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
December 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, Suite 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 May 23, 2007
Common Stock, $0.0001 par value	922,903,389 shares

PART I FINANCIAL INFORMATION

FRANCHISE CAPITAL CORPORATION

FINANCIAL STATEMENTS

December 31, 2006

Franchise Capital Corporation
Statement of Assets and Liabilities

		December 31, 2006 (Unaudited)		June 30, 2006 (Audited)
ASSETS:				
Cash and cash equivalents	$	26,623	$	-
Controlled Affiliated Issuers at fair value		-		432,377
Total Assets		26,623		432,377
LIABILITIES:				
Bank overdraft	$	-	$	16
Accounts payable and accrued expenses		186,933		177,478
Debentures payable (See Note 4)		-		220,927
Total Liabilities		186,933		398,421

NET ASSETS	$	(160,310)	$	33,956
NET ASSETS consist of:				
Common Stock, 920,472,640 outstanding	$	92,048	$	7,207
Preferred Stock		118		118
Stock payable		56,820		-
Paid-in capital		9,947,662		7,214,755
Accumulated deficit		(10,256,958)		(7,188,124)
TOTAL NET ASSETS	$	(160,310)	$	33,956
Shares Outstanding (5,000,000,000 of $0.0001 par value common stock authorized)		920,472,640		72,062,852
NET ASSET VALUE PER SHARE	$	(0.00017)	$	0.0005

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

Franchise Capital Corporation
Statements of Changes in Net Assets

(Unaudited)

	For the six months ended			
		December 31, 2006		December 31, 2005
OPERATIONS:				
Net investment loss	$	(2,636,457)	$	(225,543)
Financing expense		-		(137,473)
Dividend to shareholders		(432,377)		-
Loss from discontinued operations		-		(463,526)
Net decrease in net assets resulting from operations		(3,068,834)		(826,542)
SHAREHOLDER ACTIVITY:				
Stock sales and conversion		2,874,568		620,249
NET INCREASE (DECREASE) IN ASSET VALUE		(194,266)		(206,293)
NET ASSETS:				
Beginning of Period	$	33,956	$	347,309
End of Period	$	(160,310)	$	141,016

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

Franchise Capital Corporation
Portfolio of Investments

December 31, 2006

(Unaudited)

From July 1, 2006 through December 31, 2006, the Company liquated all of its portfolio assets and effectively ceased operations. As of December 31, 2006, the Company had no portfolio assets.

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

Franchise Capital Corporation

Statements of Operations
(Unaudited)

	For the six months ended,		For the three months ended,	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
INCOME:				
Consulting income	$ -	$ 1,750	$ -	$ 1,750
Total Income	-	1,750	-	1,750
EXPENSES:				
Accounting fees	125	63,209	-	47,209
Administrative expense	10,000	-	10,000	-
Contracted labor	16,000	77,936	-	48,468
Interest expense	-	39,022	-	2,402
Legal and professional fees	18,159	15,806	2,000	7,036
Settlement costs	2,578,766	-	2,578,766	-
G&A expenses	13,407	31,320	12,439	24,722
Total Expenses	2,636,457	227,293	2,603,205	129,837
NET LOSS	(2,636,457)	(225,543)	(2,603,205)	(128,087)
OTHER INCOME (EXPENSE)				
Financing expense	-	(137,473)	-	-
Dividend to shareholders	(432,377)	-	(432,377)	-
Loss from discontinued operations	-	(463,526)	-	(461,731)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (3,068,834)	$ (826,542)	$ (3,035,582)	$ (589,818)
WEIGHTED AVERAGE SHARES	72,062,852	47,854,009	72,062,852	47,231,044
	(0.043)	(0.017)	(0.042)	(0.012)

NET LOSS PER
SHARE

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

Franchise Capital Corporation
Statements of Cash Flows
(Unaudited)

	For the six months ended	
	December 31, 2006	**December 31, 2005**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (3,068,834)	$ (826,542)
Adjustments to reconcile net loss to net cash used		
by operating activities:		
Dividends paid	432,377	582,053
Financing costs	-	137,473
Settlement costs	2,578,766	-
Prepaid expenses	-	5,497
Accounts payable and accrued liabilities	9,455	(49,734)
Net Cash Used by Operating Activities	(48,236)	(151,253)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash invested in portfolio companies	-	-
Net Cash Provided by Investing Activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Common stock issued for cash	18,055	345,472
Bank overdraft	(16)	5,781
Proceeds from stock payable	56,820	-
Proceeds from notes payable and convertible debentures	-	(200,000)
Net Cash Provided by Financing Activities	74,859	151,253

INCREASE IN CASH AND EQUIVALENTS		26,623		-
CASH AND EQUIVALENTS, BEGINNING OF PERIOD		-		-
CASH AND EQUIVALENTS, END OF PERIOD	$	26,623	$	-
Non-Cash Financing Activities:				
Common stock issued for debenture conversions	$	220,927	$	137,229

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

Franchise Capital Corporation

Financial Highlights
(Unaudited)

Per Unit Operating Performance:

	For the six months ended	
	December 31, 2006	December 31, 2005
NET ASSET VALUE, BEGINNING OF PERIOD	$ 0.00004	$ 0.00479
INCOME FROM INVESTMENT OPERATIONS:		
Net investment loss	(0.00286)	(0.003110)
Financing expense	-	(0.001890)
Dividend to shareholders	(0.00600)	-
Loss from discontinued operations	-	(0.006390)
Total from investment operations	(0.00883)	(0.00660)
Net increase in net assets resulting from stock sales	0.00312	0.008550
NET ASSET VALUE, END OF PERIOD	$ (0.005704)	$ 0.001950
TOTAL NET ASSET VALUE RETURN	(15,563.45) %	(59.40) %
RATIOS AND SUPPLEMENTAL DATA:		
Net assets, end of period	$ (160,310)	$ 141,016
Ratios to average net assets:		
Net expenses	0.36 %	1.61 %
Net investment loss	(0.36) %	(1.60) %

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

FRANCHISE CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 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 December 31, 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 changed to 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 December 31, 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.

The Company liquidated all of its portfolio assets in August 2006. 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.

As of December 31, 2006, the Company had no portfolio assets.

NOTE 4 - CONVERTIBLE DEBENTURES PAYABLE

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 prior year.

In November 2006, the Company agreed to settle litigation with Golden Gate Investors on the past-due convertible debenture which had 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. As a result of this transaction, the Company has recorded the issuance of the shares of common stock and written off the balance of the debenture payable. The difference between the value of the shares issued into escrow and the value of the debenture payable was $2,578,766 and has been recorded as settlement costs in the accompanying financial statements. As of December 31, 2006, a total of 21,055,185 shares had been released from the escrow and the principal balance had been reduced to $216,902.

NOTE 5 - STOCKHOLDERS EQUITY

In November 2006, the Company agreed to settle litigation with Golden Gate Investors on the past-due convertible debenture which had 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. The difference between the value of the shares issued into escrow and the value of the debenture payable was $2,578,766 and has been recorded as settlement costs in the accompanying financial statements. Under the terms of this settlement, as of December 31, 2006, 21,055,185 shares have been released from escrow and the debenture balance has been reduced to $216,902.

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 December 31, 2006, the Company sold 50,275 shares of restricted common stock under the agreement for proceeds of $50,275. The Company also received $74,875 from Golden Gate as an advance on future stock purchases under the agreement.

NOTE 6 - SUBSEQUENT EVENTS

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.

In November 2006, the Company agreed to settle litigation with Golden Gate Investors on the past-due convertible debenture which had 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. Subsequent to December 31, 2006, the Company released an additional 206,212,160 shares from escrow, leaving a total of 616,551,055 remaining in escrow and an unconverted debenture balance of $92,854 as of May 23, 2007.

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. Subsequent to the quarter ended December 31, 2006, the Company 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.

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 December 31, 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 December 31, 2006, the Company operated as a Business Development Company (BDC). As a BDC, the Company was required to have at lease 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

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 operating as an investment company.

RESULTS OF OPERATIONS

Three months ended December 31, 2006 compared to three months ended December 31, 2005

During the quarter ended December 31, 2006, the Company experienced a net loss of $3,035,582 compared to a net loss of $589,818 for the same period in 2005. The current loss is primarily due to settlement costs of $2,578,766 related to debt reduction of $220,927.

For the three months ended December 31, 2006 the Company reported no revenues compared with revenues of $1,750 for the three months ended December 31, 2005. Revenues for the three months ended December 31, 2005 were generated from consulting fees.

Six months ended December 31, 2006 compared to six months ended December 31, 2005

During the six months ended December 31, 2006, the Company experienced a net loss of $3,068,834 compared to a net loss of $826,542 for the same period in 2005. The current loss is primarily due to settlement costs of $2,578,766 related to debt reduction of $220,927.

For the six months ended December 31, 2006 the Company reported no revenues compared with revenues of $1,750 for the six months ended December 31, 2005. Revenues for the six months ended December 31, 2005 were generated from consulting fees.

Liquidity and Capital Resources

The Company s financial statements present an impairment in terms of liquidity. As of December 31, 2006 the Company had $186,933 in liabilities and $26,623 in current assets. The Company has accumulated $10,256,958 of net operating losses through December 31, 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 subst