Franchise Capital CORP
Form 10-Q
April 16, 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
March 31, 2006	000-26887

FRANCHISE CAPITAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Nevada	98-0353403
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
43180 Business Park Drive #202, Temecula, CA	92590
(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 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 April 5, 2007
Common Stock, $0.0001 par value	921,824,778 shares

PART I   FINANCIAL INFORMATION

Item 1. Financial Statements

FRANCHISE CAPITAL CORPORATION

FINANCIAL STATEMENTS

March 31, 2006

Franchise Capital Corporation
Statement of Assets and Liabilities

	March 31, 2006 (Unaudited)	June 30, 2005 (Audited)

ASSETS:				
Cash and cash equivalents	$	28	$	-
Controlled Affiliated Issuers at value		432,377		1,014,430
Prepaid expenses and other assets		6,250		11,747
Total Assets		438,655		1,026,177
LIABILITIES:				
Accounts payable and accrued expenses	$	134,997	$	120,712
Note payable		-		200,000
Debentures payable		220,927		358,156
Total Liabilities		355,924		678,868
NET ASSETS	$	82,731	$	347,309
NET ASSETS consist of:				
Common Stock, 72,567,805 and 32,927,305 shares issued and outstanding respectively	$	7,257	$	3,293
Preferred Stock		118		130
Paid-in capital		7,214,705		6,598,408
Accumulated deficit		(7,139,349)		(6,254,522)
TOTAL NET ASSETS	$	82,731	$	347,309
Shares Outstanding (5,000,000,000 of $0.0001 par value common stock authorized)		72,567,805		32,927,305
NET ASSET VALUE PER SHARE	$	0.001	$	0.011

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

Franchise Capital Corporation

Statements of Changes in Net Assets (Unaudited)

	For the Nine Month Period Ended March 31, 2006		March 31, 2005	
OPERATIONS:				
Net investment loss	$	(307,579)	$	(982,206)
Income (loss) from discontinued operations		(439,775)		858,011
Financing costs		(137,473)		-
Net decrease in net assets resulting from operations		(884,827)		(124,195)
SHAREHOLDER ACTIVITY:				
Stock sales and conversion		620,249		633,705
NET INCREASE (DECREASE) IN ASSET VALUE		(264,578)		509,510
NET ASSETS:				
Beginning of Period	$	347,309	$	(162,201)
End of Period	$	82,731	$	347,309

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

FRANCHISE CAPITAL CORPORATION
PORTFOLIO OF INVESTMENTS MARCH 31, 2006 (UNAUDITED)

Principal Amount/Shares		Acquisition Date		Value	
PRIVATE COMPANIES (1) - 167%					
Common Stocks - 100%					
Restaurant companies - 100%					
INVESTMENTS IN CONTROLLED COMPANIES:					
Membership 72.5%	Comstock Jake's Franchise Co., LLC	12/2004	$	-	
Membership 50%	Cousin Vinnie's Franchise Co., LLC	12/2004		-	
Membership 100%	Kirby Foo's Franchise Co., LLC	12/2004		-	
Membership 90%	Kokopelli Mexican Grill Franchise Co., LLC	12/2004		432,377	(1)
ADVANCES TO CONTROLLED COMPANIES:					
	Comstock Jake's Franchise Co., LLC	12/2004		-	
	Cousin Vinnie's Franchise Co., LLC	12/2004		-	
	Kirby Foo's Franchise Co., LLC	12/2004		-	
	Kokopelli Mexican Grill Franchise Co., LLC	12/2004		-	
	TOTAL			432,377	
	TOTAL INVESTMENTS			432,377	
	OTHER ASSETS & LIABILITIES (NET)			(291,361)	
	NET ASSETS - 100%		$	141,016	

(1) At March 31, 2006, the Company owned 25% or more of the outstanding common stock thereby making each a controlled affiliate as defined by the Investment Company Act of 1940. Total market value of controlled affiliated securities owned at March 31, 2006 was $432,377.

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

Franchise Capital Corporation
Statements of Operations
(unaudited)

	For the Nine Months Ended		For the Three Months Ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
INCOME:				
Consulting income	$ 1,750	$ -	$ -	$ -
Total Income	1,750	-	-	
EXPENSES:				
Accounting fees	66,059	52,637	2,850	15,275
Consulting/Contracted labor	105,636	349,707	27,700	56,042
Interest expense	39,355	155,262	333	36,237
Legal and professional fees	18,158	10,263	2,352	6,544
G&A expenses	80,121	414,337	49,801	81,837
Total Expenses	309,329	982,206	83,036	195,935
NET LOSS	(307,579)	(982,206)	(83,036)	(195,935)
Financing expense	(137,473)	-	-	-
Gain (loss) from discontinued operations	(439,775)	858,011	23,751	259,758
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	$ (884,827)	$ (124,195)	$ (59,285)	$ 63,823
WEIGHTED AVERAGE SHARES	47,422,242	4,845,863	47,231,044	4,845,863
	(0.019)	(0.026)	(0.001)	0.013

NET INCOME (LOSS) PER SHARE

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

FRANCHISE CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

		For the Nine Months Ended March 31, 2006		For the Nine Months Ended March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Loss	$	(884,827)	$	(124,195)
Adjustments to reconcile net loss to net cash used				
by operating activities:				
Common stock issued as consideration for services		-		296,000
Unrealized gain (loss) on investment		582,053		(259,758)
Depreciation and amortization		-		6,020
Financing costs		137,473		54,003
Amortization of deferred compensation		-		16,000
Amortization of beneficial conversion feature		-		77,228
Impairment of goodwill		-		44,836
Minority interest		-		(2,510)
Cumulative effect of accounting change		-		(549,727)
Changes in assets and liabilities:				
Prepaid expenses		5,497		(110,049)
Accounts receivable		-		(113,077)
Inventories		-		13,567
Intangibles		-		(11,870)
Deferred revenue		-		325,000
		14,360		(53,751)

Accounts payable and accrued liabilities		
Net Cash (Used) by Operating Activities	(145,444)	(392,283)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash invested in portfolio companies	-	(29,166)
Purchase of computer equipment	-	(3,586)
Net Cash Provided by(Used) by Investing Activities	-	(32,752)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common stock issued for cash	345,472	284,790
Payment of notes	(200,000)	(131,211)
Advances from shareholders, officers and affiliates	-	(8,647)
Proceeds from issuance of convertible debentures	-	249,938
Net Cash Provided by Financing Activities	145,472	394,870
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	28	(30,165)
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	**-**	48,214
CASH AND EQUIVALENTS, END OF PERIOD	$ 28	$ 18,049

FRANCHISE CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	For the Nine Months Ended March 31, 2006	For the Nine Months Ended March 31, 2005
Interest	$ -	$ -
Income Taxes	$ -	$ -
Non-Cash Financing Activities:		
Common stock issued for debenture conversions	$ 137,229	$ 70,000

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

FRANCHISE CAPITAL CORPORATION

Financial Highlights
(Unaudited)

Per Unit Operating Performance:

	For the Period Ended March 31, 2006	March 31, 2005
NET ASSET VALUE, BEGINNING OF PERIOD	$ 0.00479	$ (0.00996)
INCOME FROM INVESTMENT OPERATIONS:		
Net investment loss	(0.00424)	(0.060295)
Financing expense	(0.00189)	

				-
Income (loss) from discontinued operations		(0.00606)		0.052671
Total from investment operations		(0.00741)		(0.01758)
Net increase in net assets resulting from stock sales		0.00855		0.038901
NET ASSET VALUE, END OF PERIOD	$	0.001140	$	0.021320
TOTAL NET ASSET VALUE RETURN		(76.18)	%	114.12 %
RATIOS AND SUPPLEMENTAL DATA:				
Net assets, end of period	$	82,731	$	347,309
Ratios to average net assets:				
Net expenses		(3.74)	%	2.83 %
Net investment loss		3.72	%	(2.83) %

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

FRANCHISE CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 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 as 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 June 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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Franchise Capital Corporation changed to a Business Development Company, effective December 24, 2004. Therefore, the prior periods are no longer directly comparable. The balance sheets as of March 31, 2005, and 2006 are presented to reflect the nature of a BDC.

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