



## Franchise Services of North America Inc.

# Q2

**Second Quarter Report for the Six Months Ended March 31, 2007**

### Report to Shareholders

Dear Fellow Shareholders:

We are pleased to present to you the second report for Franchise Services of North America Inc. ("FSNA") for the six months ended March 31, 2007.

As previously reported, Rent-A-Wreck Capital Inc. went through a name change in conjunction with the business combination transaction that was completed on November 30, 2006. The attached quarterly report reflects the activity of the combined entity, but the comparative information from the previous year does not reflect any of the results of U-Save Auto Rental of America, Inc. Because of the materiality of the U-Save operations in comparison to those of Practicar in Canada, we refer you to the filings on SEDAR for a more descriptive analysis of the combined entity.

The Second Quarter included an expansion into the Middle East via a Master Franchise Agreement for the U-Save brand and U-Save locations displaying rates and availability on several new reservation channels including Expedia and Kayak. Several franchise candidates have been identified and are under consideration.

During the second quarter the company completed a public offering of 7,320,600 common shares at CDN \$0.85 per share for aggregate gross proceeds of CDN \$6,222,510. The Company has now retired all of its outstanding subordinated debt.

As we head into the stronger summer season, we look forward to growing the system and awareness of the brands to the benefit of our franchisees and mutual shareholders.

Sincerely,

A handwritten signature in black ink, appearing to be "SM", written over a horizontal line.

Sandy Miller  
Co-Chairman  
Co-Chief Executive Officer

A handwritten signature in black ink, appearing to be "Tom McDonnell", written over a horizontal line.

Tom McDonnell  
Co-Chairman  
Co-Chief Executive Officer

May 30, 2007

## Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") was prepared as at May 30, 2007 and should be read in conjunction with the unaudited interim Consolidated Financial Statements for the six months ended March 31, 2007, together with the audited Consolidated Financial Statements for the year ended September 30, 2006 and the notes to those financial statements, and the financial statements contained in the Information Circular dated November 3, 2006, all available on SEDAR, at [www.sedar.com](http://www.sedar.com).

Franchise Services of North America Inc. ("FSNA" or the "Company"), is a public company whose shares are listed on the TSX Venture Exchange under the symbol 'FSN'. Prior to November 30, 2006 the Company's principal asset was the Rent-A-Wreck trademark and franchise system in Canada, owned and operated by its wholly owned subsidiary Practicar Systems Inc. The Company operated at that time under the name Rent-A-Wreck Capital Inc. and traded under the symbol 'RAW'. This report describes the business and financial results of the Company for the six months ending and as of March 31, 2007, and includes the transactions resulting from the business combination transaction with U-Save Auto Rental of America, Inc. ("U-Save") completed on November 30, 2006. U-Save licenses franchises to operate U-Save Auto Rental and U-Save Car & Truck Rental businesses in the United States and offers to franchisees and independent car rental operators ("associates") insurance products including liability and physical damage coverages on their rental fleet. U-Save also operates an association, Auto Rental Resource Center ("ARRC"). ARRC provides insurance discounts and products and services to its members who operate independent vehicle rental businesses.

This MD&A contains forward-looking information relating, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate," "believe," "expect," "goal," "plan," "intend," "estimate," "may," and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. This Management's Discussion and Analysis contains forward-looking information, included in, but not limited to, the sections titled 'Business Combination Transaction,' 'Quarterly Results' and 'Subsequent Events.' Shareholders and prospective investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Some of the risks, uncertainties and other factors affecting the Company are discussed in our public filings with the securities regulatory authorities in Canada. Copies of the Company's Canadian filings, including our most recent management information circular, annual information form, annual financial statements, material change reports and news releases, are available online at [www.sedar.com](http://www.sedar.com). Information in this document is presented as of May 30, 2007 and is subject to change after this date. However, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **Currency**

All amounts in this MD&A are in US dollars, unless specified otherwise.

## **Business Combination Transaction (“BCT”)**

The Company completed a BCT on November 30, 2006 with U-Save Auto Rental of America, Inc. (“U-Save”), a privately held Mississippi company, based in Jackson, Mississippi. Under the terms of the Share Exchange Agreement, the Company obtained shareholder approval at a special meeting of the shareholders held on November 30, 2006 to approve the consolidation of its common shares, the acquisition by the Company of all of the outstanding stock of U-Save in a “reverse take-over” (“RTO”) transaction, the name change of the Company from Rent-A-Wreck Capital Inc. to Franchise Services of North America Inc., the appointment of a new Board of Directors, the amended and restated stock option plan and the extension of certain options of the Rent-A-Wreck option plan.

The transaction involved the conversion of the Company’s Convertible debentures and accrued interest to March 31, 2006 into common shares, the forgiveness of the interest on the Convertible debentures for the period from April 1, 2006 to November 30, 2006 by the debenture holders and the consolidation of the Company’s common shares on a 4.0785967-for-one basis resulting in 2,781,962 consolidated common shares. The Company issued 45,600,000 consolidated common shares to shareholders of U-Save, in exchange for all the shares of U-Save. At the conclusion of the transaction, the Company had 48,381,962 consolidated common shares and the former shareholders of U-Save held 94.25% of the outstanding shares and the former shareholders held 5.75% of the outstanding shares.

The transaction also included the consolidation of the Company’s 640,000 outstanding stock options exercisable at CDN \$0.10 to 156,917 options exercisable at CDN \$0.41. The Company granted 6,865,169 consolidated stock options at an exercise price of CDN \$0.1016 and 920,693 consolidated stock options at an exercise price of CDN \$0.50 to replace the U-Save stock options outstanding at the time of the transaction.

In connection with the business combination transaction, the Company closed two concurrent private placements led by Blackmont Capital Inc. and Meridian Merchant Capital Canada Ltd. for gross proceeds of CDN \$3.5 million and net proceeds of CDN \$3,099,460 (US \$2,715,252), after direct expenses. The company issued 7 million consolidated shares at CDN \$0.50 per share and granted options to acquire 700,000 consolidated shares at CDN \$0.50 per share for two years. The proceeds will be used to expand the Rent-A-Wreck brand in Canada, introduce U-Save into Canada, retire debt of the Company, and expand its marketing and sales activities. After the closing of the private placement, the company had 55,381,962 consolidated common shares outstanding and 8,642,779 options to acquire consolidated common shares at prices ranging from CDN \$0.1016 and CDN \$0.50 per share.

At the request of the Company, the trading of the shares of the Company had been halted by the TSX Venture Exchange as of June 7, 2006. Following the transaction, the shares resumed trading under the symbol ‘FSN’ on December 15, 2006.

The Company engaged Blackmont Capital Inc. ("Blackmont") to act as agent for a public equity offering of common shares of the Company (the "Offering"). An initial closing occurred on February 6, 2007 with the issue of 6,678,600 common shares at CDN \$0.85 per share for aggregate gross proceeds of CDN \$5,676,810. As agent of the offering, Blackmont received a cash commission equal to 9% of the gross proceeds of the offering and compensation options entitling it to purchase for a period of 24 months, at a price of CDN \$0.85 per share, a number of shares equal to 9% of the common shares sold pursuant to the offering. A second closing took place in March, 2007, where an additional 642,000 common shares were issued for aggregate gross proceeds of CDN \$545,700. As agent of the offering, Blackmont received a cash commission equal to 9% of the gross proceeds of the offering and compensation options entitling it to purchase for a period of 24 months, at a price of CDN \$0.85 per share, a number of shares equal to 9% of the common shares sold pursuant to the offering. Proceeds were used primarily for debt reduction, growth of the Company's business in the airport and neighbourhood sectors of the car rental market and growth of the U-Save brand into Canada.

### **Financial Statements and Basis of Presentation**

The Company's Consolidated Financial Statements as of and at March 31, 2007 include the information resulting from the business combination transaction. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company applied reverse take-over accounting principles to record the acquisition using the purchase method of accounting. The Consolidated Balance Sheet includes all the assets and liabilities of all the subsidiaries of the Company including Practicar and U-Save, using the appropriate accounting treatment for a reverse take-over transaction. The Consolidated Statement of Operations and Retained Earnings and the Consolidated Statement of Cash Flows include the operations for the three month and six month periods ending March 31, 2007. The year-to-date numbers for the period ending March 31, 2007 include six months for the Canadian operations, including Practicar, and corporate activities and four months for U-Save, as the BCT did not take place until November 30, 2006. Additional information concerning the transaction and subsequent information can be obtained on SEDAR ([www.sedar.com](http://www.sedar.com)) under the Company's listing, Franchise Services of North America Inc.

All comparative financial information dated September 30, 2006 or prior includes only the Canadian and Corporate operations of the company as was previously reported originally for each of these periods, and has been converted to US dollars.

## Selected Information

The following financial information is derived from the Company's audited consolidated financial statements for each of the three most recently completed fiscal years and the unaudited consolidated financial statements for the six months ended March 31, 2007:

Selected Annual Information	Six months ended March 31	Years ended September 30		
	2007	2006	2005	2004
	US \$	CDN \$		
Total revenues	\$ 5,711,598	\$ 823,710	\$ 783,868	\$ 1,254,705
Net income (loss) before discontinued operations	\$ 178,665	\$ (71,690)	\$ (195,046)	\$ 241,491
per share - basic	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
per share - diluted	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
Net income (loss) after discontinued operations	\$ 178,665	\$ (71,690)	\$ (195,046)	\$ 241,491
per share - basic	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
per share - diluted	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
Total assets	\$ 23,513,102	\$ 805,392	\$ 868,636	\$ 1,064,096
Total long-term financial liabilities	\$ 2,044,120	\$ 334,432	\$ 350,470	\$ 34,349
Cash dividends declared per share	\$ nil	\$ nil	\$ nil	\$ nil

Note: As previously discussed, these six month results for the period ending March 31, 2007, include six months of the Canadian Operations, and only four months of the U.S. Operations, as the BCT was not completed until November 30, 2006. Additional information concerning the transaction and subsequent information can be obtained on SEDAR ([www.sedar.com](http://www.sedar.com)) under the Company's listing, Franchise Services of North America Inc.

## Operations

For the six months ended March 31, 2007, the Company reported a net income from operations of \$178,665 compared with a net loss of \$64,368 for the six months ending March 31, 2006. The significant improvements are a result of the inclusion of the U-Save numbers as a result of the BCT in comparison to the previous year's six months, which reflect only the operations of Practicar.

## **Revenue**

Revenue for Insurance premiums and related fees totalled \$3,837,452 (2006 - \$58,994). Royalties and other fees earned during the six-month period were \$1,510,256 (2006 - \$232,458). Franchise fee revenue for the six months increased to \$363,890 (2006 - \$18,709). The improvements in all revenue categories result from the inclusion of four months of operations from the U-Save group.

## **Expenses**

Total expenses were \$5,238,228 for the current period compared with \$374,529 the previous year. All expense categories increased significantly as a result of the inclusion of four months of operations for the U-Save group. The interest expense recovery resulted from the cancellation and reversal of a portion of the interest previously accrued on debentures and subordinated debt in conjunction with the repayment of these amounts owed.

## **Quarterly Results**

The following financial information is derived from the Company's unaudited consolidated financial statements for each of the ten most recently completed quarterly periods. The amounts for the quarters ending December 31, 2006, and March 31, 2007 show significant increases with the inclusion of the U-Save operations starting in December 2006, following the November 30, 2006 BCT.

Quarter Ending	Royalties Revenues	Total Revenues	Net Income (Loss)		
				per Share	
				Basic	Diluted
<b>Fiscal year ended September 2007</b>					
<b>Q2, March 31, 2007</b>	<b>US \$ 1,121,076</b>	<b>4,323,046</b>	<b>80,029</b>	<b>0.00</b>	<b>0.00</b>
<b>Q1, December 31, 2006</b>	<b>US \$ 389,180</b>	<b>1,388,552</b>	<b>98,636</b>	<b>0.00</b>	<b>0.00</b>
Fiscal year ended September 2006					
Q4, September 30, 2006	CDN \$ 192,564	279,964	32,590	0.00	0.00
Q3, June 30, 2006	CDN \$ 116,958	182,781	(29,369)	0.00	0.00
Q2, March 31, 2006	CDN \$ 103,555	174,218	(52,049)	(0.01)	(0.01)
Q1, December 31, 2005	CDN \$ 110,631	186,747	(22,862)	0.00	0.00
Fiscal year ended September 2005					
Q4, September 30, 2005	CDN \$ 190,358	239,949	(17,364)	0.00	0.00
Q3, June 30, 2005	CDN \$ 119,573	194,892	(30,394)	0.00	0.00
Q2, March 31, 2005	CDN \$ 103,322	171,389	(67,493)	(0.01)	(0.01)
Q1, December 31, 2004	CDN \$ 108,444	177,638	(79,795)	(0.01)	(0.01)

The royalty revenue trend for the Company's vehicle rentals, sales and leasing is greatly influenced by the tourism cycle; consequently the summer quarter ending in September, the 4<sup>th</sup> quarter of our fiscal year, generates the highest levels of revenue, followed by the spring (3<sup>rd</sup>) quarter ending in June, then the fall (1<sup>st</sup>) quarter ending in December, which includes the Christmas holiday season, and finally the winter (2<sup>nd</sup>) quarter which is usually the lowest in both tourism and car sales. Although tourism is a significant part of the rental revenue, the system also caters to the local rental markets and vehicle replacement market and both these markets do not necessarily follow the same cycle patterns as tourism; for example, the vehicle replacement market is usually stronger during the winter months.

The total revenues in each quarter are impacted by the franchise fee revenue resulting from the granting of new franchises. Franchise fee revenues do not follow a particular pattern and accordingly may have a significant impact in any quarter.

The total expense levels are generally uniform during the year. The quarters ending December, 2006 and March, 2007 show considerable increases from the non-recurring expenses related to the business transaction.

## **Liquidity and Capital Resources**

Following the transaction, the Company repaid the total bank indebtedness, cancelled the two facilities and repaid the total amount due to an officer and director.

The Company's working capital improved significantly to \$1,506,186 at March 31, 2007 (2006 – (\$250,140)). During the six-month period ending March 31, 2007, the Company completed the two closings of a public equity offering with the issue of 7,320,600 common shares at CDN \$0.85 per share for aggregate gross proceeds of CDN \$6,222,510.

The Company does not anticipate significant cash requirements for capital asset acquisitions during the fiscal year 2007 and expects that these requirements will be met through cash flow and working capital.

## **Related Party Transactions**

Members of the Company's Board of Directors have investments in certain vehicle rental operations and transportation companies, which have transactions with the Company. Transactions include insurance, reservation and royalty payments that were provided in the normal course of business. At March 31, 2007, related party receivables totalled \$659,241.

At March 31, 2007, an unsecured note receivable from a shareholder for \$302,000 was outstanding. The note bears an interest rate of 6% with five annual payments of principal and accrued interest due beginning August 2007. The note matures in August 2011.

## **Financial Instruments**

The Company's financial instruments included in the balance sheet at March 31, 2007 consist of cash and cash equivalents, accounts receivable, prepaid expenses and cash deposits held, accounts payable and accrued liabilities, insurance reserves, long-term debt and capital lease obligations.

The fair value of all short-term financial instruments approximates their carrying amounts. The fair value of the long-term debt and capital lease obligations is not significantly different than their carrying values.

The majority of the Company's accounts receivable are with franchisees and are subject to normal industry credit risk which is considered moderate to high. Management reviewed the accounts receivable as at the date of balance sheet and the Company provided for all the amounts considered uncollectible.

## Outstanding Share Data

### Authorized

Unlimited number of common shares  
Unlimited number of preferred shares

### Issued:

March 31, 2007 62,731,985 common shares

### Stock options

#### Stock options outstanding:

	Options	Exercise Price Range CDN \$
December 31, 2006	14,937,875	\$0.10 to \$0.50
March 31, 2007	10,276,306	\$0.10 to \$1.04

## Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual and interim filings and other reports filed under regulatory securities requirements is reported within the time periods specified by the securities regulations. The Co-Chief Executive Officers and the Chief Accounting Officer have determined that, based on their evaluations, the Company's controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by the Company is reported within the periods as established by the securities regulations. The Co-Chief Executive Officers and the Chief Accounting Officer do not expect that the disclosure controls and procedures will prevent all errors and fraud; a control system, however well conceived or managed, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

***Additional information relating to the Company is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) under Franchise Services of North America Inc.***

# Franchise Services of North America Inc.

## Corporate Information

### Directors

Philip A. DeLeon  
Toronto, Ontario, Canada

David I. Forseth  
Calgary, Alberta, Canada

Thomas P. McDonnell, III  
Madison, Mississippi, USA

Sanford Miller  
Ormond Beach, Florida, USA

J. Michael Linn  
Daytona Beach, Florida, USA

### Officers

Thomas P. McDonnell, III  
Co-Chairman and  
Co-Chief Executive Officer

Sanford Miller  
Co-Chairman and  
Co-Chief Executive Officer

Robert M. Barton  
Executive Vice President  
Chief Operating Officer

O. Kendall Moore  
Vice President, General Counsel  
and Secretary

Henri H. Lefebvre  
Chief Accounting Officer and  
Canadian General Manager

Ashley M. Chambliss  
Controller

### Stock Exchange Listing

TSX Venture Exchange  
Symbol: FSN

### Transfer Agent

Computershare Trust Company of Canada  
Calgary, Alberta, Canada

### Auditors

BDO Seidman, LLP  
Memphis, Tennessee, USA

### Legal Counsel

Osler, Hoskin & Harcourt LLP  
Toronto, Ontario, Canada  
Calgary, Alberta, Canada

### Investor Relations

CHF Investor Relations  
Toronto, Ontario, Canada  
Calgary, Alberta, Canada

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