

Franchise Capital CORP  
Form 10KSB  
October 01, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-KSB**

[X] Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act  
of 1934 For the Fiscal Year Ended June 30, 2007

**Commission File Number: 000-26887**

**Franchise Capital Corporation**

(Name of small business issuer in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**98-0353403**

(I.R.S. Employer  
Identification No.)

**29970 Technology Drive, Suite 203, Murrieta, California 92563**

(Address of principal executive offices)

**(951) 677-6735**

(Issuers telephone number, including area code)

**N/A**

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(former name or former address, if changed since last report)

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

Common Stock, \$0.0001 par value

(Title of Class)

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  ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-X contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.  ]

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  ] No  ]

Issuer's revenues for its most recent fiscal year: \$-0-

The aggregate market value of the voting stock held by non affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock at September 25, 2007 was \$21,295,984, based on the last sale price of \$0.0325 as reported on the pink sheets.

The Registrant had 964,129,838 shares of common stock, \$0.0001 par value, outstanding as of September 25, 2007.

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**FRANCHISE CAPITAL CORPORATION**

**TABLE OF CONTENTS**

|   |    |
|---|----|
| PART I  |    |
| ITEM 1. DESCRIPTION OF BUSINESS   | 3  |
| ITEM 2. DESCRIPTION OF PROPERTY   | 5  |
| ITEM 3. LEGAL PROCEEDINGS   | 5  |
| ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS   | 5  |
| PART II   |    |
| ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS  | 5  |
| ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION   | 6  |
| ITEM 7. FINANCIAL STATEMENTS  | 8  |
| ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE  | 8  |
| ITEM 8A. CONTROLS AND PROCEDURES  | 9  |
| ITEM 8B. OTHER INFORMATION  | 9  |
| PART III  |    |
| ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT | 9  |
| ITEM 10. EXECUTIVE COMPENSATION   | 10 |
| ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS                                       | 12 |
| ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE  | 12 |
| ITEM 13. EXHIBITS   | 12 |
| ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES  | 13 |
| SIGNATURES  | 14 |

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## PART I

### Forward Looking Statements

This document includes statements that may constitute forward-looking statements made pursuant to the Safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company would like to caution certain readers regarding certain forward-looking statements in this document and in all of its communications to shareholders and others, on management's projections, estimates and all other communications. Statements that are based on management's projections, estimates and assumptions are forward-looking statements. The words believe, expect, anticipate, intend and similar expressions generally identify forward-looking statements. While the Company believes in the veracity of all statements made herein, forward-looking statements are necessarily based upon a number of estimates, and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies and known and unknown risks. Many of the uncertainties and contingencies can affect events and the Company's actual results and could cause its actual results to differ materially from that expressed in any forward-looking statements made by, or on behalf, of the Company.

### ITEM 1.

#### DESCRIPTION OF BUSINESS

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.

As a business development company (BDC), the Company intended to provide long-term debt and equity investment capital to support the expansion of companies in the casual, fast food restaurant industry. The Company served as a holding company for its wholly and majority owned operating portfolio investments: Fathom Business Systems, Inc. (Fathom), Comstock Jake's Franchise Company, (Comstock's), Kokopelli Franchise Company, (Kokopelli), Corvair Vinnie's Franchise Company (CV), and Kirby Foods Asian Grill Franchise Company (Kirby). The Company owned 100% of Fathom and Kokopelli and had ownership interests in Kirby of approximately 97.5%, 72.5% of Comstock Jake's, and 50% of CV.

In August 2006, the Company abandoned its business model and commenced liquidating 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.

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**

### **Changes in our corporate structure**

Effective December 17, 2004, the Company designated 30,000,000 shares of Series C Preferred Stock. The Series C Preferred Stock was non-interest bearing, did not have voting rights and was not entitled to receive dividends. Each share of Series C issued was convertible into Common Stock on a 1:1 basis. The Series C was entitled to name three members of the Company's Board of Directors at all times. On January 14, 2005, the Company implemented a one for 10 reverse split of the Series C Preferred Stock. All share and per share amounts presented in our financial statements which are part of this Annual Report on Form 10-K, have been restated retroactively to reflect the split as if it had occurred on the first day of the first period presented, or July 1, 2004. Between January 1, 2007 and April 15, 2007, the Company converted all issued and outstanding shares of Series C Preferred Stock into shares of restricted common stock on a 1:1 basis in accordance with the terms of the Series C designation. As of September 6, 2007, the Company did not have any class or series of preferred stock issued and outstanding.

## **Employees**

During the fiscal year ended June 30, 2007, Franchise Capital Corporation had one employee, who served as the Company's chief executive officer. All other personnel operated under month-to-month consulting contracts.

## **Compliance with the Sarbanes-Oxley Act of 2002**

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act imposes a wide variety of new regulatory requirements on publicly held companies and their insiders. Many of these requirements will affect us. For example:

-

Our chief executive officer and chief financial officer must now certify the accuracy of the financial statements contained in our periodic reports;

-

Our periodic reports must disclose our conclusions about the effectiveness of our controls and procedures;

-

Our periodic reports must disclose whether there were significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses; and

-

We may not make any loan to any director or executive officer and we may not materially modify any existing loans.

The Sarbanes-Oxley Act has required us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the new regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

## **Code of Ethics and Audit Committee Charter**

The Board of Directors of the Company adopted a Code of Ethics and an Audit Committee Charter

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The Code of Ethics applies to our directors, principal executive officers, principle financial officer, principal accounting officer or controller, or persons performing similar functions. The code of ethics is designed to deter wrongdoing and to promote:

.  
Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

.  
Full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission ("SEC") and in other public communications made by the Company;

.  
Compliance with applicable governmental laws, rules and regulations;

.  
The prompt internal reporting of violations of the Code; and

.  
Accountability for adherence to the Code.

The Board of Directors monitors the actions of the Company's officers and directors to ensure compliance with the Code of Ethics. Violations are brought to the attention of the Chairman and or appropriate government agencies, as necessary and appropriate.

Franchise Capital Corporation's code of ethics was filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2007 filed on June 7, 2007.

The primary responsibility of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Company's Board of Directors and report the result of its activities to the Board. Such responsibilities shall include but not be limited to the selection, and if necessary the replacement of, the Company's independent auditors; the review and discussion with such independent auditors and the Company's internal audit department (i) the overall scope and plans for the audit, (ii) the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risks, and legal and ethical programs, and (iii) the results of the annual audit, including the financial statements to be included in the Company's annual report on Form 10-KSB. Franchise Capital Corporation's audit committee charter was filed as an exhibit to the Company's Annual Report on Form 10-K for the Fiscal Year Ended June 30, 2005 filed on September 30, 2005.

**DESCRIPTION OF PROPERTY**



The Company presently maintains its offices at 29970 Technology Drive, Suite 203, Murrieta, California 92563, where it shares office space with Javelin Advisory Group, Inc. as part of a monthly administrative services contract. The contract term is month to month. Management believes that its facilities are adequate for its present business.

**ITEM 3.**

**LEGAL PROCEEDINGS**

The Company is not a party to any legal proceedings.

**ITEM 4.**

**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

An annual meeting of shareholders of Franchise Capital Corporation was held on March 13, 2007. Proxies for the meeting were solicited pursuant to Regulation 14A. The Company conducted the annual shareholder meeting at the corporate offices for the purpose of voting to withdraw the Company's BDC election. A majority of the shareholders voted to withdraw the BDC election and the Company filed a Form N-54C to formally withdraw its BDC election on March 14, 2007. No other matters were brought before the shareholders for consideration at that time.

**PART II**

**ITEM 5.**

**MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS**

**Market Information**

The Company's Common Stock is traded on the pink sheets under the symbol FCCN. The following table sets forth the trading history of the Common Stock on the pink sheets for each quarter since July 2005 through June 30, 2007, as reported by Dow Jones Interactive. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

| <b>Quarter Ending</b> | <b>Quarterly High</b> | <b>Quarterly Low</b> | <b>Quarterly Close</b> |
|-----------------------|-----------------------|----------------------|------------------------|
| 9/30/2005             | 0.036                 | 0.029                | 0.033                  |
| 12/31/2005            | 0.014                 | 0.012                | 0.012                  |
| 3/31/2006             | 0.014                 | 0.012                | 0.013                  |
| 6/30/2006             | 0.005                 | 0.004                | 0.005                  |
| 9/30/2006             | 0.004                 | 0.004                | 0.004                  |
| 12/31/2006            | 0.007                 | 0.005                | 0.006                  |
| 3/31/2007             | 0.026                 | 0.019                | 0.023                  |
| 6/30/2007             | 0.015                 | 0.013                | 0.014                  |

## Holders of record

As of June 30, 2007 there were approximately 73 holders of record of the Company's common stock.

## Dividends

The Company has never paid a cash dividend on its common stock. Payment of dividends is at the discretion of the Board of Directors. The Board of Directors plans to retain earnings, if any, for operations and does not intend to pay dividends in the foreseeable future.

## Recent Sales of Unregistered Securities

Except as otherwise noted, the securities described in this Item 5 were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933. Each such issuance was made pursuant to individual contracts which are discrete from one another and are made only with persons who were sophisticated in such transactions and who had knowledge of and access to sufficient information about the Company to make an informed investment decision. Among the information provided was the fact that the securities issued were restricted securities. No commissions were paid in connection with the transactions described below unless specifically noted.

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 843,818,400 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 45-day period prior to the share withdrawal multiplied by the number of shares being withdrawn. As of September 25, 2007, under the terms of this settlement, 400,287,345 shares have subsequently been released from escrow and the debenture balance has been reduced to \$35,694.

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. Through June 30, 2007, the Company had sold 1,332,128 shares of restricted common stock to Golden Gate for \$1,332,128 under the agreement. In addition, the Company received \$2,206,501 from Golden Gate as an advance on future stock purchases under the agreement. The Company had a stock payable in the amount of \$849,541 as of June 30, 2007. As of September 25, 2007, the Company had received

\$2,206,501 from Golden Gate as an advance on future stock purchases under the agreement, of which 1,863,349 shares of restricted common stock were subsequently purchased for \$1,863,349, leaving a total stock payable as of September 25, 2007 of \$344,152.

As of September 25, 2007 Franchise Capital Corporation had 964,129,838 shares of common stock outstanding.

## **ITEM 6.**

### **MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

The following information should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-KSB.

#### **Plan of Operation**

On December 23, 2004 the Company's Board of Directors elected to be regulated as a business investment company under the Investment Company Act of 1940. As a business development company ( BDC ), the Company is required to maintain at least 70% of its assets invested in eligible portfolio companies, which are loosely defined as any domestic company which is not publicly traded or that has assets less than \$4 million. As of December 29, 2004, management recognized that a deficiency in liquidity. Such deficiency was noted in the notes to the financial statements and the audit opinion. To remedy this situation, the Board of Directors authorized management to file Form 1-E with the Commission notifying of its intent to sell up to \$5 million of the Company's common stock under a Regulation E exemption. From July 1, 2005 to June 30, 2006, the Company sold a total of 39,640,500 shares of common stock pursuant to Regulation E for aggregate proceeds of \$620,261.

Franchise Capital Corporation invested in a total of five portfolio companies: Fathom Business Systems, Inc., Comstock Jakes Franchise Co., LLC, Cousin Vinnie's Franchise Co., LLC, Kirby Foods Franchise Co., LLC and Kokopelli Franchise Co., LLC.

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. 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.

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.

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 \$1,875,000. 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. As of June 30, 2007, the Company had advanced a total of \$1,875,000 to Aero under the line of credit.

Currently, there are no commitments for material expenditures apart from the Company's obligations under the credit line to Aero. It should be noted that the Company's auditors Gruber & Company, LLC have expressed in their audit opinion letter that there is substantial doubt about the Company's ability to continue as a going concern.

### **Liquidity and Capital Resources**

The Company's financial statements present an impairment in terms of liquidity. As of June 30, 2007 the Company had \$168,152 in current liabilities, which exceeded current assets by \$120,566. The Company has accumulated \$10,448,008 of net operating losses through June 30, 2007, which may be used to reduce taxes in future years through 2027. 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 Company will soon be able to generate revenues sufficient to cover its operating costs resulting from the share exchange agreement with Aero Exhaust. In the event the Company is unable to complete the share exchange, or in the event Aero does not sustain cash flow positive operations, and if suitable financing is unavailable, there is substantial doubt about the Company's ability to continue as a going concern.

### **Results of Operations**

For the year ended June 30, 2007 the Company had a net loss of \$3,259,885 compared to a net loss of \$933,602 for year ended June 30, 2006. The current year loss is primarily due to settlement costs of \$2,578,766 related to debt reduction of \$220,927. Included in the loss for 2006 is the write off of all portfolio assets as of June 30, 2006 to reflect the disposal of such assets. Such write off resulted in the Company recording an unrealized loss of \$434,775.

The Company reported no revenues during the year ended June 30, 2007 compared with \$1,750 during the year ended June 30, 2006. The revenues in 2006 were generated from consulting fees.

### **Corporate Developments**

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. 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 14, 2007, the Company filed a Form N-54C which formally withdrew the BDC election.

The following transactions resulting from such liquidation were recorded:

Comstock Jake's Franchise Co., LLC

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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.

Fathom Business Systems, Inc.

On September 30, 2005, the Company sold its interest in Fathom Business for \$44,142.

The value of the Company's assets at June 30, 2006 reflect the actual liquidation value subsequently received.

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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.

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 \$1,875,000. 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. As of June 30, 2007, the Company had advanced a total of \$1,875,000 to Aero under the line of credit.

**ITEM 7.**

**FINANCIAL STATEMENTS**

See the financial statements annexed to this report.

**ITEM 8.**

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

On April 18, 2007, Franchise Capital Corporation dismissed Epstein Weber & Conover, PLC as independent auditors for the Company. The decision to dismiss Epstein Weber & Conover, PLC ( Epstein Weber ) and to seek new independent auditors was approved by the Company's Board of Directors.

The reports of Epstein Weber on the Company's financial statements for the fiscal years ended June 30, 2005 and 2004 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the Company's financial statements for the fiscal years ended June 30, 2005 and 2004, (1) there were no disagreements with Epstein Weber on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedure which, if not resolved to the satisfaction of Epstein Weber, would have caused Epstein Weber to make reference to the matter in its report and (2) there were no reportable events as that term is defined in Item 304 of Regulation S-K promulgated under the Securities Exchange Act of 1934.

On April 20, 2007, the Company engaged Gruber & Company, LLC as the Company's independent accountant to report on the Company's balance sheets as of June 30, 2006 and 2007, and the related statements of income, stockholders' equity and cash flows for the years then ended. Neither the Company nor anyone acting on its behalf consulted with Gruber & Company, LLC regarding (i) either the application of any accounting principles to a specific completed or contemplated transaction of the Company, or the type of audit opinion that might be rendered by Gruber & Company, LLC on the Company's financial statements; or (ii) any matter that was either the subject of a disagreement with Epstein Weber or a reportable event with respect to Epstein Weber.

## **ITEM 8A.**

### **CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.** Based on an evaluation under the supervision and with the participation of the our management as of a date within 90 days of the filing date of this Annual Report on Form 10-KSB, our principal executive officer and principal financial officer have concluded our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 are effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

**Changes in Internal Controls.** There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses and therefore there were no corrective actions taken. However, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events and there is no certainty that any design will succeed in achieving its stated goal under all potential future considerations, regardless of how remote.

**ITEM 8B.**

**OTHER INFORMATION**

Not applicable.

**PART III.**

**ITEM 9.**

**DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT**

The executive officers and directors of the Company as of September 25, 2007 are as follows:

| <u>Name</u>                   | <u>Position</u>  |
|-------------------------------|--|
| Steven Peacock <sup>(1)</sup> | Interim Chief Executive, Interim President and Interim Chief Financial Officer |
| Robert McCoy <sup>(2)</sup>   | Chairman of the Board of Directors   |
| James Bickel <sup>(3)</sup>   | Director   |
| Gary Nerison <sup>(3)</sup>   | Director   |

(1)

Mr. Peacock was appointed Interim Chief Executive Officer, Interim President and Interim Chief Financial Officer on September 12, 2006 to fill the vacancies created by the resignation of Edward Heisler.

(2)

Mr. McCoy was appointed a member of the Board of Directors on September 27, 2005 to fill the vacancy created by the resignation of Alan Smith and then appointed Chairman of the Board of Directors on September 12, 2006 to fill the vacancy created by the resignation of Edward Heisler.

(3)

Mr. Bickel and Mr. Nerison were appointed to the Board of Directors by Mr. McCoy on January 2, 2007 to fill the vacancies created by the resignations of Robert Madia and Donald Schwall on September 6, 2006.

The business experience of each of the persons listed above is as follows:

***Steven Peacock, Interim Chief Executive Officer, Interim President, and Interim Chief Financial Officer*** Steven Peacock has over thirty years of experience in seeking out and identifying emerging growth investment opportunities, both startup companies and work out assignments and is skilled at analyzing management structure and setting up programs for raising capital. He has working knowledge of taking companies through the process of becoming publicly traded, as well as assistance with strategic planning, corporate communications including shareholder relations and internet marketing as well as an extensive background in SEC requirements and filings utilizing broad network of legal, accounting, insurance, Internet technology and public relations affiliates. In addition to his work with and in publicly traded companies, Mr. Peacock has a background in the real estate development industry and in minor league professional sports development, primarily soccer, in both American and European venues. Mr. Peacock has an extensive operating knowledge of the Business Development Company process, having operated the first BDC on the west coast from 1998 to 2000. From 2001 to 2003, Mr. Peacock acted as a consultant for Peak Solutions, a firm



offering a variety of consulting, management and financing services to the small business community, both public and private. From 2004 to 2005, Mr. Peacock served as a member of the Board of Directors of BDC Capital, Inc. and as Secretary, Chief Operating Officer and a member of the Board of Directors of CLX Investment Company. Mr. Peacock also served as Chief Executive Officer and Chief Financial Officer of Entertainment Capital Corporation from 2005 to 2006. From 2004 to present, Mr. Peacock has served as managing partner of Javelin Advisory Group, Inc., a business consulting company located in Temecula, California with the core focus of assisting businesses with a number of vital services, which include bringing small public companies into compliance with SEC requirements, assisting in the raising of necessary capital, evaluating potential acquisitions and providing management expertise.

**Robert McCoy, Chairman of the Board of Directors** - Mr. McCoy is an experienced senior executive. As president of Marquis Elevator, Inc. from 1975 to 1990, he built and later sold the largest independent elevator company in Nevada. Subsequent to selling Marquis Elevator, Mr. McCoy was the General Manager of Canyon Investments, Inc. in Las Vegas, NV from 1990 to 1996. Since 1996, Mr. McCoy served as Facilities Manager for the Church of Jesus Christ of Latter Day Saints, responsible for 487,000 square feet of facilities in the Las Vegas area. Mr. McCoy serves as Interim Chief Executive Officer, Interim Chief Compliance Officer and Interim Chairman of the Board of Directors of CLX Investment Company, Inc. In addition, Mr. McCoy is on the Board of Directors of GTREX Capital, Inc. Mr. McCoy served on the Board of Directors of Sovereign Exploration Associates International Inc. during 2005. Mr. McCoy is a graduate of the University of Tennessee.

**James Bickel, Independent Director** - Mr. Bickel has over 40 years of experience in sales and senior management positions with manufacturing-based companies: Allison Spring and Manufacturing (1968-1973), Bicolor Machinery and Manufacturing (1974-1979), and Keel Corporation (1980-1986), all California based manufacturing companies of high-tech metal parts and assemblies. From 1980 to 1995 Mr. Bickel owned his own Formula Ford racing team running in the West Coast Series. He also sponsored and helped manage a two car TransAm team in partnership with RPM Racing, during this time they followed the Indy Car/Cart series racing at most of the major venues in the US. For a brief period he sponsored an Indy Car which raced at Indianapolis and his racing interest dates back to the days with the Granatelli's at the Indy 500. From 1986 to 2002 Mr. Bickel served as vice president of Uniglobe USA and president of Uniglobe Midpacific and assisted in building a national travel franchise system with over 900 locations. He later built a golf retail franchise system. Since 2002 Mr. Bickel has acted as vice president and secretary of the World Health and Education Foundation and as vice chairman of MedChannel LLC, a medical device company serving radiology and surgical markets. Mr. Bickel is currently the Chief Executive Officer of S3 Investment Company, Inc., a publicly-traded holding company with businesses in China, a position held since 2005. Mr. Bickel also serves as Chief Operating Officer and a member of the Board of Directors of GTREX Capital, Inc. Mr. Bickel also serves as a member of the Board of Directors of CLX Investment Company, Inc. Mr. Bickel served on the Board of Directors of Sovereign Exploration Associates International Inc. during 2005.

**Gary Nerison, Independent Director** - Mr. Nerison is an experienced entrepreneur in commercial real estate and loan brokerage companies. With his rich business commercial real estate background, over the last 36 years, Mr. Nerison has initiated and led to growth several commercial real estate and loan brokerage companies. In 1998, he founded a loan brokerage firm placing venture loans for new business, which he still currently manages. Since 2002, he has been the Co-founder and President of World Health and Education Foundation, a charitable organization. Mr. Nerison attended Augustana College in Sioux Falls, South Dakota with Major in Economics. Mr. Nerison also currently serves on the Board of Directors of GTREX Capital, Inc. and S3 Investment Company, Inc.

## Meetings

During the year ended June 30, 2007 the Board of Directors met on eight occasions. Each incumbent Director attended at least 70% of the total number of meetings of the Board of Directors.

**ITEM 10.****EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table contains compensation data for our named executive officers for the fiscal years ended June 30, 2007 and 2006.

| Name &<br>Principal<br>Position   | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Nonqualified<br>Deferred<br>Compensation<br>Earnings (\$) | All Other<br>Compensation<br>(\$) | Total (\$) |
|---|------|----------------|---------------|-------------------------|--------------------------|--|---|-----------------------------------|------------|
| Edward<br>Heisler   |      | \$36,620       |               |                         |                          |  |   |                                   |            |
| (1)   | 2006 |                | \$-0-         | \$-0-                   | \$-0-                    | \$-0-  | \$-0-   | \$-0-                             | \$36,620   |
| Steven<br>Peacock,<br>Chief<br>Executive<br>Officer and<br>Chief<br>Financial<br>Officer <sup>(2)</sup> |      |                |               |                         |                          |  |   |                                   |            |
|   | 2006 | \$-0-          | \$-0-         | \$-0-                   | \$-0-                    | \$-0-  | \$-0-   | \$-0-                             | \$-0-      |
|   | 2007 | \$9,000        | \$-0-         | \$-0-                   | \$-0-                    | \$-0-  | \$-0-   | \$-0-                             | \$9,000    |

(1) Mr. Heisler served as Chief Executive Officer and President from July 13, 2005 to September 12, 2006.

(2) Mr. Peacock was appointed Interim Chief Executive Officer, Interim President and Interim Chief Financial Officer on September 12, 2006.

**Employment Contract**

The Company does not currently have any employment agreements in place.

**Director Compensation**

The following table contains compensation data for our board of directors for the fiscal year ended June 30, 2007.

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| Name                           | Fees<br>Earned<br>or Paid<br>in Cash | Stock<br>Awards | Option<br>Awards | Non-Equity<br>Incentive Plan<br>Compensation | Non-Qualified<br>Deferred<br>Compensation<br>Earnings | All Other<br>Compensation | Total    |
|--------------------------------|--------------------------------------|-----------------|------------------|--|---|---------------------------|----------|
| Robert<br>McCoy <sup>(1)</sup> | \$17,000                             | -               | -                | -  | -   | -                         | \$17,000 |
| James<br>Bickel <sup>(2)</sup> | \$5,000                              | -               | -                | -  | -   | -                         | \$5,000  |
| Gary<br>Nerison <sup>(2)</sup> | \$5,000                              | -               | -                | -  | -   | -                         | \$5,000  |

(1) Mr. McCoy was appointed a member of the Board of Directors on September 27, 2005 to fill the vacancy created by the resignation of Alan Smith and then appointed Chairman of the Board of Directors on September 12, 2006 to fill the vacancy created by the resignation of Edward Heisler.

(2) Mr. Bickel and Mr. Nerison were appointed to the Board of Directors by Mr. McCoy on January 2, 2007 to fill the vacancies created by the resignations of Robert Madia and Donald Schwall on September 6, 2006

**Indemnification**

As permitted by the provisions of the General Corporation Law of the State of Nevada, the Company has the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director, officer, employee or agent of the corporation if such officer or director acted in good faith and in a manner reasonably believed to be in or not opposed to the best interest of the Company. Any such person may be indemnified against expenses, including attorneys' fees, judgments, fines and settlements in defense of any action, suit or proceeding. The Company does not maintain directors and officers liability insurance.

**Compliance With Section 16(a) of the Securities Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires Franchise Capital Corporation's executive officers and directors, and persons who own more than ten percent (10%) of a registered class of Franchise Capital Corporation's equity securities, to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or 5 with the Securities and Exchange Commission (the "SEC"). Such officers, directors and ten percent (10%) shareholders are also required by the SEC rules to furnish Franchise Capital Corporation with copies of all Section 16(a) forms they file. To our knowledge, based solely on review of the copies of such reports furnished to us, during the fiscal year ended June 30, 2007, our officers, directors, and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements applicable to them.

**ITEM 11.****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth, as of September 25, 2007 the beneficial ownership of the Company's common stock (i) by any person or group known by the Company to beneficially own more than 5% of the outstanding common stock, (ii) by each Director and executive officer and (iii) by all Directors and executive officers as a group.

| <u>Name and Address</u>   | <u>Number of Shares<br/>Beneficially Owned</u> | <u>Class</u> | <u>Percentage of Class<sup>(1)</sup></u> |
|---|--|--------------|--|
| Steven Peacock  | -0-  | Common       | *  |
| Interim Chief Executive<br>Officer, Interim President,<br>Interim and Interim Chief<br>Financial Officer 43180<br>Business Park Dr., Suite 202,<br>Temecula, CA 92590 |  |              |  |
| Robert McCoy, Chairman of<br>the Board of Directors   | 1,176,471                                      | Common       | *  |
| 10829 Sterling Forest Avenue  |  |              |  |

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Las Vegas, NV 89135

|                        |     |        |   |
|------------------------|-----|--------|---|
| James Bickel, Director | -0- | Common | * |
|------------------------|-----|--------|---|

903 Redwood Drive

Danville, CA 94506

|                        |     |        |   |
|------------------------|-----|--------|---|
| Gary Nerison, Director | -0- | Common | * |
|------------------------|-----|--------|---|

9000 Crow Canyon Rd., Suite  
S-233

Danville, CA 94506

|   |           |        |          |
|---|-----------|--------|----------|
| All directors and executive officers (4 person) | 1,176,471 | Common | <u>*</u> |
|---|-----------|--------|----------|

|                       |      |        |   |
|-----------------------|------|--------|---|
| Golden Gate Investors | *(2) | Common | * |
|-----------------------|------|--------|---|

\*Denotes less than 1%

1)

Percentages based on 964,129,838 shares of common stock issued and outstanding as of September 25, 2007.

2)

Shares issued to Golden Gate Investors are held in an escrow account. The escrow agreement provides that any shares held in escrow are voted by the Franchise Capital Corporation Chairman of the Board of Directors. Since Golden Gate Investors has neither the right to vote the shares nor the right to dispose of them, Golden Gate Investors does not meet the definition of beneficial ownership of the escrow shares. Were Golden Gate Investors to be considered the beneficial owner, Golden Gate Investors would control 506,831,055 shares, which is approximately 53% of the Company's issued and outstanding common stock.

11

**ITEM 12.****CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The Company's officers and directors are subject to the doctrine of corporate opportunities only insofar as it applies to business opportunities in which the Company has indicated an interest, either through its proposed business plan or by way of an express statement of interest contained in the Company's minutes. If directors are presented with business opportunities that may conflict with business interests identified by the Company, such opportunities must be promptly disclosed to the Board of Directors and made available to the Company. In the event the Board shall reject an opportunity that was presented to it and only in that event, any of the Company's officers and directors may avail themselves of such an opportunity. Every effort will be made to resolve any conflicts that may arise in favor of the Company. There can be no assurance, however, that these efforts will be successful.

The Company has engaged Javelin Advisory Group, an administrative services consulting group, to assist the Company with its operations. The services performed by Javelin include bookkeeping, financial reporting, corporate secretary services, and general administration. In addition, Javelin provides office space to the Company as part of an overall monthly service contract. Steven Peacock, the Company's Chief Executive Officer and sole employee is also the managing director of Javelin. Mr. Peacock does not receive direct compensation for his services rendered as Chief Executive of the Company; however, his services are included as part of the overall Javelin contract. Javelin is compensated at the rate of \$12,500 per month. The Board of Directors approved the Javelin contract and the appointment of Mr. Peacock as an officer of the Company.

**ITEM 13. 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 | *               |
| 3.2                | Bylaws                    | *               |

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|       |  |      |
|-------|--|------|
| 14    | Code of Ethics adopted April 16, 2007  | ***  |
| 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  | **   |

\* 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.

\*\*\* Incorporated by reference from Franchise Capital Corporation's Quarterly Report on Form 10-QSB for the Period Ended March 31, 2007 filed on June 7, 2007.

\*\*\*\* Filed herewith.

**ITEM 14.**

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

The aggregate fees billed by the Company's auditors for the professional services rendered in connection with the audit of the Company's annual financial statements and reviews of the financial statements included in the Company's Forms 10-KSB for fiscal 2007 and 2006 were approximately \$17,500 and \$16,000, respectively.

**Audit Related Fees**

None

**Tax Fees**

None

**All Other Fees**

The aggregate fees billed by the Company's auditors for all other non-audit services rendered to the Company, such as attending meetings and other miscellaneous financial consulting in fiscal 2007 and 2006 were \$0, respectively.



**SIGNATURES**

In accordance with Section 13 or 15 (d) of the Exchange Act. The Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FRANCHISE CAPITAL CORPORATION**

*By: /s/Steven Peacock*

Steven Peacock

Chief Executive  
Officer

Dated: October 1, 2007

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <b><u>SIGNATURE</u></b>                 | <b><u>TITLE</u></b>                | <b><u>DATE</u></b> |
|---|------------------------------------|--------------------|
| <u>/s/ Robert McCoy</u><br>Robert McCoy | Chairman of the Board of Directors | October 1, 2007    |
| <u>/s/ James Bickel</u><br>James Bickel | Director                           | October 1, 2007    |
| <u>/s/ Gary Nerison</u><br>Gary Nerison | Director                           | October 1, 2007    |

**EXHIBIT 31.1**

**SECTION 302**

**CERTIFICATION OF INTERIM CHIEF EXECUTIVE OFFICER**

I, Steven Peacock, certify that:

(1) I have reviewed this annual report on Form 10-KSB 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 am 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 unconsolidated investments, 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

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(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.

October 1, 2007

By: /s/ Steven Peacock

Steven Peacock, Chief Executive Officer

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**EXHIBIT 31.2**

**SECTION 302**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Steven Peacock, certify that:

(1) I have reviewed this annual report on Form 10-KSB 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 am 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 unconsolidated investments, 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

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(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.

October 1, 2007

By: /s/ Steven Peacock

Steven Peacock, Chief Financial Officer

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**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 Annual Report of Franchise Capital Corporation (the Company) on Form 10-KSB for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven Peacock, Interim 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.

October 1, 2007

By: /s/ Steven Peacock

Steven Peacock, Chief Financial Officer

---

**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 Annual Report of Franchise Capital Corporation (the Company) on Form 10-KSB for the period ending June 30, 2007, 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.

October 1, 2007

By: /s/ Steven Peacock

Steven Peacock, Chief Financial Officer

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**FRANCHISE CAPITAL CORPORATION**

**FINANCIAL STATEMENTS**

**June 30, 2007**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF FRANCHISE CAPITAL CORPORATION:

We have audited the accompanying balance sheets of Franchise Capital Corporation as of June 30, 2007 and 2006, and the related statements of operations, stockholders equity and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franchise Capital Corporation as of June 30, 2007 and 2006, and the results of its' operations and its' stockholders equity and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred material losses, has a negative current ratio, and Stockholders Equity. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.



Gruber & Company, LLC

Gruber & Company, LLC Saint Louis, Missouri  
 October 1, 2007

**Franchise Capital Corporation  
 Consolidated Balance Sheet**

**June 30,  
 2007  
 (Audited)**

**ASSETS**

CURRENT ASSETS:

|                           |    |        |
|---------------------------|----|--------|
| Cash and cash equivalents | \$ | 47,586 |
| Total Current Assets      |    | 47,586 |

OTHER ASSETS:

|                                |  |           |
|--------------------------------|--|-----------|
| Loan Receivable - Aero Exhaust |  | 1,875,000 |
| Total Other Assets             |  | 1,875,000 |

|              |    |           |
|--------------|----|-----------|
| TOTAL ASSETS | \$ | 1,922,586 |
|--------------|----|-----------|

**LIABILITIES AND STOCKHOLDERS' EQUITY**

CURRENT LIABILITIES

|                                       |    |         |
|---------------------------------------|----|---------|
| Accounts payable and accrued expenses | \$ | 168,152 |
| Total Current Liabilities             |    | 168,152 |

|                   |  |         |
|-------------------|--|---------|
| TOTAL LIABILITIES |  | 168,152 |
|-------------------|--|---------|

STOCKHOLDERS' EQUITY

|   |  |         |
|---|--|---------|
| Preferred Stock, Authorized 30,000,000 Shares, \$.0001 Par Value,<br>0 Shares Issued and Outstanding        |  | -       |
| Common Stock, Authorized 5,000,000,000 Shares, \$.0001 Par Value, 922,967,963 Shares Issued and Outstanding |  | 92,297  |
| Stock payable   |  | 849,541 |

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|  |    |              |
|--|----|--------------|
| Paid-in capital                            |    | 11,260,604   |
| Accumulated deficit                        |    | (10,448,008) |
| Total Stockholders' Equity                 |    | 1,754,434    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ | 1,922,586    |

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

---

**Franchise Capital Corporation**  
**Consolidated Statements of Operations**

|  | For the Year Ended    |                     |
|--|-----------------------|---------------------|
|  | June 30,<br>2007      | June 30,<br>2006    |
| <b>INCOME:</b>                           |                       |                     |
| Consulting income                        | \$ -                  | \$ 1,750            |
| Total Income                             | -                     | 1,750               |
| <b>EXPENSES:</b>                         |                       |                     |
| Accounting fees                          | 26,815                | 68,559              |
| Administrative expense                   | 95,000                | -                   |
| Contracted labor                         | 16,000                | 129,636             |
| Investor relations                       | 30,692                | -                   |
| Legal and professional fees              | 43,783                | 14,915              |
| Rent                                     | -                     | 26,026              |
| Salaries                                 | -                     | 41,329              |
| G&A expenses                             | 36,452                | 43,253              |
| Total Expenses                           | 248,742               | 323,718             |
| <b>LOSS FROM OPERATIONS</b>              | <b>(248,742)</b>      | <b>(321,968)</b>    |
| <b>OTHER INCOME (EXPENSE)</b>            |                       |                     |
| Financing expense                        | -                     | (137,473)           |
| Interest expense                         | -                     | (39,386)            |
| Loss from investments                    | -                     | (30,178)            |
| Settlement costs                         | (2,578,766)           | -                   |
| Dividend to shareholders                 | (432,377)             | -                   |
| Gain (Loss) from discontinued operations | -                     | (404,597)           |
| <b>NET LOSS</b>                          | <b>\$ (3,259,885)</b> | <b>\$ (933,602)</b> |
| <b>WEIGHTED AVERAGE SHARES</b>           | <b>600,337,377</b>    | <b>42,278,787</b>   |
| <b>NET LOSS PER SHARE</b>                | <b>(0.005)</b>        | <b>(0.022)</b>      |

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



**Franchise Capital Corporation**  
Statements of Stockholders' Equity (Deficit)

|  | Preferred Stock |        | Common Stock |        | Deferred<br>Compensation | Additional<br>Paid-in<br>Capital | Retain<br>Earnin<br>(Defic |
|--|-----------------|--------|--------------|--------|--------------------------|----------------------------------|----------------------------|
|  | Shares          | Amount | Shares       | Amount |                          |                                  |                            |
| Balance,<br>June 30,<br>2005   | 1,299,500       | 130    | 32,927,305   | 3,293  | -                        | 6,598,408                        | (6,254                     |
| Beneficial<br>Conversion<br>Expense<br>related to<br>Convertible<br>Debentures | -               | -      | -            | -      | -                        | 137,473                          |                            |
| Stock issued<br>for cash   | -               | -      | 24,123,118   | 2,413  | -                        | 343,010                          |                            |
| Convert<br>preferred<br>stock for<br>common                                    | (117,250)       | (12)   | 862,500      | 86     | -                        | -                                |                            |
| Stock issued<br>for<br>conversion<br>of<br>debentures                          | -               | -      | 14,149,929   | 1,415  | -                        | 135,864                          |                            |
| Net Loss for<br>period<br>ended June<br>30, 2006                               | -               | -      | -            | -      | -                        | -                                | (933                       |
| Balance,<br>June 30,<br>2006   | 1,182,250       | 118    | 72,062,852   | 7,206  |                          | 7,214,755                        | (7,188                     |
| Stock issued<br>for<br>settlement<br>of debt                                   | -               | -      | 848,391,733  | 84,839 | -                        | 136,088                          |                            |
| Stock issued<br>for cash   | -               | -      | 1,471,003    | 147    | -                        | 1,330,995                        |                            |
| Convert<br>preferred<br>stock for<br>common                                    | (1,182,250)     | (118)  | 1,042,375    | 104    | -                        | -                                |                            |
| Settlement<br>costs<br>relating to   | -               | -      | -            | -      | -                        | 2,578,766                        |                            |

conversion  
of debenture

Net Loss for  
period  
ended June  
30, 2007

- - - - - (3,259)

Balance,  
June 30,  
2007

- \$ - 922,967,963 \$ 92,297 \$ - \$ 11,260,604 \$ (10,448)

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

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

|   | For the Year Ended |                  |
|---|--------------------|------------------|
|   | June 30,<br>2007   | June 30,<br>2006 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                    |                    |                  |
| Net Loss  | \$ (3,259,885)     | \$ (933,602)     |
| Adjustments to reconcile net loss to net cash used              |                    |                  |
| by operating activities:  |                    |                  |
| Unrealized loss on investments                                  | 432,377            | 582,053          |
| Financing costs   | -                  | 137,473          |
| Settlement costs  | 2,578,766          | -                |
| Decrease in prepaid expenses                                    | -                  | 11,747           |
| Increase (decrease) in accounts payable and accrued liabilities | (9,325)            | 56,841           |
| Net Cash Used by Operating Activities                           | (258,067)          | (145,488)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                    |                  |
| Issuance of Loan Receivable                                     | (1,875,000)        | -                |
| Net Cash Used by Investing Activities                           | (1,875,000)        | -                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                    |                  |
| Bank overdraft  | -                  | 16               |
| Common stock issued for cash                                    | 1,331,128          | 345,472          |
| Proceeds from stock payable                                     | 849,541            | -                |
| Payment of notes  | -                  | (200,000)        |
| Net Cash Provided by Financing Activities                       | 2,180,669          | 145,488          |
| <b>INCREASE IN CASH AND EQUIVALENTS</b>                         | <b>47,602</b>      | <b>-</b>         |
| <b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>                | <b>(16)</b>        | <b>-</b>         |

|  |    |        |    |   |
|--|----|--------|----|---|
| <b>CASH AND EQUIVALENTS, END OF PERIOD</b> | \$ | 47,586 | \$ | - |
|--|----|--------|----|---|

**Non-Cash Financing Activities:**

|  |    |         |         |   |
|--|----|---------|---------|---|
| Common stock issued for settlement of debt | \$ | 220,927 | \$      | - |
|  | \$ |         | \$      |   |
| Common stock issued for debt conversion    |    | -       | 137,229 |   |

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



**FRANCHISE CAPITAL CORPORATION**

**NOTES TO AUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED JUNE 30, 2007**

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

Franchise Capital Corporation (the "Company") a Nevada corporation, was incorporated on July 6, 2001. 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.

As a business development company ("BDC"), the Company intended to provide long-term debt and equity investment capital to support the expansion of companies in the casual, fast food restaurant industry. The Company served as a holding company for its wholly and majority owned operating portfolio investments: Fathom Business Systems, Inc. ("Fathom"), Comstock Jake's Franchise Company, ("Comstock's"), Kokopelli Franchise Company, ("Kokopelli"), Comstock Vinnie's Franchise Company ("CV"), and Kirby Foo's Asian Grill Franchise Company ("Kirby"). The Company owned 100% of Fathom and Kokopelli and had ownership interests in Kirby of approximately 97.5%, 72.5% of Comstock Jake's, and 50% of CV.

In August 2006, the Company abandoned its business model and commenced liquidating 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 in October 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, 2007. 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.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation and Principles of Consolidation**

Franchise Capital Corporation changed to a Business Development Company, effective December 24, 2004. From December 2004 through March 2007, the Company's operations were those of an investment company. In March 2007, the Company withdrew its BDC election and therefore ceased operating under the guidelines of the Investment Company Act of 1940. Accordingly, the accompanying financial statements for the year ended June 30, 2007 have been prepared to represent those of an operating company rather than an investment company.

As a Business Development Company, the Company changed its accounting principles in accordance with the GAAP on investment companies. The primary difference relates to the accounting for investments held by investment companies. Investments that were previously consolidated are instead reflected at the estimated fair value of those investments. With the subsequent abandonment of the investment company operating model in March 2007, the Company has reverted to its prior accounting methods; namely, investments are carried at either the cost or equity method of accounting depending on the degree of control and ownership. As of June 30, 2007, the Company's sole investment consisted of a loan receivable from Aero Exhaust, which is carried at cost. Upon completion of the contemplated share exchange with Aero, the loan receivable is anticipated being converted into Aero common stock.

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

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**Cash and Cash Equivalents** Cash and cash equivalents include all short-term liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

**Revenue Recognition** For all periods presented, revenue is recorded when earned.

Income taxes - The Company provides for income taxes based on the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income (Loss) Per Common Share Basic income per share is computed using the weighted average number of shares of common stock outstanding for the period. The Company has a complex capital structure and therefore there is a presentation for diluted loss per share.

The following presents the computation of basic and diluted loss per share for the years ended June 30,

|   | 2007           | 2006        |
|---|----------------|-------------|
| Net loss                                      | \$ (3,259,885) | \$(933,602) |
| Weighted Average Number of Shares Outstanding | 600,337,377    | 42,278,787  |
| Per share amount                              | \$ (0.005)     | \$ (0.022)  |

Property and Equipment consists primarily of office equipment and furnishings and is generally stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 5 years. Depreciation expense was \$0 for both of the years ended June 30, 2007 and 2006. All fixed assets were written off at June 30, 2006 to reflect the August 30, 2006 cessation of operations. Subsequent to August 2006, and the hiring of new management to oversee operations of the Company, there were no discernable fixed assets of value.

#### Recently Issued Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48). This Interpretation clarifies the accounting for uncertainty in

income taxes recognized in a company's financial statements. FIN 48 requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 will also require significant additional disclosures. This Interpretation will be effective for fiscal years beginning after December 15, 2006. We will implement this Interpretation in the first quarter of 2007 on a prospective basis. We are currently evaluating the potential impact this Interpretation will have on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by us beginning in the first quarter of 2008. We are currently evaluating the potential impact this standard may have on our financial position and results of operations, but do not believe the impact of the adoption will be material.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years' financial statements. We will initially apply the provisions of SAB 108 in connection with the preparation of our annual financial statements for the year ending December 31, 2006. We have evaluated the potential impact SAB 108 may have on our financial position and results of operations and do not believe the impact of the application of this guidance will be material.

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### **NOTE 3 - LOAN RECEIVABLE AERO EXHAUST**

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. Following the share exchange, the Company's business will be that of Aero Exhaust

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 \$1,875,000. 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. As of June 30, 2007, the Company had advanced a total of \$1,875,000 to Aero under the line of credit.

**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 statement of operations for the year ended June 30, 2004.

As of June 30, 2006, the balance owed on the debenture was \$220,927, which included interest as penalties of \$18,574. In November 2006, the Company agreed to settle litigation with Golden Gate Investors on the past-due convertible debenture. 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 45-day period prior to the share withdrawal multiplied by the number of shares being withdrawn. Under the terms of this settlement, 273,687,345 shares have subsequently been released from escrow and the debenture balance has been reduced to \$83,974 as of June 30, 2007. The Company has recorded the fair value of the 843,818,400 million shares in excess of the face value of debenture on the date of settlement (\$2,578,766 total) as settlement costs in the accompanying financial statements. All shares issued into escrow have been recorded as issued and outstanding pending the ultimate disposition of the obligation. Accordingly, the accompanying financial statements reflect the debenture as being fully paid. In the event not all shares are released from escrow, any remaining escrow shares will be returned to the Company and cancelled, with the value of such shares being reflected as a reduction in settlement costs.

During the year ended June 30, 2006, the Company recognized \$137,473 in financing costs associated with the convertible debenture.

**NOTE 5 - INCOME TAXES**

The Company recognizes deferred income taxes for the differences between financial accounting and tax bases of assets and liabilities. Income taxes for the years ended June 30, consist of the following:

|   | 2007          | 2006        |
|---|---------------|-------------|
| Current tax provision (benefit)         | \$(1,102,728) | \$(451,200) |
| Deferred tax provision (benefit)        | 1,102,728     | 451,200     |
| Total income tax provision<br>(benefit) | \$ -0-        | \$ -0-      |

There was a deferred tax asset of \$4,329,928 and \$3,227,200 at June 30, 2007 and 2006, respectively, relating primarily to net operating loss carryforwards of approximately \$4,758,000 and \$3,655,000. The deferred income tax asset is fully offset by a valuation allowance of \$4,758,000 and \$3,655,000 at June 30, 2007 and 2006, respectively.

At June 30, 2007 there were federal and state net operating loss carryforwards of approximately \$4,758,000 which begin to expire in 2018.

**NOTE 6 - STOCKHOLDERS EQUITY**

During the year ended June 30, 2006, the Company issued 24,623,118 shares of restricted common stock for cash of \$345,472, 14,154,882 shares of restricted common stock on the conversion of debentures totaling \$137,229, and 1,172,500 shares of restricted common stock on the conversion of 117,250 shares of Series C Preferred Stock.

In November 2006, the Company agreed to settle litigation with Golden Gate Investors on the past-due convertible debenture. Under the terms of the settlement, the Company placed 843,818,400 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 45-day period prior to the share withdrawal multiplied by the number of shares being withdrawn. Under the terms of this settlement, 273,687,345 shares have subsequently been released from escrow and the debenture balance has been reduced to \$83,974 as of June 30, 2007. The Company has recorded the fair value of the 843,818,400 million shares in excess of the face value of debenture on the date of settlement (\$2,578,766 total) as settlement costs in the accompanying financial statements.

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. Through June 30, 2007, the Company had sold 1,332,128 shares of restricted common stock to Golden Gate for \$1,332,128 under the agreement. In addition, the Company received \$2,206,501 from Golden Gate as an advance on future stock purchases under the agreement.

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 June 30, 2007, there were no shares of preferred stock issued or outstanding.

#### **NOTE 7 - SUBSEQUENT EVENTS**

Subsequent to June 30, 2007, an additional 126,600,000 shares of the Company's common stock was released from escrow to Golden Gate Investors under the terms of the Settlement Agreement, bringing the total amount of shares released to Golden Gate to 400,287,345, with a balance on the debenture to convert of \$35,694. In addition, Golden Gate purchased an additional 482,791 shares of common stock under the stock purchase agreement for \$482,791, which was credited against monies advanced.

Subsequent to June 30, 2007, the Company satisfied back salaries amounting to \$127,048 due to former employees and management through the issuance of 14,946,829 shares of common stock issued pursuant to a form S-8 registration. In addition, 7,058,824 shares were issued under Form S-8 to consultants for services valued at \$60,000.

Subsequent to June 30, 2007, the Company issued a total of 17,500,000 shares of common stock to satisfy debt obligations of \$31,495 outstanding at June 30, 2007. The shares were issued under a settlement agreement filed with the 12<sup>th</sup> Circuit Court in Sarasota County, Florida, pursuant to Section 3(a)10 of the Securities Act of 1933.

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