

Franchise Capital CORP  
Form 10-Q  
June 07, 2007

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**PURSUANT TO SECTION 13 OR 15 (d) OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended

Commission File Number

September 30, 2006

000-26887

**FRANCHISE CAPITAL CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

Nevada

98-0353403

(State or other jurisdiction of

(IRS Employer Identification Number)

incorporation or organization)

43180 Business Park Drive, Suite 202

92590

Temecula, CA

(Address of principal executive offices)

(Zip Code)

(951) 587-9100

Issuer's telephone number, including area code

N/A

(Registrant's Former Name and Address)

Check whether the Issuer (1) 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 [ ] No [ X ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

Edgar Filing: Franchise Capital CORP - Form 10-Q

filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ X ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [ X ]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the last practicable date.

Class	Outstanding at May 23, 2007
Common Stock, \$0.0001 par value	922,903,389 shares

---

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**FRANCHISE CAPITAL CORPORATION**

**FINANCIAL STATEMENTS**

**September 30, 2006**

**FRANCHISE CAPITAL CORPORATION**  
**STATEMENT OF ASSETS AND LIABILITIES**

	<b>September 30, 2006 (unaudited)</b>	<b>June 30, 2006 (audited)</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 24	\$ -
Controlled Affiliated Issuers at fair value	432,377	432,377
Total Assets	432,401	432,377
<b>LIABILITIES:</b>		
Bank overdraft	\$ -	\$ 16
Accounts payable and accrued expenses	210,770	177,478
Debentures payable (See Note 4)	220,927	220,927
Total Liabilities	431,697	398,421
<b>NET ASSETS</b>	<b>\$ 704</b>	<b>\$ 33,956</b>
NET ASSETS consist of:		
Common Stock, 72,062,852 outstanding	\$ 7,207	\$ 7,207
Preferred Stock	118	118
Paid-in capital	7,214,755	7,214,755
Accumulated deficit	(7,221,376)	(7,188,124)
<b>TOTAL NET ASSETS</b>	<b>\$ 704</b>	<b>\$ 33,956</b>
Shares Outstanding (5,000,000,000 of \$0.0001 par value common stock authorized)	72,062,852	72,062,852
<b>NET ASSET VALUE PER SHARE</b>	<b>\$ 0.00001</b>	<b>\$ 0.0005</b>

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

**FRANCHISE CAPITAL CORPORATION**  
**STATEMENTS OF CHANGES IN NET ASSETS (unaudited)**

**For the three months ended**

	<b>September 30, 2006</b>	<b>September 30, 2005</b>
<b>OPERATIONS:</b>		
Net investment loss	\$ (33,252)	\$ (97,400)
Realized loss on investments	-	(83,231)
Unrealized gain on investments	-	81,380
Financing costs	-	(137,473)
Net decrease in net assets resulting from operations	(33,252)	(236,724)
<b>SHAREHOLDER ACTIVITY:</b>		
Stock sales and conversion	-	497,782
<b>NET INCREASE (DECREASE) IN ASSET VALUE</b>	<b>(33,252)</b>	<b>261,058</b>
<b>NET ASSETS:</b>		
Beginning of Period	\$ 33,956	\$ 347,309
End of Period	\$ 704	\$ 608,367

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

**FRANCHISE CAPITAL CORPORATION  
PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 2006**

(unaudited)

Principal Amount/Shares	Acquisition Date	Value
INVESTMENTS IN CONTROLLED COMPANIES:		
The Great American Food Chain	12/2004	\$ 432,377 (1)
TOTAL		432,377
TOTAL INVESTMENTS		432,377
OTHER ASSETS & LIABILITIES (NET)		(291,361)
NET ASSETS - 100%		\$ 141,016

(1) At September 30, 2006, the Company owned 25% or more of the outstanding common stock thereby making The Great American Food Chain a controlled affiliate as defined by the Investment Company Act of 1940. Total market value of controlled affiliated securities owned at September 30, 2006 was \$432,377, based on 720,629 shares with the closing bid price of \$.60, as reported on the Pink Sheets .

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

**FRANCHISE CAPITAL CORPORATION  
STATEMENTS OF OPERATION**

	<b>For the three months ended,</b>	
<b>September 30,</b>		<b>September 30,</b>
<b>2006</b>		<b>2005</b>

Edgar Filing: Franchise Capital CORP - Form 10-Q

	(unaudited)	(unaudited)
EXPENSES:		
Accounting fees	125	16,000
Contracted labor	16,000	14,468
Interest expense	-	36,620
Legal and professional fees	10,158	10,270
Rent	-	7,325
G&A expenses	6,969	12,717
Total Expenses	33,252	97,400
NET LOSS	(33,252)	(97,400)
OTHER INCOME (EXPENSE)		
Financing expense	-	(137,473)
Realized loss on investments	-	(83,231)
Unrealized gain on investments	-	81,380
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ (33,252)	\$ (236,724)
WEIGHTED AVERAGE SHARES	72,062,852	25,668,269
NET INCOME (LOSS) PER SHARE	(0.0005)	(0.009)

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

---

**FRANCHISE CAPITAL CORPORATION**  
**STATEMENTS OF CASH FLOWS**

(unaudited)

For the three months ended

September 30,  
2006

September 30,  
2005

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net Loss	\$	(33,252)	\$	(236,724)
Adjustments to reconcile net loss to net cash used				
by operating activities:				
Non-cash loss on disposition of investments		-		82,752
Change in unrealized appreciation/depreciation of portfolio investments		-		(81,380)
Amortization of beneficial conversion feature		-		29,321
Other assets		-		(15,519)
Accounts payable and accrued liabilities		33,292		(11,805)
Net Cash Provided by (Used) by Operating Activities		40		(233,355)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash invested in portfolio companies	-	(139,582)
Net Cash Used by Investing Activities	-	(139,582)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Bank overdraft	(16)	-
Common stock issued for cash	-	361,378
Proceeds from notes payable and convertible debentures	-	15,360
Net Cash Provided by (Used) Financing Activities	(16)	376,738



<b>INCREASE IN CASH AND EQUIVALENTS</b>		24		3,801
<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>	-			-
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	\$	24	\$	3,801
<b>Non-Cash Financing Activities:</b>				
Debt converted to equity	\$	-	\$	118,500

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

---

## FRANCHISE CAPITAL CORPORATION

### FINANCIAL HIGHLIGHTS (unaudited)

#### Per Unit Operating Performance:

	For the three months ended		
	September 30, 2006	September 30, 2005	
NET ASSET VALUE, BEGINNING OF PERIOD	\$	0.00047	\$ (0.00237)
INCOME FROM INVESTMENT OPERATIONS:			
Net investment loss		(0.00046)	(0.001421)
Realized loss on investments		-	(0.001214)
Unrealized gain on investments		-	0.001187
Financing costs		-	(0.002005)
Total from investment operations		0.00001	(0.00582)
Net increase in net assets resulting from stock sales		-	0.007260
NET ASSET VALUE, END OF PERIOD	\$	0.000010	\$ 0.001442
		(97.93) %	(39.05) %

TOTAL NET ASSET VALUE  
RETURN

RATIOS AND SUPPLEMENTAL  
DATA:

Net assets, end of period	\$	704	\$	608,367
Ratios to average net assets:				
Net expenses		(47.23) %		0.16 %
Net investment loss		47.23 %		(0.16) %

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

---

**FRANCHISE CAPITAL CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30, 2006**

**NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION**

Franchise Capital Corporation (the Company) a Nevada corporation, was incorporated on July 6, 2001. The Company was formerly named Cortex Systems, Inc. In December of 2004 the Company changed its name to Franchise Capital Corporation, to more accurately reflect its business of developing and franchising casual dining restaurants. The Company acquired the rights to four franchise concepts. Effective December 24, 2004, the Company became an internally managed, closed end investment company electing to be treated as a business development company under the Investment Company Act of 1940, as amended.

In August 2006, the Company abandoned its business model and liquidated all of its investment holdings. On March 13, 2007, the Company held a shareholder meeting at which the Company's shareholders voted to withdraw the Company's election to be a business development company as defined by the 1940 Act. On March 14, 2007, the Company filed for N-54C to formally withdraw the Company's BDC status.

On January 12, 2007 the Company executed a definitive share exchange agreement with TTR HP, Inc. (dba Aero Exhaust, Inc.) pursuant to which the Company agreed to exchange shares of its common stock to acquire 100% of the total issued and outstanding stock of Aero. Once the share exchange is complete, the Company anticipates that the shareholders of Aero will become the majority shareholders of the Company. The share exchange is expected to be consummated at the end of the second quarter of 2007.

Following the share exchange, the Company's business will be that of Aero Exhaust. Aero designs and manufactures performance exhaust systems for both street and race applications. Aero Exhaust has been issued U.S. and Australian patents on its innovations and development in the exhaust industry, and its mufflers are available worldwide through major retailers, mass merchant centers, automotive aftermarket supply stores and wholesalers. Aero Exhaust mufflers are an exclusive National Association for Stock Car Auto Racing (NASCAR) Performance product and carry the NASCAR brand on product, packaging and related media.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred material operating losses, has continued operating cash flow deficiencies and has working capital deficit at September 30, 2006. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company believes that the share exchange with Aero Exhaust will be successful and result in the Company's achieving profitability in the short term; however, the Company has not consummated this transaction and there is no guarantee that Aero's operations will prove profitable. The accompanying financial statements do not include any adjustments that might result from this uncertainty. These financial statements should be read in conjunction with the Company's annual report for the year ended June 30, 2006 as filed on Form 10-K.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Franchise Capital Corporation commenced operating as a Business Development Company effective December 24, 2004; therefore, the prior periods are no longer directly comparable. Notwithstanding the withdrawal of the BDC election in March 2007, the Company was still operating under the guidelines of the Investment Company Act of 1940 as of September 30, 2006. Accordingly, the accompanying financing statements have been prepared to represent those of an investment company.

As required by ASR 118, the Board of Directors of the company is required to assign a fair value to all investments. To comply with Section 2(a)(41) of the Investment Company Act and Rule 2a-4 under the Investment Company Act, it is incumbent upon the board of directors to satisfy themselves that all appropriate factors relevant to the value of securities for which market quotations are not readily available have been considered and to determine the method of arriving at the fair value of each such security. To the extent considered necessary, the board may appoint persons to assist them in the determination of such value, and to make the actual calculations pursuant to the board's direction. The board must also, consistent with this responsibility, continuously review the appropriateness of the method used in valuing each issue of security in the company's portfolio. The directors must recognize their responsibilities in this matter and whenever technical assistance is requested from individuals who are not directors, the findings of such intervals must be carefully reviewed by the directors in order to satisfy themselves that the resulting valuations are fair.

---

Fair market value is determined on at least a quarterly basis. Where there are material changes in portfolio operations, fair market value is re-examined as such material changes occur. In the event the stock trading price is within 10% of Net Book Value, and the Company wishes to sell stock, fair market value is calculated on a monthly basis to ensure that stock is not sold below NBV.

The value of loans and lines of credit are adjusted down if there is a reasonable expectation that the Company will not be able to recoup the investment or if there is reasonable doubt about the investment's ability to continue as a going concern. Additionally, where available, the Board reviews other relevant factors affecting repayment including historical cash flows, material contracts, collateral, debt maturity, alternate financing resources, etc.

In light of the Company's decision to abandon its business model and liquidate all investment holdings in August 2006, the accompanying financial statements reflect the value received upon liquidation, since that value most closely approximates the fair market value. The Company recorded an unrealized loss on discontinued operations associated with this write off as of June 30, 2006.

NOTE 3 - INVESTMENT PORTFOLIO

As a business development company under the Investment Company Act of 1940, the Company's investments must be carried at either market value or fair value as determined by our Board of Directors for investments which do not have readily determinable market values. All of the Company's investment assets were acquired in privately negotiated transactions and have no readily determinable market values. These securities have therefore been carried at fair value as determined by the Board of Directors under our valuation policy.

At June 30, 2006, the Company's management determined that the business model in effect was not sustainable and voted to liquidate the Company's investment portfolio. From July 1, 2006 through December 31, 2006, the Company sold 100% of its portfolio assets and effectively ceased operations. The following transactions resulting from such liquidation were recorded:

Comstock Jake's Franchise Co., LLC

In August 2006, the Company sold its investment in Comstock Jake's, together with Kirby Foo's Franchise Corp., to a creditor in exchange for debt forgiveness of \$200,000.

Cousin Vinnie's Franchise Co., LLC

In August 2006, the Company abandoned the Cousin Vinnie's concept due to lack of investment capital and sold the Cousin Vinnie's name for nominal cash. Cousin Vinnie's Franchise Co., LLC is presently an inactive shell wholly owned by the Company.

Kirby Foo's Franchise Co., LLC

In August 2006, the Company sold its investment in Kirby Foo's together with its interest in Comstock Jake's to a Company creditor in exchange for \$200,000 in debt forgiveness.

Kokopelli Franchise Co., LLC

In August 2006, the Company sold its investment in Kokopelli to The Great American Food Chain (GAMN.PK) in exchange for 720,629 shares of GAMN common stock, valued at \$0.60 per share on the date of issuance, plus the assumption of a note payable which the Company carried relative to Kokopelli. The 720,629 shares of GAMN common stock received were paid as a dividend to the Company's shareholders of record as of August 31, 2006.

---

The Company's portfolio assets at September 30, 2006 consists of 720,629 shares of Great American Food Chain (GAMN.PK) valued at the closing bid price as reported on the Pink Sheets.

#### NOTE 4 - CONVERTIBLE DEBENTURES PAYABLE

As of September 30, 2006, the Company had the following convertible debentures on its books:

During the year ended June 30, 2004, the Company issued a 2-year 7.5% convertible debenture amounting to \$250,000 with interest payable monthly and maturing June 25, 2006. The debenture also included non-detachable warrants for 2,500,000 shares of common stock. The debenture was convertible at the option of the holder into common shares of the Company. The conversion price was the lesser of \$0.25 or 80% of the average of the five lowest volume weighted average price during the 20 trading days prior to the election to convert. Upon conversion, the holder must simultaneously purchase shares of the Company's common stock in a dollar amount equal to 10 times the dollar amount of the debenture converted. The purchase price for such shares was the same as the debenture conversion price. The value of the beneficial conversion feature of \$21,212 was recorded as a discount to the principal balance of the debenture and amortized immediately as interest expense because the debenture is convertible at any time at the option of the holder.

The Company defaulted on the interest payment provisions in the debenture. Consequently, the principal amount due under the debenture became immediately due and payable in cash plus a default penalty of \$42,500 plus any and all accrued interest. The default penalty of \$42,500 was expensed as interest and financing costs in the accompanying statement of operations for the year ended June 30, 2004. The debenture payable was restructured subsequent to September 30, 2006 (see Note 6, below).

#### NOTE 5 - STOCKHOLDERS EQUITY

The Company declared a 1 for 10 reverse stock split in the year ended June 30, 2005. The number of shares presented in these financial statements has been retroactively restated for all periods to reflect this reverse stock split.

#### NOTE 6 - SUBSEQUENT EVENTS

On March 13, 2007, the Company's shareholders voted by majority consent to withdraw the Company's election as a BDC under the 1940 Act and, on March 13, 2007, the Company filed a Form N-54C which formally withdrew the BDC election.

In November 2006, the Company agreed to settle litigation with Golden Gate Investors on a past-due convertible debenture having a principle balance due of \$220,927. Under the terms of the settlement, the Company placed 850,000,000 shares of its restricted common stock into an escrow account for satisfaction of the debenture. Golden Gate is allowed to withdraw the shares from escrow provided that their overall holdings in the Company do not

exceed 4.9% of all issued and outstanding common stock. The debenture obligation is reduced by 80% of the average of the five lowest closing bid prices of the Company's common stock over a 90-day period prior to the share withdrawal multiplied by the number of shares being withdrawn. Under the terms of this settlement, as of May 23, 2007, 227,267,345 shares have subsequently been released from escrow and the debenture balance has been reduced to \$92,854.

In connection with the debenture settlement with Golden Gate, Golden Gate entered into a stock purchase agreement which required Golden Gate to purchase \$100,000 of the Company's restricted common stock for every \$10,000 in debenture redeemed through the escrow. As of May 23, 2007, the Company had received \$1,980,669 from Golden Gate as an advance on future stock purchases under the agreement, of which 1,290,769 shares of restricted common stock were subsequently purchased for \$1,290,769, leaving a total stock payable as of May 23, 2007 of \$689,900.

---

On January 12, 2007, the Company executed a definitive share exchange agreement with TTR HP, Inc. (dba Aero Exhaust, Inc. ) pursuant to which the Company agreed to exchange shares of its common stock to acquire 100% of the total issued and outstanding stock of Aero. Once the share exchange is complete, the Company anticipates that the shareholders of Aero will become the majority shareholders of the Company. The share exchange is expected to be consummated at the end of the second quarter of 2007. Following the share exchange, the Company's business will be that of Aero Exhaust. Aero designs and manufactures performance exhaust systems for both street and race applications. Aero Exhaust has been issued U.S. and Australian patents on its innovations and development in the exhaust industry, and its mufflers are available worldwide through major retailers, mass merchant centers, automotive aftermarket supply stores and wholesalers. Aero Exhaust mufflers are an exclusive National Association for Stock Car Auto Racing (NASCAR) Performance product and carry the NASCAR brand on product, packaging and related media.

As part of the definitive agreement between the Company and Aero Exhaust, the Company agreed to extend a line of credit to Aero in the amount of \$1,500,000. Under the terms of the line of credit, any unpaid principle and interest on the line of credit will be converted into shares of Aero Exhaust common stock immediately prior to the share exchange. The net effect of this transaction will be an increase in the overall position that the Company's existing shareholders will have in the Company subsequent to the share exchange. The rate at which the line of credit will be converted into Aero Exhaust stock has yet to be determined; however, the price per share will be equal to the price per share Aero had sold stock in its most recent private placement. As of May 23, 2007, the Company had advanced a total of \$1,500,000 to Aero under the line of credit.

Between February and April 2007, the Company converted 100% of the Series C Preferred Stock into shares of common stock. This conversion resulted in the issuance of 1,232,500 shares of restricted common stock. As of May 23, 2007, there were no shares of preferred stock issued or outstanding.

---

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

### **GENERAL**

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts may contain forward-looking statements that involve a number of known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated by management. Potential risks and uncertainties include, among other factors, general business conditions, government regulations, manufacturing practices, competitive market conditions, success of the Company's business strategy, delay of orders, changes in the mix of products sold, availability of suppliers, concentration of sales in markets and to certain customers, changes in manufacturing efficiencies, development and introduction of new products, fluctuations in margins, timing of significant orders, and other risks and uncertainties currently unknown to management.

### **CRITICAL ACCOUNTING POLICIES**

The Company's financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States of America ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in the external disclosures of the Company including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We review valuations based on estimates for reasonableness and conservatism on a consistent basis throughout the Company. Primary areas where financial information of the Company is subject to the use of estimates, assumptions and the application of judgment include acquisitions, valuation of long-lived and intangible assets, and the realizability of deferred tax assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions.

#### *Valuation Of Long-Lived And Intangible Assets*

The recoverability of long lived assets requires considerable judgment and is evaluated on an annual basis or more frequently if events or circumstances indicate that the assets may be impaired. As it relates to definite life intangible assets, we apply the impairment rules as required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Assets to Be Disposed Of" as amended by SFAS No. 144, which also requires significant judgment and assumptions related to the expected future cash flows attributable to the intangible asset. The impact of modifying any of these assumptions can have a significant impact on the estimate of fair value and, thus, the recoverability of the asset.



*Income Taxes*

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. As of September 30, 2006, we estimated the allowance on net deferred tax assets to be one hundred percent of the net deferred tax assets.

**COMPANY OVERVIEW**

Franchise Capital Corporation ( The Company ) was formed as a Nevada corporation on July 6, 2001 under the name Cortex Systems, Inc. They were originally a development stage company that intended to establish memory clinics in several different locations in North America. Unfortunately, the Company was unable to successfully execute its business plan. In July of 2003, the Company changed its name to BGR Corporation. Along with the name change came a new management and ownership team. The intention of management is to acquire new innovative fast-casual restaurant concepts, develop them into a profitable working design, and franchise them across the country. The Corporation's partner, American Restaurant Development Company, is a professional restaurant designer, franchiser, and restaurant management company where principles have extensive experience in the industry. In December of 2004 the Company changed its name to Franchise Capital Corporation. The names Franchise Capital Corporation , "we", "our" and "us" used in this report refer to Franchise Capital Corporation.

---

On December 23, 2004, the company elected to be regulated as a Business Development Company (BDC) as outlined in the Investment Company Act of 1940 by filing a Form N-54A. As a BDC, the Company focused on investing and developing restaurant franchise companies and made several investments (discussed below). During the fourth quarter of 2006, the Company abandoned its business model and liquidated all of its investment holdings. On March 13, 2007, the Company held a shareholder meeting at which the Company s shareholders voted to withdraw the Company s election to be a business development company as defined by the 1940 Act. On March 13, 2007, the Company filed for N-54C to formally withdraw the Company s BDC status.

On January 12, 2007, the Company executed a definitive share exchange agreement with TTR HP, Inc. (dba Aero Exhaust, Inc. ) pursuant to which the Company agreed to exchange shares of its common stock to acquire 100% of the total issued and outstanding stock of Aero. Once the share exchange is complete, the Company anticipates that the shareholders of Aero will become the majority shareholders of the Company. The share exchange is expected to be consummated at the end of the second quarter of 2007.

Following the share exchange, the Company s business will be that of Aero Exhaust. Aero designs and manufactures performance exhaust systems for both street and race applications. Aero Exhaust has been issued U.S. and Australian patents on its innovations and development in the exhaust industry, and its mufflers are available worldwide through major retailers, mass merchant centers, automotive aftermarket supply stores and wholesalers. Aero Exhaust mufflers are an exclusive National Association for Stock Car Auto Racing (NASCAR) Performance product and carry the NASCAR brand on product, packaging and related media.

## Investment Strategy

During the quarter ended September 30, 2006, the Company operated as a Business Development Company ( BDC ). As a BDC, the Company was required to have at least 70% of its assets in eligible portfolio companies. It is stated in the Investment Committee Charter that the Company will endeavor to maintain this minimum asset ratio. Between September 1 and December 31, 2006, the Company liquidated all of its investments and ceased operating as a BDC.

On March 13, 2007, the Company filed a Form N-54C withdrawing the Company's election as a BDC. As the result, the Company is no longer considered a BDC and is no longer subject to the requirements of the 1940 Act.

## Portfolio Investments

At June 30, 2006, the Company's management determined that the business model in effect was not sustainable and voted to liquidate the Company's investment portfolio. From July 1, 2006 through December 31, 2006, the Company sold 100% of its portfolio assets and effectively ceased operations. The Company's portfolio assets at September 30, 2006 consists of 720,629 shares of Great American Food Chain ( GAMN.PK ) valued at the closing bid price as reported on the Pink Sheets .

## RESULTS OF OPERATIONS

*Three months ended September 30, 2006 compared to three months ended September 30, 2005*

During the quarter ended September 30, 2006, the Company experienced a net loss of \$33,252 compared to a net loss of \$236,724 for the same period in 2005. The Company attributes the \$203,472 decrease in net loss to the ceasing of operations during the quarter ended September 30, 2006, which resulted in a \$36,620 decrease in interest expense, a \$137,473 decrease in financing expense and a \$21,623 decrease in accounting fees and general and administrative expenses.

For the three months ended September 30, 2006 and September 30, 2005, the Company reported no revenues.

---

## Liquidity and Capital Resources

The Company's financial statements present an impairment in terms of liquidity. As of September 30, 2006 the Company had \$431,697 in liabilities and \$24 in current assets. The Company has accumulated \$7,221,376 of net operating losses through September 30, 2006 which may be used to reduce taxes in future years through 2026. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss carry forwards. The potential tax benefit of the net operating loss carry forwards have been offset by a valuation allowance of the same amount. The Company has not yet established revenues to

cover its operating costs. Management believes that the share exchange with Aero Exhaust will be successful and result in the Company's achieving profitability in the short term; however, the Company has consummated this transaction and there is no guarantee that Aero's operations will prove profitable. In the event the Company is unable to generate profits and if suitable financing is unavailable, there is substantial doubt about the Company's ability to continue as a going concern.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

An investment in the Company involves a high degree of risk. In addition to matters discussed elsewhere in this report, careful consideration should be given to the following risk factors. This report contains certain forward-looking statements that involve risks and uncertainties. Our actual results could be substantially different from the results we anticipate in these forward-looking statements because of one or more of the factors described below and/or elsewhere in this report. If any of these risks were to actually occur, our business, results of operations and financial condition would likely suffer materially. The risks outlined below are those which management believes are material to an understanding of our business and the risks inherent in it, but such list is not exclusive of every possible risk which may impact the Company and its shareholders in the future. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also appear or increase in significance, and could therefore impair our projected business results of operations and financial condition.

#### **RISKS RELATED TO OUR BUSINESS**

##### **We Have Historically Lost Money and Losses May Continue in the Future**

We have historically lost money. The loss for the 2006 fiscal year was \$933,602 and future losses are likely to occur. Accordingly, we may experience significant liquidity and cash flow problems if we are not able to raise additional capital as needed and on acceptable terms. No assurances can be given we will be successful in reaching or maintaining profitable operations.

##### **We Will Need to Raise Additional Capital to Finance Operations**

Our operations have relied almost entirely on external financing to fund our operations. Such financing has historically come from a combination of borrowings and from the sale of common stock and assets to third parties. We will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing will be required to cover our operating costs. We cannot assure you that financing whether from external sources or related parties will be available if needed or on favorable terms. The sale of our

common stock to raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price.

**There is Substantial Doubt About Our Ability to Continue as a Going Concern Due to Recurring Losses and Working Capital Shortages, Which Means that We May Not Be Able to Continue Operations Unless We Obtain Additional Funding**

The report of our independent accountants on our June 30, 2006 financial statements include an explanatory paragraph indicating that there is substantial doubt about our ability to continue as a going concern due to recurring losses and working capital shortages. Our ability to continue as a going concern will be determined by our ability to obtain additional funding. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

---

**Our Common Stock May Be Affected By Limited Trading Volume and May Fluctuate Significantly**

Prior to this offering, there has been a limited public market for our common stock and there can be no assurance that an active trading market for our common stock will develop. As a result, this could adversely affect our shareholders' ability to sell our common stock in short time periods, or possibly at all. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. Substantial fluctuations in our stock price could significantly reduce the price of our stock.

### **Our Common Stock is Traded on the "Pink Sheets," Which May Make it More Difficult For Investors to Resell Their Shares Due to Suitability Requirements**

Our common stock is currently traded on the Pink Sheets where we expect it to remain for the foreseeable future. Broker-dealers often decline to trade in Pink Sheet stocks given that the market for such securities is often limited, the stocks are more volatile, and the risks to investors are greater. These factors may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

### **We Could Fail to Retain or Attract Key Personnel**

Our future success depends in significant part on the continued services of Steven Peacock, our Chief Executive. We cannot assure you we would be able to find an appropriate replacement for key personnel. Any loss or interruption of our key personnel's services could adversely affect our ability to develop our business plan. We have no employment agreements or life insurance on Mr. Peacock.

### **Nevada Law and Our Charter May Inhibit a Takeover of Our Company That Stockholders May Consider Favorable**

Provisions of Nevada law, such as its business combination statute, may have the effect of delaying, deferring or preventing a change in control of our company. As a result, these provisions could limit the price some investors might be willing to pay in the future for shares of our common stock.

### **Our Officers and Directors Have the Ability to Exercise Significant Influence Over Matters Submitted for Stockholder Approval and Their Interests May Differ From Other Stockholders**

Our Chairman of the Board of Directors has the ability to vote a majority of the Company's issued and outstanding common shares by virtue of the stock power contained within the escrow agreement with Golden Gate Investors.

Accordingly, he may have significant influence in determining the outcome of any corporate transaction or other matter submitted to our shareholders for approval, including issuing common and preferred stock, electing directors and appointing officers, and effecting recapitalizations of our equity, which could have a material impact on mergers, acquisitions, consolidations and the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. The interests of our Chairman may differ from the interests of the other stockholders.

#### **ITEM 4. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Controls and Procedures.** As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures within the 90 days prior to the filing date of this report. This evaluation was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and Compliance Officer, Mr. Steven Peacock. Based upon that evaluation, Steven Peacock concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us and required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

---

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

## **PART II.**

### **Other Information**

#### **Item 1. Legal Proceedings**

None

**Item 2. Changes in Securities**

None.

**Item 3. Defaults Upon Senior Securities**

None

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

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

The following exhibits are filed as part of this statement:

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
3.1	Articles of Incorporation	*

Edgar Filing: Franchise Capital CORP - Form 10-Q

3.2	Bylaws	*
14	Code of Ethics adopted December 23,2004	**
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	***
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	***
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	***
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	***
99(i)	Audit Committee Charter adopted December 23, 2004	**
99.2(ii)	Investment Committee Charter adopted December 23, 2004	**

\* Incorporated by reference from Franchise Capital Corporation's Registration Statement on Form SB-2 filed on October 29, 2001.

\*\* Incorporated by reference from Franchise Capital Corporation's Annual Report on Form 10-K for the Fiscal Year Ended June 30, 2005 filed on September 30, 2005.



\*\*\* Filed herewith.

---

**SIGNATURE PAGE**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 5, 2007

/s/ Steven Peacock

Steven Peacock

Chief Executive Officer

---

**EXHIBIT 31.1**

**SECTION 302**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Steven Peacock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franchise Capital Corporation;
  
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2007

By: /s/ Steven Peacock

Steven Peacock, Chief Executive Officer

---

**EXHIBIT 31.2**

**SECTION 302**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Steven Peacock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franchise Capital Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Edgar Filing: Franchise Capital CORP - Form 10-Q

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2007

By: /s/ Steven Peacock

Steven Peacock, Chief Financial Officer

---

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Franchise Capital Corporation (the "Company") on Form 10-Q for the period ending September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven Peacock, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of the operation of the Company.

*/s/ Steven Peacock*

Steven Peacock

Chief Executive Officer

June 5, 2007

---

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Franchise Capital Corporation (the "Company") on Form 10-Q for the period ending September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven Peacock, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of the operation of the Company.

/s/ Steven Peacock

Steven Peacock

Chief Financial Officer

June 5, 2007

---