

BALANCE SHEETS

	SEPTEMBE 2001 (UNAUDITE
ASSETS	
Marketable investment securities, at market value (cost: September 30, 2001 - $194,872; December 31, 2000 - $122,231) (Note 2)	$119
Investments, at fair value (cost: September 30, 2001 -$4,377,430; December 31, 2000 - $3,505,159) (Note 2)	

eCom Capital, Inc.	2,650
Affiliate investments	236
Other investments	1,350
	4,236
Cash and cash equivalents (Note 2)	112
Other assets	98
TOTAL ASSETS	$4,567

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Accounts payable and accrued liabilities	$132
Note payable	1,000
TOTAL LIABILITIES	1,132

Commitments and contingencies

STOCKHOLDERS' EQUITY

Convertible preferred stock, $1 par value, cumulative 7% dividend: 5,000,000 shares authorized; 16,450 shares issued and outstanding at September 30, 2001 and December 31, 2000 (Liquidation preference $1,645,000) (Note 4)	16
Common stock, $1 par value: 5,000,000 shares authorized; 1,505,888 shares issued:1,074,700 shares outstanding at September 30, 2001 and 1,098,200 at December 31, 2000 (Note 6)	1,505
Additional paid-in capital	10,271
Unrealized (depreciation) appreciation of investments, net of deferred income taxes (Notes 2 and 3)	(216
Accumulated deficit	(5,623
	5,954
Deduct common stock held in treasury, at cost, 431,188 shares at September 30, 2001, and 407,688 shares at December 31, 2000 (Note 4)	(2,519
Net assets (See Note 8 for per share information)	3,435
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$4,567

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF OPERATIONS
(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30, 2001	2000
INVESTMENT INCOME		
Dividend income	$0	$10,500
Interest income	11,735	10,638
Other income	30,000	0
	41,735	21,138
EXPENSES		
Salaries and employee benefits (Note 7)	215,216	366,020
Professional fees	41,325	57,400
Rent	29,784	31,484
Insurance	10,600	10,442
Directors' fees	501	19,875
Taxes other than income taxes	7,901	8,993
Newswire and promotion	1,000	1,500
Depreciation and amortization	4,998	5,416
General and administrative	47,556	62,517
	358,881	563,647
Net investment loss from operations	(317,146)	(542,509)
Net realized gain on portfolio of investments:		
Investment securities:		
Affiliated	1,000	43,558
Unaffiliated	4,902	3,737
Total investment securities	5,902	47,295
Other than investment securities	0	202
Net realized gain on portfolio of investments	5,902	47,497
Provision for current income taxes	0	1,001
Net realized loss	(311,244)	(496,013)
(Decrease) increase in unrealized appreciation of investments, net of deferred income taxes:		
Investment securities:		
Affiliated	(140,974)	968,958
Unaffiliated	86,001	(3,394,358)

Total investment securities	(54,973)	(2,425,400)	
Other than investment securities	0	0	
Deferred income tax benefit	0	(855,000)	
Decrease in unrealized appreciation of investments, net of deferred income taxes	(54,973)	(1,570,400)	
Net decrease in net assets from operations	(366,217)	(2,066,413)	
Preferred dividends	28,787	28,787	
Net decrease in net assets attributable to common stockholders	($395,004)	($2,095,200)	(
Basic and diluted net decrease in net assets from operations per common share (Note 7)	($0.37)	($1.92)	

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

FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS
(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30,	2001
Cash flows from operating activities:	
Net decrease in net assets from operations	($1,933,
Adjustments to reconcile net decrease in net assets to net cash used in operating activities:	
Depreciation and amortization	14,
Decrease in unrealized appreciation of investments, net of deferred income tax expense	1,587,
Net realized gain on portfolio of investments, net of current income taxes	(732,
Non-cash compensation expense from exercise of officer options	
Changes in operating assets and liabilities:	
Increase in other assets	6,
(Decrease) increase in accounts payable and accrued liabilities	(53,
Total adjustments	823,
Net cash used in operating activities	(1,110,

Cash flows from investing activities:	
Proceeds from sale of affiliate	1,519,
Proceeds from sale of other investments	1,044,
Proceeds from sale of marketable investment securities	462,
Purchase of investment in majority owned affiliate	(1,650,
Purchase of investment in affiliate	
Purchases of investments	(49,
Purchases of marketable investment securities	(542,
Net cash provided by (used in) investing activities	785,
Cash flows from financing activities:	
Proceeds from issuance of preferred stock	
Payment of preferred dividends	(86,
Cash paid to common shareholders in lieu of fractional shares due to stock split of common shares	
Purchase of treasury stock	(123,
Net cash (used in) provided by financing activities	(210,
Net decrease in cash and cash equivalents	(534,
Cash and cash equivalents at beginning of period	647,
Cash and cash equivalents at end of period	$112,

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

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FRANKLIN CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2001	2000
Decrease in net assets from operations:		
Net investment loss	($317,146)	($542,50
Net realized gain on portfolio of investments, net of current income taxes	5,902	46,49
Decrease in unrealized appreciation of investments, net of deferred income taxes	(54,973)	(1,570,40

Net decrease in net assets from operations	(366,217)	(2,066,41
Capital stock transactions:		
Issuance of preferred stock	-	-
Payment of dividends on preferred stock	(28,787)	(28,78
Issuance of stock from treasury for exercise of officer options	-	129,31
Cash paid to common shareholers in lieu of fractional shares	-	-
Purchase of treasury stock	(8,514)	(65,21
Total (decrease) increase in net assets	(403,518)	(2,031,09
Net assets at beginning of period	3,838,668	11,288,50
Net assets at end of period	$3,435,150	$9,257,40

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

FRANKLIN CAPITAL CORPORATION

PORTFOLIO OF INVESTMENTS
(UNAUDITED)

MARKETABLE INVESTMENT SECURITIES

SEPTEMBER 30, 2001	NUMBER OF SHARES
New Media Spark - common stock	500,000
Certificate of Deposit - 3.26%, due 10/04/2001(2)	
Total Marketable Investment Securities (2.7% of total investments and 3.5% of net assets)	

INVESTMENTS, AT FAIR VALUE

SEPTEMBER 30, 2001	INVESTMENT	EQUITY INTEREST	NUMBER OF SHARES OR PRINCIPAL AMOUNT($

MAJORITY OWNED AFFILIATE			
eCom Capital, Inc.	Common stock	64.70%	2,500,000
eCom Capital, Inc.	Note Receivable(2)	-	150,000
Total eCom Capital, Inc. (60.8% of total investments and 77.1% of net assets) (Radio production and advertising sales)		64.70%	2,650,000
AFFILIATES			
Excom Ventures, LLC (3.2% of total investments and 4.1% of net assets) (Purchase evaluation software)	Units	18.64%	140,000
Primal Solutions, Inc. (2.2% of total investments and 2.8% of net assets) (Internet-based Voice over IP billing software)	Common Stock	7.30%	1,483,938
Total Affiliates			
OTHER INVESTMENTS			
Alacra Corporation (23.0% of total investments and 29.1% of net assets) (Internet-based information provider)	Convertible Preferred Stock	1.68%	321,543
Structured Web, Inc. (8.1% of total investments and 10.2% of net assets) (Internet-based application service provider)	Convertible Preferred Stock	3.60%	188,425
Total Other Investments			
Total Investments, at Fair Value			

(1) Book cost equals tax cost for all investments
(2) Income producing security

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

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2001

1. ORGANIZATION

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

Franklin Capital Corporation ("Franklin", or the "Corporation") is a Delaware corporation registered 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 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.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENTS OF CASH FLOWS

The Corporation paid no interest or income taxes during the nine months ended September 30, 2001 and 2000.

The Corporation issued a note payable in the amount of $1,000,000 as part of the purchase price of a majority owned affiliate. See Note 5 for additional information.

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

VALUATION OF INVESTMENTS

Security investments which are publicly traded on a national exchange or NASDAQ 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 by the good faith of 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 ON PORTFOLIO OF INVESTMENTS

Amounts reported as realized gains are measured by the difference between the proceeds of sale or exchange and the cost basis of the investment without regard to unrealized gains reported in the prior periods. Gains are considered realized when sales or dissolution of investments are consummated.

INCOME TAXES

Franklin does not qualify for pass through tax treatment as a Regulated Investment Company under Subchapter M of the Internal Revenue Code for income tax purposes. Therefore, the Corporation is taxed under Regulation C.

Franklin accounts for income taxes in accordance with the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). The significant components of deferred tax assets and liabilities are principally related to the Corporation's net operating loss carryforward and its unrealized appreciation of investments.

DEPRECIATION AND AMORTIZATION

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

NET DECREASE IN NET ASSETS PER COMMON SHARE

Basic and diluted net decrease in net assets per common share is calculated in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share".

3. INCOME TAXES

For the nine months ended September 30, 2001 and 2000, Franklin's tax (provision) benefit was based on the following:

	2001	2000
Net investment loss from operations	$(1,078,534)	$(1,666,073)
Net realized gain on portfolio of investments ...	730,857	1,115,935
Decrease in unrealized appreciation/depreciation	(1,587,694)	(392,283)
Pre-tax book loss	$(1,935,371)	$(942,421)

FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

	2001	2000
Tax benefit at 34% on $(1,935,371) and $(942,421) respectively	$ 658,000	$ 320,000
State and local, net of Federal benefit	49,000	(20,000)
Book losses for which no benefit is provided	(8,000)	(141,000)
Change in valuation allowance	(697,000)	--
	$ 2,000	$ 139,000

The components of the tax benefit (provision) are as follows:

	2001	2000
Current state and local tax benefit (provision) .	$ 2,000	$ (20,000)
Deferred tax benefit	--	159,000
Benefit for income taxes	$ 2,000	$ 139,000

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

At September 30, 2001 and December 31, 2000, significant deferred tax assets and liabilities consist of:

	Asset (Liability)	
	September 30, 2001	December 31, 2000
Deferred Federal and state benefit from net operating loss carryforward	$ 1,763,000	$ 1,638,000
Deferred Federal and state benefit (provision) on unrealized appreciation of investments	78,000	(494,000)
Valuation allowance	(1,841,000)	(1,144,000)
Deferred taxes	$ --	$ --

At December 31, 2000, Franklin had net operating loss carryforwards for income tax purposes of approximately $4,551,000 that will begin to expire in 2011. At a 36% effective tax rate the after-tax net benefit from this loss would be approximately $1,638,000.

4. STOCKHOLDERS' EQUITY

The Accumulated Deficit at September 30, 2001 consists of accumulated net realized gains of $5,287,000 and accumulated investment losses of $10,910,000.

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.

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, 2000, the Corporation had purchased 458,850 shares of its common stock of which 407,688 remained in treasury. During the nine months ended September 30, 2001, the Corporation purchased 23,500 shares of its common stock at a total cost of $123,873. To date, Franklin has repurchased 482,350 shares of its common stock of which 431,188 shares remain in treasury at September 30, 2001.

5. 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 interest 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 nine months ended September 30, 2001, Franklin sold 50,000 shares of Primal for total proceeds of $9,000, realizing a gain of $1,000.

On August 28, 2001, Franklin along with Sunshine Wireless LLC 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, a public company, provided $2.25 million of senior financing for the deal. The acquisition was consummated through eCom Capital Inc., ("eCom") a wholly-owned subsidiary of Franklin. Franklin's total investment was $2.65 million consisting of $1.65 million in cash and a $1 million note payable to Winstar. 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 Winstar. As a result of the transaction, Franklin now owns 57.5% of eCom on a fully diluted basis and 100% of eCom's common equity. In addition, Franklin has the right to nominate four directors to eCom's seven-person board of directors.

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

6. STOCK OPTIONS

On September 9, 1997, Franklin's stockholders approved two Stock Option Plans: a Stock Incentive Plan ("SIP") to be offered to the Corporation's consultants, officers and employees (including any officer or

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FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

	Nine Months Ended	
	September 30, 2001	September
Net decrease in net assets attributable to common stockholders:		
As reported	($2,020,057)	$(873
Pro forma	($2,048,546)	$(918
Net decrease in net assets per common share:		
As reported	($ 1.86)	$(
Pro forma - Basic	($ 1.89)	$(
Pro forma - Diluted	($ 1.89)	$(
Net Asset Value per common share:		
As reported - Basic	$ 3.20	$
Pro forma - Basic	$ 3.17	$
Pro forma - As if converted basis	$ 2.87	$
Pro forma - As if liquidated basis	$ 1.64	$

The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

September 30, 2000

Stock volatility	41.3%
Risk-free interest rate	5.5%
Option term in years	4
Stock dividend yield	-

No options were granted during the nine months ended September 30, 2001.

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

	September 30, 2001		September 30	
	Shares	Weighted Average Exercise Price	Shares	W E
Outstanding at beginning of period	39,375	$11.27	65,625	
Granted	-	-	39,375	
Exercised	-	-	58,124	
Forfeited	-	-	-	
Expired	-	-	-	
Outstanding at end of period	39,375	$11.27	46,876	
Exercisable at end of period	26,875	$10.73	18,125	
Weighted average fair value of options granted	-		$2.58	

The options issued under the SIP have a remaining contractual life of 7.25 years. The options issued under the SOP have a remaining contractual life of 8.4 years.

7. NET INCREASE IN NET ASSETS ATTRIBUTABLE TO COMMON STOCKHOLDERS PER SHARE

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

	Three Months ended September 30, 2001	Three Months ended September 30, 2000	N
Numerator:			
Net decrease in net assets from operations	($366,217)	($2,066,413)	($1,
Preferred stock dividends	(28,787)	(28,787)	

Numerator for basic and diluted earnings per share net loss available for common stockholders	(395,004)	(2,095,200)	(2,
Denominator:			
Denominator for basic and diluted decrease in net assets from operations weighted - average shares	1,076,012	1,092,779	1,
Basic and diluted net decrease in net assets attributable to common stockholders	($0.37)	($1.92)	

Preferred stock convertible into 123,375 shares of common stock was antidilutive for the three months and nine months ended September 30, 2001 and 2000. Stock options were antidilutive for the three and nine months ended September 30, 2001 and 2000.

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FRANKLIN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For additional information on the Preferred Stock, see Note 4.

8. NET ASSET VALUE PER SHARE

The following table sets forth the computation of basic, as if converted basis and as if liquidated basis net asset value per common share:

	SEPTEMBER 30, 2001
Numerator:	
Net assets, numerator for basic and as if converted basis, net asset value per common share	$3,435,150
Liquidation value of convertible preferred stock	(1,645,000)
Numerator for as if liquidated basis, net asset value per common share	$1,790,150
Denominator:	
Number of common shares outstanding, denominator for basic and as if liquidated net asset value per common share	1,074,700
Number of shares of common stock to be issued upon conversion of preferred stock	123,375
Denominator for as if converted net asset value per common share	1,198,075
Net asset value per common share, basic	$3.20
Net asset value per common share, as if converted basis	$2.87

Net asset value per common share, as if liquidated basis	$1.67

9. PURCHASES AND SALES OF INVESTMENT SECURITIES

The cost of purchases and proceeds from sales of investment securities excluding short term investments, aggregated $3,091,241 and $3,026,363 respectively, for the nine months ended September 30, 2001; $1,836,678 and $1,544,024 respectively, for the nine months ended September 30, 2000.

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

STATEMENT OF OPERATIONS

The Corporation accounts for its operations under generally accepted accounting principles for investment companies. On this basis, the principal measure of its financial performance is captioned "Net increase (decrease) in net assets from operations", which is composed of the following: "Net investment loss from operations," which is the difference between the Corporation's income from interest, dividends and fees and its operating expenses; "Net realized gain on portfolio of investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost; any applicable income tax provisions (benefits); and "Net increase (decrease) in unrealized appreciation of investments," which is the net change in the fair value of the Corporation's investment portfolio, net of any increase (decrease) in deferred income taxes that would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio.

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

FINANCIAL CONDITION

The Corporation's total assets and net assets were, respectively, $4,567,379 and $3,435,150 at September 30, 2001, versus $5,766,712 and $5,579,080 at December 31, 2000. Net asset value per share was $3.20 basic, $2.87 as if converted basis, and $1.67 as if liquidated basis at September 30, 2001, versus $5.08 basic, $4.57 as if converted, and $3.58 as if liquidated at December 31, 2000.

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

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Investments, at cost	$4,572,302	$3,627,390
Unrealized (depreciation) appreciation, net of deferred taxes	(216,171)	1,371,522

Investments, at fair value	$4,356,131	$4,998,912

INVESTMENTS

At September 30, 2001, the Corporation had an investment in Alacra Corporation ("Alacra"), valued at $1,000,000, which represents 21.9% of the Corporation's total assets and 29.1% of its net assets. Alacra, headquartered in New York and London, is a leading provider of Internet-based online information services. Alacra provides a service called .xls, which aggregates and cross-indexes over 70 premier business databases, delivering information directly to Microsoft Excel, HTML, Microsoft Word or PDF formats at the desktop. Other products include privatesuite(TM), a fast, easy, cost-effective way to identify and retrieve profiles of privately held companies around the world; compbook(TM), a tool for company peer analysis; and Portal B(TM), a fully integrated business information portal.

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

At September 30, 2001, the Corporation had an investment in Ecom Capital, Inc. ("Ecom") valued at $2,650,000, which represents 58.0% of the Corporation's total assets and 77.1% of its net assets. Ecom produces and syndicates programs and services heard on more than 2,000 radio stations nationwide across most major formats. Through its Global Media Sales unit, Ecom also sells the advertising inventory radio stations provide in exchange for the Ecom content. The programming and content includes prep services as well as long form and short form programming. Additionally, Global Media has a number of independent producer clients, which range from talk and music programs to news and traffic services.

On August 28, 2001, the Corporation purchased $2,500,000 worth of Ecom Common Stock and issued a secured note for $150,000.

At September 30, 2001, the Corporation had an investment in Excom Ventures, LLC ("Excom") valued at $140,000, which represents 3.1% of the Corporation's total assets and 4.1% of its net assets. Excom was formed as a limited liability holding company for the purpose of investing in Expert Commerce, Inc. ("Expert Commerce"). Expert Commerce is a Business-to-Business purchase evaluation engine that simulates the way people make decisions. Based on intelligent and proven technology, the engine helps structure complex decisions and provides an audit trail to justify transactions, empowering buyers to make purchase decisions with confidence.

On June 26, 2000, the Corporation purchased $140,000 worth of Excom Units.

At September 30, 2001, the Corporation owned 1,483,938 shares of common stock of Primal Solutions, Inc. ("Primal") valued at $96,456, which represents 2.1% of the Corporation's total assets and 2.8% of its net assets. Primal, based in Irvine, California, is a leading provider of Web-based integrated customer management and intelligence solutions that allow rapidly evolving communications and Internet service providers to stay connected with and grow their customers. It does this through an integrated suite of applications that can track and analyze customer behavior and preferences, collect usage information, and support billing and customer care back-office requirements, including those of emerging IP billing markets.

On February 13, 2001, Primal was spun-off from Avery Communications, Inc. ("Avery"). As a result of this spin-off Franklin received 1,533,938 fully registered and marketable shares of common stock of Primal. Primal trades over the counter on the OTC Bulletin Board. During the nine months ended September 30, 2001, Franklin sold 50,000 shares of common stock realizing a gain of $1,000.

At September 30, 2001, the Corporation had an investment in Structured Web, Inc. ("Structured Web") valued at $350,000, which represents 7.7% of the Corporation's total assets and 10.2% of its net assets. Structured Web develops web building blocks to enable small businesses to create and manage their own digital nerve system easily and at an affordable price. Structured Web's object-based proprietary technology enables customers to choose from a growing selection of "WebBlocks" including content, communication, commerce and services.

On August 8, 2000, the Corporation purchased $350,000 worth of Structured Web convertible preferred stock. In connection with this investment, Franklin was granted observer rights for Structured Web Board of Directors meetings.

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RESULTS OF OPERATIONS

INVESTMENT INCOME AND EXPENSES:

The Corporation's principal objective is to achieve capital appreciation through long-term investments in businesses believed to have favorable growth potential. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and provides little or no current yield in the form of dividends or interest. The Corporation earns interest income from loans, preferred stocks, corporate bonds and other fixed income securities. The amount of interest income varies based upon the average balance of the Corporation's fixed income portfolio and the average yield on this portfolio.

The Corporation had interest and dividend income of $69,094 and $71,634 for the nine months ended September 30, 2001 and 2000, respectively. The Corporation had interest income and dividend income of $11,735 and $21,138 for the three months ended September 30, 2001 and 2000, respectively. The decrease in interest and dividend for the three and nine months ended September 30, 2001 when compared to September 30, 2000, was primarily the result of the sale of Avery in February 2001. Avery was the major source of dividends during 2000. During the three and nine months ended September 30, 2001, the Corporation received a management fee of $30,000 for services provided to eCom. During the three months ended September 30, 2000, Franklin had other income of $22,000 related to a one-time event.

Operating expenses were $1,177,628 and $1,759,707 for the nine months ended and $358,881 and $563,647 for the three months ended September 30, 2001 and 2000, respectively. A majority of the Corporation's operating expenses consist of employee compensation, office and rent expense, other expenses related to identifying and reviewing investment opportunities and professional fees. Professional fees consist of general legal fees, audit and tax fees and investment related legal fees. The expenses decreased due to one-time expenses in 2000 and a cost cutting effort in 2001.

Net investment losses from operations were $1,078,534 and $1,666,073 for the nine months ended and $317,146 and $542,509 for the three months ended

September 30, 2001 and 2000, respectively. The decrease resulted primarily from the decrease in expenses noted above.

NET REALIZED GAINS AND LOSSES ON PORTFOLIO OF INVESTMENTS:

During the nine months and three months ended September 30, 2001 and 2000, the Corporation realized net gains before taxes of $730,857 and $1,115,935, and $5,902 and $47,497 respectively, from the disposition of various investments.

UNREALIZED APPRECIATION OF INVESTMENTS:

Unrealized appreciation of investments, net of deferred taxes, decreased by $1,587,694 and $54,973 during the nine months and three months, respectively, ended September 30, 2001, primarily from unrealized losses due to the sale of Franklin's holdings in Go America. The decrease for the nine months was partially offset by the sale of Franklin's investment in Avery Communications.

Unrealized appreciation of investments, net of deferred taxes, decreased by $233,283 and $1,570,400 during the nine months and three months, respectively, ended September 30, 2000, primarily from the realization of gains in Communications Intelligence Corporation and by a

decrease in the value of Franklin's investment in Avery. For the nine months, this decrease was partially offset by unrealized gains due to the increase in value of Franklin's investment in Go America.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's reported total cash and cash equivalents and marketable investment securities (the primary measure of liquidity) at September 30, 2001, was $232,285 compared to $768,582 at December 31, 2000. Management believes that these assets provide the Corporation with sufficient liquidity for its operations in the short-term.

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.

RISKS

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

INVESTING IN THE CORPORATION'S STOCK IS HIGHLY SPECULATIVE AND YOU COULD LOSE SOME OR ALL OF THE AMOUNT YOU INVEST

The value of the Corporation's common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or all of your investment in the Corporation's shares. The securities markets frequently experience extreme price and volume fluctuation which affect market prices for securities of companies generally, and technology companies in particular. Because of the Corporation's focus on the technology sector, its stock price is likely to be impacted by these market conditions. General economic conditions and general conditions in the Internet and information technology and other high technology industries will also affect the Corporation's stock price.

INVESTING IN THE CORPORATION'S SHARES MAY BE INAPPROPRIATE FOR YOUR RISK TOLERANCE

Investing in the Corporation's shares may be inappropriate for your risk tolerance. The Corporation's investments in accordance with its investment objective and principal strategies may result in an above average amount of risk and volatility or loss of principal. The Corporation's investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in its shares may not be suitable for you.

THE MARKET FOR VENTURE CAPITAL INVESTMENTS IS HIGHLY COMPETITIVE. IN SOME CASES, THE CORPORATION'S STATUS AS A BUSINESS DEVELOPMENT COMPANY MAY HINDER ITS ABILITY TO PARTICIPATE IN INVESTMENT OPPORTUNITIES.

The Corporation faces substantial competition in its investing activities from private venture capital funds, investment affiliates of large industrial, technology, service and financial companies, small business investment companies, wealthy individuals and foreign investors. As a business development company, the Corporation is required to disclose quarterly the name and business description of portfolio companies and value of any portfolio securities. Most of the Corporation's competitors are not subject to this disclosure requirement. The Corporation's obligation to disclose this information could hinder its ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make the Corporation less attractive as a potential investor to a given portfolio company than a private venture capital fund not subject to the same regulations.

REGULATORY RISKS

Securities and tax laws and regulations governing the Corporation's activities may change in ways negative to the Corporation's and its shareholders' interests and interpretations of such laws and regulations may change with unpredictable consequences.

THE CORPORATION IS DEPENDENT UPON KEY MANAGEMENT PERSONNEL FOR FUTURE SUCCESS

The Corporation is dependent for the selection, structuring, closing and monitoring of its investments on the diligence and skill of its senior management 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. The Corporation does not maintain key man life insurance on any of its officers or employees.

INVESTMENT IN SMALL, PRIVATE COMPANIES

There are significant risks inherent in the Corporation's venture capital business. The Corporation has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies with risky technologies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Corporation has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program. The Corporation has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses.

ILLIQUIDITY OF PORTFOLIO INVESTMENTS

Most of the investments of the Corporation are or will be equity securities acquired directly from small companies. The Corporation's portfolio of equity securities is and will usually be subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of the Corporation's portfolio of equity securities may adversely affect the ability of the Corporation to dispose of such securities at times when it may be advantageous for the Corporation to liquidate such investments.

THE INABILITY OF THE CORPORATION'S PORTFOLIO COMPANIES TO SUCCESSFULLY MARKET THEIR PRODUCTS WOULD HAVE A NEGATIVE IMPACT ON ITS INVESTMENT RETURNS

Even if the Corporation's portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of the Corporation's portfolio companies may not be successful.

VALUATION OF PORTFOLIO INVESTMENTS

There is typically no public market of equity securities of the small private companies in which the Corporation invests. As a result, the valuation of the equity securities in the Corporation's portfolio is subject to the good faith determination of the Corporation's Board of Directors. In the absence of a readily ascertainable market value, the estimated value of the Corporation's portfolio of equity securities may differ significantly from the values that would be placed on the portfolio if a ready market for the equity securities existed. Any changes in estimated net asset value are recorded in the Corporation's statement of operations as "Change in unrealized appreciation on investments."

FLUCTUATIONS OF QUARTERLY RESULTS

The Corporation's quarterly operating results could fluctuate as a result of a number of factors. These include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Corporation encounters competition in its markets and general economic conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's business activities contain elements of risk. The Corporation considers a principal type of market risk to be valuation risk. Investments are stated at "fair value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. All assets are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors.

Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program. The Corporation has exposure to public-market price fluctuations to the extent of its publicly traded portfolio.

The Corporation has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have not attained profitability or have no

history of operations. Because of the speculative nature and the lack of public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential.

Because there is typically no public market for the equity interests of the small companies in which the Corporation invests, the valuation of the equity interests in the Corporation's portfolio is subject to the estimate of the Corporation's Board of Directors. In making its determination, the Board may consider valuation information provided by an independent third party or the investee corporation. In the absence of a readily ascertainable market value, the estimated value of the Corporation's portfolio of equity interests may differ significantly from the values that would be placed on the portfolio if a ready market for the equity interests existed. Any changes in valuation are recorded in the Corporation's consolidated statements of operations as "Net increase (decrease) in unrealized appreciation on investments."

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities Holders

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits. The exhibits which are filed with the Form 10-Q or incorporated herein by reference are set for in the Exhibit Index on page 22.

(b) Reports on Form 8-K.
On September 14, 2001, the Corporation filed a report on Form 8-K regarding the Corporation's investment in Ecom Capital, Inc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN CAPITAL CORPORATION

Date: November 14, 2001

By: /s/

Hiram M. Lazar
CHIEF FINANCIAL OFFICER

EXHIBIT INDEX

None.