

AERO PERFORMANCE PRODUCTS, INC.  
Form 10-Q  
February 20, 2009

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended

Commission File Number

December 31, 2008

000-26887

**AERO PERFORMANCE PRODUCTS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada

98-0353403

(State or other jurisdiction of

(IRS Employer Identification Number)

incorporation or organization)

14553 S. 790 W. Suite B

Bluffdale, Utah 84065

(Address of principal executive offices)

(801) 495-0882

Issuer's telephone number, including area code

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

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

Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at February 13, 2008
Common Stock, \$0.0001 par value	2,595,878,822 shares

Transitional Small Business Disclosure Format (check one): Yes  No

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AERO PERFORMANCE PRODUCTS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**AERO PERFORMANCE PRODUCTS, INC**  
**Consolidated Balance Sheet**

**December 31,**  
**2008**  
**(Unaudited)**

**June 30,**  
**2008**  
**Audited**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$	23,187	\$	-
Accounts receivable, net		42,130		85,785
Inventory		212,978		215,007
Total Current Assets		278,295		300,792

**OTHER ASSETS:**

Intangible Assets		77,515		77,257
Fixed Assets, net		28,348		31,168
Total Other Assets		105,863		108,425

<b>TOTAL ASSETS</b>	<b>\$</b>	<b>384,158</b>	<b>\$</b>	<b>409,217</b>
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**LIABILITIES AND STOCKHOLDERS'**  
**EQUITY (DEFICIT)**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$	1,583,139	\$	1,517,804
Accrued interest		69,968		171,078
Accrued derivative liability		136,661		115,365
Notes Payable		1,934,520		1,694,081
Total Current Liabilities		3,724,288		3,498,328

<b>TOTAL LIABILITIES</b>		<b>3,724,288</b>		<b>3,498,328</b>
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**STOCKHOLDERS' DEFICIT**

Preferred Stock, Authorized 30,000,000 Shares,  
\$.0001 Par Value, 0 Shares Issued and Outstanding

Common Stock, Authorized 5,000,000,000 Shares,  
\$.0001 Par Value, 2,420, 878,822 and

242,088

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2,104,878,822 Shares Issued and Outstanding

			210,488
Paid-in capital	19,053,748		18,947,821
Accumulated deficit	(22,635,966)		(22,247,420)
Total Stockholders' Deficit	(3,340,130)		(3,089,111)
<b>TOTAL LIABILITIES AND STOCKHOLDERS'</b>			<b>\$ 409,217</b>
<b>DEFICIT</b>	<b>\$ 384,158</b>		

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

3

**Aero Performance Products, Inc.**  
**Consolidated Statements of Operations**

(Unaudited)

	<b>For the Six Months Ended</b>		<b>For the Three Months Ended</b>	
	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>INCOME:</b>				
Sales	\$ 277,484	\$ 319,208	\$ 63,332	\$ 149,982
Cost of Sales	(148,565)	(191,656)	(29,182)	(74,752)
Gross Income	128,919	127,552	34,150	75,230
<b>EXPENSES:</b>				
Freight & Shipping	28,557	62,046	4,325	28,447
Outside Services	118,668	137,570	43,376	93,339
Advertising and Marketing expense	9,696	128,322	-	45,657
Professional & Legal	72,994	169,167	59,893	68,063
Rent	36,793	49,871	13,751	24,547
Salaries	65,462	167,424	34,613	83,514

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G&A expenses	103,684	172,343	17,888	140,028
Total Expenses	435,854	886,743	173,846	483,595
<b>LOSS FROM OPERATIONS</b>	<b>(306,935)</b>	<b>(759,191)</b>	<b>(139,696)</b>	<b>(408,365)</b>
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(81,610)	(33,504)	(30,400)	(33,504)
Settlement costs	-	(319,850)	-	(319,850)
<b>NET LOSS</b>	<b>\$ (388,545)</b>	<b>\$ (1,112,545)</b>	<b>\$ (170,096)</b>	<b>\$ (761,719)</b>
<b>WEIGHTED AVERAGE SHARES</b>	<b>2,241,878,822</b>	<b>1,424,973,708</b>	<b>2,320,878,822</b>	<b>1,744,991,137</b>
<b>NET LOSS PER SHARE</b>	<b>(0.00017)</b>	<b>(0.0008)</b>	<b>(0.00007)</b>	<b>(0.0004)</b>

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

**AERO PERFORMANCE PRODUCTS, INC.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

For the Six Months Ended

December 31,  
2008

December 31,  
2007

**CASH FLOWS FROM OPERATING  
ACTIVITIES:**

Net Loss	(388,545)	(1,112,545)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	6,348	1,696
Derivative liability	21,296	-
Settlement costs	-	319,850
Decrease in accounts receivable	43,655	18,948
Increase in inventory	2,029	(1,282)
Decrease in accounts payable and accrued liabilities	72,645	(9,067)
(Decrease) increase in accrued interest	(101,110)	-
Net Cash Used by Operating Activities	(343,682)	(782,400)

**CASH FLOWS FROM INVESTING  
ACTIVITIES**

Purchase of fixed assets	(3,786)	(1,850)
Net Cash Used by Investing Activities	(3,786)	(1,850)

**CASH FLOWS FROM FINANCING  
ACTIVITIES**

Bank overdraft	(7,310)	
Common stock issued for services	-	545,321
Net proceeds from issuance of notes payable	377,965	218,125
Net Cash Provided by Financing Activities	370,655	763,446

**INCREASE (DECREASE) IN CASH AND  
EQUIVALENTS**

23,187

(20,804)

<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>	-	40,177
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	23,187	19,373
<b>Non-Cash Financing Activities:</b>		
Common stock issued for debt and accrued interest	\$ 137,527	\$6,960,773
Common stock issued for settlement of past due payables	\$ -	\$ 80,000
Note payable recorded for return of common stock	\$ -	\$ 475,000

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



**AERO PERFORMANCE PRODUCTS, INC.**

**Notes to Consolidated Financial Statements**

**For The Period Ended December 31, 2008**

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

Aero Performance Products Inc. ( Aero or the Company ), formerly Franchise Capital Corporation, 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 ), Cor 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 October 4, 2007, Aero consummated a share exchange with TTR-HP, Inc. ( TTR-HP ), a privately-held manufacturer of high-performance exhaust products for the automotive industry. As a result of the transaction, Aero agreed to issue a total of 1,114,285,700 new shares of restricted common stock in exchange for 6,745,456 shares of TTR-HP common stock, representing 100% of the total issued and outstanding shares of TTR-HP, and the satisfaction of TTR-HP debt of \$7,070,358. Since Aero was essentially a non-operating shell immediately prior to the share exchange, the Company has treated the transaction as a reverse merger for accounting purposes. Accordingly, all financial information presented prior to the date of the share exchange is that of TTR-HP exclusive of Aero operations or assets. The equity and share information presented is that of TTR-HP and all share information has been adjusted to reflect the share exchange rate (approximately 84:1). In addition, shares held by Aero shareholders at the time of the share exchange have been treated as shares issued by TTR-HP. The accompanying financial statements represent the consolidated operations of Aero and TTR-HP, collectively referred to hereafter as Aero or the Company.

Aero designs and manufactures performance exhaust systems for both street and race applications. TTR-HP 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. The Company is headquartered outside of Salt Lake City, Utah.

**Going Concern-**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, has defaulted on several loan agreements and has working capital deficit. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from this uncertainty. . These financial statements should be read in conjunction with the Company's annual report for the year ended June 30, 2008 as filed on Form 10-K.

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

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

The accompanying financial statements represent the consolidated operations of Aero Performance Products, Inc., formerly Franchise Capital Corporation, and TTR-HP, Inc. (DBA Aero Exhaust), its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. Since FCCN was essentially a non-operating shell immediately prior to the share exchange, the Company has treated the transaction as a reverse merger for accounting purposes. Accordingly, all financial information presented prior to the share exchange is that of TTR-HP exclusive of FCCN operations.

6

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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.

**Accounts Receivable-** The Company recognizes a receivable upon shipment of its product and reviews the accounts periodically for potential write offs. The Company has established a reserve of \$60,000 for doubtful collections.

**Inventory-** Inventory consists of finished product and parts valued under the FIFO method using the lower of cost or market pricing module.

Revenue Recognition The Company recognizes revenue upon shipment of its product, which essentially are transportation mufflers and related parts.

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.

Property and Equipment and Intangible Asset Consists primarily of office equipment and furnishings and patent costs 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 for fixed assets and 20 years for patents. Depreciation and amortization expense was \$20,040 for the year ended June 30, 2008.

#### 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.

7

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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.

### **NOTE 3- FIXED ASSETS AND INTANGIBLE ASSETS**

Fixed Assets consist of:

Furniture Fixture and Equipment	\$91,978
Accumulated Depreciation	<u>(63,630)</u>
Net	28,348

Intangible Assets consist of :

Patents	
\$96,884	
Accumulated Amortization	<u>(19,369)</u>
Net	77,515

### **NOTE 4 NOTES PAYABLE**

Notes payable at December 31, 2008 consisted of the following:

1. Note payable to two individuals, past due, interest at 6%	
\$ 11,250	
2. Convertible note to a fund, converted at a 30% discount over the average market price, past due interest at 8%	
380,000	
3. Note payable to a corporation, 8% past due	138,831
4. Note payable to an individual, past due interest at 6%	
375,000	
5. Convertible note to an individual with interest at 8%, convertible at a 30% discount to market	
12,000	
6. Note Payable to an individual with interest at 15%, past due	
<u>1,017,439</u>	
Total	
\$1,934,520	

Accrued interest payable on the above at December 31, 2008 is \$69,968.

#### **NOTE 5 - DERIVATIVE LIABILITY**

The Company is accounting for the conversion option in the Convertible Note of items 2 and 5 above, and the conversion price in the Securities Purchase Agreement and the associated warrants, as derivative liabilities in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities and EITF 00-19 Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock due to the fact that the conversion feature and the warrants both have a variable conversion price.

The fair value of the Convertible Note was determined utilizing the Black-Scholes stock option valuation model. The significant assumptions used in the valuation are: the exercise price as noted above; the stock price as of December 31, 2008; expected volatility of 66%; risk free interest rate of approximately 4.50%; and a term of six months.



**NOTE 6 - STOCKHOLDERS EQUITY**

During the quarter ended September 30, 2008 the company issued 116,000,000 shares of stock for a reduction in debt of \$67,527. During the quarter ended December 31, 2008 the company issued 200,000,000 shares of restricted common stock for a reduction in debt of \$70,000. The shares were issued were issued under Rule 144 of the Securities Act of 1933.

**NOTE 7 -MAJOR VENDOR**

Included in Accounts Payable is an amount to one vendor which represents approximately 73.8% of the total amount owing.

**NOTE 8 -COMMITMENTS AND CONTINGENCIES**

The Company is obligated under one rental agreement for warehouse and office space totaling approximately 10,000 square feet ending in January 2011. Minimum future amounts per year under the agreement are as follows

Year end June 30, 2009	\$59,400
Year End June 30, 2010	\$59,400
Year End June 30, 2011	<u>\$34,650</u>
Total	\$153,450

***Litigation:***

Although the parent company Aero Performance Products, Inc. is not involved in any litigation, the Company's subsidiary, TTR-HP, is a defendant in four lawsuits, three of which are claims arising out of the normal course of business which should be successfully resolved in the short term. The fourth lawsuit was brought by Nascar against TTR-HP for perceived breach of contract and failure to pay. This litigation is still in the early stages of discovery.

While the eventual outcome of litigation is hard to predict, the company believes that if the Nascar complaint is not successfully disposed of it could pose a significant impairment on TTR's ability to move forward with its business plans.

**NOTE 9 SIGNIFICANT EVENTS**

On December 17, 2008, the Company executed a stock purchase agreement to purchase all of the issued and outstanding shares of capital stock of Jones Exhaust Systems, Inc., a Tennessee Corporation. Pursuant to the stock purchase agreement, the Company has agreed to assume up to one million one hundred thousand dollars (\$1,100,000) in debt and pay two million dollars (\$2,000,000) in cash. Upon the execution of the agreement, the Company paid a twenty five thousand dollar (\$25,000) non-refundable payment towards the two million dollar (\$2,000,000) purchase price. However, the initial twenty five thousand dollars (\$25,000) may be refunded if the agreement fails to close from the result of a material breach of this agreement by one or both sellers. Upon payment of the \$2,000,000, the Company will gain one hundred percent (100%) control and ownership of Jones Exhaust Systems, Inc.



## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements or belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words may, could, estimate, intend, continue, believe, anticipate or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures we make in future filings of our Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB and Current Reports on Form 8-K.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### General

Aero Performance Products Inc. ( Aero or the Company ), formerly Franchise Capital Corporation, a Nevada corporation, was incorporated on July 6, 2001. 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 ), 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 October 4, 2007, Aero consummated a share exchange with TTR-HP, Inc. ( TTR-HP ), a privately-held manufacturer of high-performance exhaust products for the automotive industry. As a result of the transaction, Aero agreed to issue a total of 1,114,285,700 new shares of restricted common stock in exchange for 6,745,456 shares of TTR-HP common stock, representing 100% of the total issued and outstanding shares of TTR-HP, and the satisfaction of TTR-HP debt of \$7,070,358. Since Aero was essentially a non-operating shell immediately prior to the share exchange, the Company has treated the transaction as a reverse merger for accounting purposes. Accordingly, all financial information presented prior to the date of the share exchange is that of TTR-HP exclusive of Aero operations or assets. The equity and share information presented is that of TTR-HP and all share information has been adjusted to reflect the share exchange rate (approximately 84:1). In addition, shares held by Aero shareholders at the time of the share exchange have been treated as shares issued by TTR-HP. The accompanying financial statements represent the consolidated operations of Aero and TTR-HP, collectively referred to hereafter as Aero or the Company.

Aero designs and manufactures performance exhaust systems for both street and race applications. TTR-HP 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. The Company is headquartered outside of Salt Lake City, Utah.

## RESULTS OF OPERATIONS

*Three months ended December 31, 2008 compared to three months ended December 31, 2007*

Revenues for the quarter ended December 31, 2008 fell \$86,650 over revenues of the quarter ended December 31, 2007, from \$149,982 to \$63,332. The decline in revenues in 2008 resulted from our having shipped large orders to our major distributors in the quarter ended September 30, 2008, thus reducing their need to reorder during subsequent months. In addition, the market for sales of aftermarket automotive products was especially hard hit in the current economic crisis since a significant portion of the industry's sales are to Southern California, Arizona and Nevada regions that have been effected harder than many other regions in the country.

During the quarter ended December 31, 2008, the Company experienced a net loss of \$170,096 compared to a net loss of \$761,719 for the same period in 2007. The primary reasons for a decrease in loss are a reduction in marketing costs of \$45,657 following the cessation of the Company's Nascar team sponsorship, lower General and Administrative costs of \$17,888 compared to \$140,028, and an overall reduction in costs resulting from the implementation of cost cutting measures in all departments. The largest reduction in expenses from the three months ended December 31, 2007 to December 31, 2008 was the elimination of settlement costs of \$319,850 incurred as the result of valuing stock issued on the court-ordered settlement of debt.

*Six months ended December 31, 2008 compared to six months ended December 31, 2007*

Revenues for the six months ended December 31, 2008 fell \$41,724 over revenues of the six months ended December 31, 2007, from \$319,208 to \$277,484. Revenues declined primarily due to the overall decline in the market for automotive products resulting from the country's economic recession. However, despite the decline in revenues, gross income increased to 46% of sales, compared to 40% of sales in the prior year period. The increased margin was attributed to the Company being able to ship product under normal production schedules rather than having to fill back orders at higher shipping costs.

During the six months ended December 31, 2008, the Company experienced a net loss of \$387,823 compared to a net loss of \$1,112,545 for the same period in 2007. The primary reasons for a decrease in loss are a reduction of \$118,626 in marketing and advertising costs following the cessation of the Company's Nascar team sponsorship, lower salaries of \$65,462 compared to \$167,424 resulting from cost cutting measures, lower professional and legal costs of \$72,994 compared to \$169,167 resulting from the Company's not filing new patent costs and not using an outside service for bookkeeping. The largest reduction in expenses from the three months ended December 31, 2007 to December 31, 2008 was the elimination of settlement costs of \$319,850 incurred as the result of valuing stock issued on the court-ordered settlement of debt.

#### Liquidity and Capital Resources

The Company's financial statements present an impairment in terms of liquidity. As of December 31, 2008 the Company had \$3,724,287 in current liabilities and \$278,295 in current assets. The Company has accumulated \$22,635,966 of net operating losses through December 31, 2008, primarily associated with recording the effects of the share exchange with Franchise Capital, and which may be used to reduce taxes in future years through 2028. 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 closing the merger with Jones Exhaust Products, Inc. will result in the Company's achieving profitability in the short term; however, there is no guarantee that Aero's operations will prove profitable. In the event the Company is unable to generate profits and if suitable financing is unavailable, there is substantial doubt about the Company's ability to continue as a going concern.

## **Risk Related to our Business**

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

We have historically lost money. The loss for the 2008 fiscal year was \$ 2,923,215 and future losses are likely to occur. Accordingly, we may experience significant liquidity and cash flow problems if we are not able to raise additional capital as needed and on acceptable terms. No assurances can be given we will be successful in reaching or maintaining profitable operations.

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

Our operations have relied almost entirely on external financing to fund our operations. Such financing has historically come from a combination of borrowings and from the sale of common stock and assets to third parties.

We will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing will be required to cover our operating costs. We cannot assure you that financing whether from external sources or related parties will be available if needed or on favorable terms. The sale of our common stock to raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price.

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

The report of our independent accountants on our June 30, 2008 financial statements include an explanatory paragraph indicating that there is substantial doubt about our ability to continue as a going concern due to recurring losses and working capital shortages. Our ability to continue as a going concern will be determined by our ability to obtain additional funding. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

There has been a limited public market for our common stock and there can be no assurance that an active trading market for our common stock will develop. As a result, this could adversely affect our shareholders' ability to sell our common stock in short time periods, or possibly at all. Our common stock has experienced, and is likely to

experience in the future, significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. Substantial fluctuations in our stock price could significantly reduce the price of our stock.

**There is no Assurance of Continued Public Trading Market and Being a Low Priced Security may Affect the Market Value of Our Stock**

To date, there has been only a limited public market for our common stock. Our common stock is currently quoted on the OTCBB. As a result, an investor may find it difficult to dispose of, or to obtain accurate quotations as to the market value of our stock. Our stock is subject to the low-priced security or so called "penny stock" rules that impose additional sales practice requirements on broker-dealers who sell such securities. The Securities Enforcement and Penny Stock Reform Act of 1990 requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, according to recent regulations adopted by the SEC, any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions that we no longer meet). For example, brokers/dealers selling such securities must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in such securities. Included in this document are the following:

12

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- the bid and offer price quotes in and for the "penny stock," and the number of shares to which the quoted prices apply,
- the brokerage firm's compensation for the trade, and
- the compensation received by the brokerage firm's sales person for the trade.

In addition, the brokerage firm must send the investor:

- a monthly account statement that gives an estimate of the value of each "penny stock" in the investor's account, and
- a written statement of the investor's financial situation and investment goals.

If the person purchasing the securities is someone other than an accredited investor or an established customer of the broker/dealer, the broker/dealer must also approve the potential customer's account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker/dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in such securities. Accordingly, the Commission's rules may limit the number of potential purchasers of the shares of our common stock.

Resale restrictions on transferring "penny stocks" are sometimes imposed by some states, which may make transaction in our stock more difficult and may reduce the value of the investment. Various state securities laws pose restrictions on transferring "penny stocks" and as a result, investors in our common stock may have the ability to sell their shares of our common stock impaired.

There can be no assurance we will have market makers in our stock. If the number of market makers in our stock should decline, the liquidity of our common stock could be impaired, not only in the number of shares of common stock which could be bought and sold, but also through possible delays in the timing of transactions, and lower prices for the common stock than might otherwise prevail. Furthermore, the lack of market makers could result in persons being unable to buy or sell shares of the common stock on any secondary market.

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

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

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

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

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to be effective in providing reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the SEC), and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute assurance of achieving the desired objectives. Also, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, management concluded that our disclosure controls and procedures are effective as of March 31, 2008 to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our chief executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **Item 4(T). Controls and Procedures**

##### **Evaluation of and Report on Internal Control over Financial Reporting**

The management of Aero Performance Products, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

Based on its assessment, management concluded that, as of December 31, 2008, the Company's internal control over financial reporting is effective based on those criteria.

14

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This quarterly report does not include an attestation report of the Company's registered accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal controls over financial reporting identified in connection with the requisite evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II.**

### **Other Information**

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



Although the parent company Aero Performance Products, Inc. is not involved in any litigation, the Company's subsidiary, TTR-HP, is a defendant in four lawsuits, three of which are claims arising out of the normal course of business which should be successfully resolved in the short term. The fourth lawsuit was brought by Nascar against TTR-HP for perceived breach of contract and failure to pay. This litigation is still in the early stages of discovery.

While the eventual outcome of litigation is hard to predict, the company believes that if the Nascar complaint is not successfully disposed of it could pose a significant impairment on TTR's ability to move forward with its business plans.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended December 31, 2008, the Company issued a total of 200,000,000 shares of unregistered common stock under the following transactions:

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75,000,000 shares were issued on the partial conversion of a note payable. The shares were issued under Rule 144 of the Securities Act of 1933. The subsequent resale of the stock resulted in a total of \$20,000 reduction in the outstanding principle and interest owed on the obligation.

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125,000,000 shares were issued as partial settlement of debt owed to a third party. Under the terms of the settlement, the debt was reduced by \$50,000. The shares were issued under Rule 144 of the Securities Act of 1933.

## **Item 3. Defaults Upon Senior Securities**

As of December 31, 2008, the Company was in default on its loan obligation to a former shareholder. The Company has reached an out of court settlement under which it is repaying the loan under structured monthly payments of \$50,000. As of December 31, 2008, the loan obligation was \$375,000.

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

None

**Item 5. Other Information**

None

15

**Item 6. Exhibits**

The exhibits listed below are required by Item 601 of Regulation S-B.

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
3.1	Articles of Incorporation	*
3.2	Bylaws	*
14	Code of Ethics adopted December 23,2004	**
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	***
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	***
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	***
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	***
99(i)	Audit Committee Charter adopted December 23, 2004	**

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

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

\*\*\* Filed herewith.

16



**SIGNATURE PAGE**

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

Dated: February 19, 2009

/s/ Bryan Hunsaker

Bryan Hunsaker

Chief Executive Officer

**EXHIBIT 31.1**

**SECTION 302**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Bryan Hunsaker, certify that:

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

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

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

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

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

Date: February 19, 2009

By: /s/ Bryan Hunsaker

Bryan Hunsaker, Chief Executive Officer

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**EXHIBIT 31.2**

**SECTION 302**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Bryan Hunsaker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aero Performance Products, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: February 19, 2009

By: /s/ Bryan Hunsaker

Bryan Hunsaker, 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 Quarterly Report of Aero Performance Products, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan Hunsaker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

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

*/s/ Bryan Hunsaker*

Bryan Hunsaker

Chief Executive Officer

February 19, 2009

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**EXHIBIT 32.2**

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

In connection with the Quarterly Report of Aero Performance Products, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan Hunsaker, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

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

*/s/ Bryan Hunsaker*

Bryan Hunsaker

Chief Financial Officer

February 19, 2009

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