
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2007

OR

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

Commission File No. 0-23911

Fog Cutter Capital Group Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-2081138

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

1410 SW Jefferson Street

Portland, OR 97201

(Address of principal executive offices) (Zip Code)

(503) 721-6500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has 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 large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 CORPORATE ISSUERS:

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

Class
Common Stock, par value \$0.0001 per share

Outstanding at October 31, 2007
7,957,428 shares

FOG CUTTER CAPITAL GROUP INC.

FORM 10-Q

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Our website is www.fogcutter.com. We make our annual report on Form 10-K, as well as other reports filed with the Securities and Exchange Commission, available through our website as soon as reasonably practicable after they are filed. A copy of these reports may also be obtained by writing to us at 1410 SW Jefferson Street, Portland, Oregon, 97201, Attn: Investor Reporting.

PART I -- FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

FOG CUTTER CAPITAL GROUP INC.
 CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

	September 30, 2007 (unaudited)	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	\$ 712	\$ 1,824
Accounts receivable	1,743	1,586
Notes receivable, current portion	556	464
Loans to senior executives	1,129	1,077
Inventories	3,435	2,442
Investments in real estate, held for sale	8,830	11,062
Current assets held for sale	-	27
Other current assets	401	525
Total current assets	16,806	19,007
Investments in real estate, net	11,270	11,502
Notes receivable	50	371
Property, plant and equipment, net	10,475	10,576
Intangible assets, net	5,055	5,262
Goodwill	10,526	10,526
Other assets held for sale	-	385
Other assets	1,951	2,171
Total assets	\$ 56,133	\$ 59,800
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 13,068	\$ 10,658
Sales deposits	1,821	1,104
Current liabilities associated with assets held for sale	-	441
Borrowings and notes payable, current portion	11,886	13,453
Obligations under capital leases, current portion	584	608
Total current liabilities	27,359	26,264
Borrowings and notes payable	6,511	2,400
Obligations under capital leases	11,594	11,883
Deferred income	5,111	4,061
Deferred income taxes	-	4,397
Total liabilities	50,575	49,005
Commitments and contingencies		
Minority interests in consolidated subsidiaries	893	441
Minority interests in consolidated subsidiaries held for sale	-	130
Stockholders' Equity:		
Preferred stock, \$.0001 par value; 25,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$.0001 par value; 200,000,000 shares authorized; 11,757,073 shares issued as of September 30, 2007 and December 31, 2006; 7,957,428 shares outstanding as of September 30, 2007 and December 31, 2006	170,397	168,965
Accumulated deficit	(153,723)	(146,732)
Treasury stock, 3,799,645 common shares as of September 30, 2007 and December 31, 2006, at cost	(12,009)	(12,009)
Total stockholders' equity	4,665	10,224
Total liabilities and stockholders' equity	\$ 56,133	\$ 59,800

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

FOG CUTTER CAPITAL GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(dollars in thousands, except share data)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Restaurant and manufacturing sales	\$ 10,212	\$ 9,810	\$ 29,816	\$ 28,348
Restaurant franchise and royalty fees	599	591	1,706	1,826
Real estate rental income	972	928	2,851	2,978
Total revenue	<u>11,783</u>	<u>11,329</u>	<u>34,373</u>	<u>33,152</u>
Operating costs and expenses:				
Restaurant and manufacturing cost of sales	5,709	5,289	17,010	15,753
Real estate operating expense	313	491	1,022	1,163
Engineering and development	360	371	1,091	1,167
Depreciation and amortization	548	475	1,684	1,375
Total operating costs and expenses	<u>6,930</u>	<u>6,626</u>	<u>20,807</u>	<u>19,458</u>
General and administrative expenses:				
Compensation and employee benefits	2,254	2,616	9,366	8,218
Professional fees	989	1,014	2,647	2,686
Fees paid to related parties	-	47	-	279
Other	4,043	4,145	12,539	11,092
Total general and administrative expenses	<u>7,286</u>	<u>7,822</u>	<u>24,552</u>	<u>22,275</u>
Non-operating income (expense):				
Gain on sale of real estate	13	1,211	13	2,905
Gain on sale of notes receivable	-	-	-	496
Interest income	93	65	197	242
Interest expense	(936)	(746)	(2,704)	(1,875)
Other income (loss), net	(1,250)	467	(1,086)	1,076
Total non-operating income (expense)	<u>(2,080)</u>	<u>997</u>	<u>(3,580)</u>	<u>2,844</u>
Loss before provision for income taxes, minority interests, and equity in income of equity investees	<u>(4,513)</u>	<u>(2,122)</u>	<u>(14,566)</u>	<u>(5,737)</u>
Minority interest in losses	193	5	676	71
Equity in earnings of equity investees	-	-	-	748
Income tax benefit	4,385	1,249	4,385	1,249
Income (loss) from continuing operations	<u>65</u>	<u>(868)</u>	<u>(9,505)</u>	<u>(3,669)</u>
Income (loss) from discontinued operations (including gain on sale of \$2,492 for nine months ended September 30, 2007)	-	(7)	2,514	144
Net income (loss)	<u>\$ 65</u>	<u>\$ (875)</u>	<u>\$ (6,991)</u>	<u>\$ (3,525)</u>
Basic earnings (loss) per share from continuing operations	\$ 0.01	\$ (0.11)	\$ (1.19)	\$ (0.46)
Basic earnings per share from discontinued operations	\$ -	\$ -	\$ 0.31	\$ 0.02
Basic earnings (loss) per share	\$ 0.01	\$ (0.11)	\$ (0.88)	\$ (0.44)
Basic weighted average shares outstanding	7,957,428	7,957,428	7,957,428	7,957,428
Diluted earnings (loss) per share from continuing operations	\$ 0.01	\$ (0.11)	\$ (1.19)	\$ (0.46)
Diluted earnings per share from discontinued operations	\$ -	\$ -	\$ 0.31	\$ 0.02
Diluted earnings (loss) per share	\$ 0.01	\$ (0.11)	\$ (0.88)	\$ (0.44)
Diluted weighted average shares outstanding	7,957,428	7,957,428	7,957,428	7,957,428
Dividends declared per share	\$ -	\$ -	\$ -	\$ 0.13

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

FOG CUTTER CAPITAL GROUP INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(dollars in thousands, except share data)

	Common Stock		Treasury Stock		Accumulated Deficit	Total
	Shares (1)	Amount	Shares	Amount		
Balance at January 1, 2007.....	7,957,428	\$ 168,965	3,799,645	\$ (12,009)	\$ (146,732)	\$ 10,224
Comprehensive income (loss):						
Net loss.....	-	-	-	-	(6,991)	(6,991)
Stock options expensed in net loss	-	1,432	-	-	-	1,432
Balance at September 30, 2007	<u>7,957,428</u>	<u>\$ 170,397</u>	<u>3,799,645</u>	<u>\$ (12,009)</u>	<u>\$ (153,723)</u>	<u>\$ 4,665</u>

(1) Issued and outstanding

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

FOG CUTTER CAPITAL GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(dollars in thousands)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net income (loss)	\$ 65	\$ (875)	\$ (6,991)	\$ (3,525)
(Income) loss from discontinued operations	-	7	(2,514)	(144)
Income (loss) from continuing operations	65	(868)	(9,505)	(3,669)
Adjustments to reconcile net income (loss) to net operating cash flows:				
Equity in earnings of equity investees	-	-	-	(748)
Depreciation and amortization	788	663	2,413	1,896
Gain on foreign currency	(546)	(114)	(799)	(619)
Gain on sale of notes receivable and other assets	-	-	-	(496)
Gain on sale of real estate	(13)	(1,211)	(13)	(2,905)
Share based compensation	526	188	1,432	302
Market value impairment reserve	1,800	46	2,909	46
Other	(186)	25	(590)	8
Change in:				
Other assets	(536)	(1,232)	(1,199)	(1,453)
Deferred income	320	(180)	1,050	(230)
Deferred income taxes	(4,385)	(1,279)	(4,397)	(1,363)
Accounts payable and accrued liabilities	1,499	1,751	3,912	2,667
Net cash used in operating activities	(668)	(2,211)	(4,787)	(6,564)
Cash flows from investing activities:				
Proceeds from sale of real estate	376	6,004	376	12,130
Proceeds from sale of notes receivable and other assets	-	-	-	664
Investment in real estate	(71)	(362)	(225)	(1,629)
Purchase of net assets of restaurant operations	-	(80)	-	(768)
Investments in property, plant, and equipment	(243)	(1,594)	(2,003)	(2,644)
Other	236	1,588	211	1,568
Net cash provided by (used in) investing activities	298	5,556	(1,641)	9,321
Cash flows from financing activities:				
Proceeds from borrowings	87	3,274	2,202	5,672
Repayments on borrowings	(139)	(8,314)	(294)	(9,463)
Repayments under capital leases	(135)	(135)	(312)	(409)
Investments by minority interests, net	-	-	1,100	225
Dividend payments on common stock	-	-	-	(1,034)
Net cash provided by (used in) financing activities	(187)	(5,175)	2,696	(5,009)
Effect of exchange rate change on cash	-	(25)	(1)	(14)
Net change in cash and cash equivalents from continuing operations	(557)	(1,855)	(3,733)	(2,266)
Net change in cash and cash equivalents from discontinued operations:				
Net cash provided by (used in) operating activities	7	183	(50)	450
Net cash provided by (used in) investing activities	-	(6)	2,925	(6)
Net cash used in financing activities	-	(122)	(254)	(527)
Net change in cash and cash equivalents	(550)	(1,800)	(1,112)	(2,349)
Cash and cash equivalents at beginning of period	1,262	3,522	1,824	4,071
Cash and cash equivalents at end of period	\$ 712	\$ 1,722	\$ 712	\$ 1,722
Supplemental disclosures of cash flow information:				
Cash paid for interest	\$ 883	\$ 658	\$ 2,430	\$ 1,688
Cash paid for income taxes	\$ -	\$ 30	\$ 11	\$ 113
Noncash investing activities:				
Acquisition of net assets of franchisee using notes payable	\$ 500	\$ -	\$ 500	\$ -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying interim consolidated financial statements of Fog Cutter Capital Group Inc. and Subsidiaries (“FCCG” or the “Company”) are unaudited and have been prepared in conformity with the requirements of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), particularly Rule 10-01 thereof, which governs the presentation of interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying interim consolidated financial statements should be read in conjunction with the Company’s Annual Report as of and for the year ended December 31, 2006 on Form 10-K (“2006 Form 10-K”), as previously filed with the SEC on April 2, 2007. Except as described below, there have been no changes to the Company’s significant accounting policies as described in Note 2 to the consolidated financial statements in its 2006 Form 10-K.

In the Company’s opinion, all adjustments, comprised of normal recurring accruals necessary for the fair presentation of the interim financial statements, have been included in the accompanying consolidated financial statements. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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. The Company’s operations and activities have become more focused on restaurant activities, and less focused on finance and real estate. As a result, certain reclassifications of the balances and modifications to the presentation of the financial statements have been made, including the reclassification of certain investments in real estate as held for sale. None of these changes in presentation affected previously reported results of operations.

At September 30, 2007, certain Company officers and directors had, directly or indirectly, majority voting control of the Company.

NOTE 2 – RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In the Company’s 2006 Form 10-K, the Company restated its consolidated statement of financial condition as of December 31, 2005 and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the fiscal years ended December 31, 2005 and 2004 as a result of a change in the method of accounting to correct an error in accounting for certain capital leases and the correction of certain timing errors in the recognition of sales. The restatement is more fully described in *Note 3 – Restatement of Consolidated Financial Statements* to the Consolidated Financial Statements and in *Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations* of the 2006 Form 10-K. Financial information included in the reports on Form 10-K, Form 10-Q, and Form 8-K filed by the Company between April 1, 2004 and December 31, 2006, and the related opinions of its independent registered public accounting firm, and all earnings press releases and similar communications issued by the Company during that period, are superseded in their entirety by the 2006 Form 10-K.

NOTE 3 – SIGNIFICANT EVENTS

The following significant events affected our operations for the nine months ended September 30, 2007:

Restaurant openings

During the nine months ended September 30, 2007, Fatburger Holdings Inc. (“Fatburger”), the Company’s restaurant operations subsidiary, opened four additional franchise locations and one additional company-owned location, and one franchise location was closed. Fatburger also purchased the net assets of a franchisee with two locations and converted them to company-owned locations. In the acquisition, Fatburger issued a note payable to the franchisee for \$0.2 million, payable by December 31, 2007, and assumed accounts payable and notes payable totaling \$0.3 million, in exchange for \$0.5 million of property, plant and equipment.

Sale of real estate

In July 2007, the Company sold one stand-alone retail location for \$0.4 million in cash. The property had a net book value of \$0.4 million at the time of disposal, and the Company recognized a gain on the sale of less than \$0.1 million.

Repayment of notes receivable

In August 2007, the Company received payment on one note receivable of approximately half of the \$0.5 million book value, which was due on August 18, 2007. The remaining principal was extended for one year. Upon extension, the Company received and deferred a loan fee of less than \$0.1 million, which will be amortized over the remaining life of the note receivable.

Discontinued operations

On February 28, 2007, Fog Cap Commercial Lending Inc., a wholly owned subsidiary of the Company, sold its 51% interest in George Elkins Mortgage Banking Company (“George Elkins”). The Company received \$2.9 million for its portion of the proceeds and recorded a gain on sale of \$2.5 million.

Borrowings on notes payable

In January 2007, the Company borrowed an additional \$1.1 million on a note payable that had a balance of \$2.1 million at December 31, 2006. The amended note has a balance of \$3.2 million and is secured primarily by the Company’s interest in its wholly owned subsidiary, DAC International (“DAC”). The terms of the amended note were not significantly different from the terms at December 31, 2006.

In May 2007, the Company borrowed an additional \$1.0 million on a note payable that had a balance of \$2.1 million at December 31, 2006. The amended note has a balance of \$3.3 million including accrued interest and fees, and is secured primarily by the Company’s interest in an LLC owned by the Company that holds the Company’s real estate lease portfolio. In August 2007, the Company and the lender agreed to extend the terms of this note payable and amend the interest rate from 13.0% annually to 18.0% annually.

OTC Bulletin Board listing

Effective June 24, 2007, the Company’s common stock began trading on the OTC Bulletin Board (the “OTCBB”) market as FCCG.OB. The OTC Bulletin Board is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in qualifying over-the-counter equity securities. Prior to being listed on the OTCBB, the Company’s shares were quoted by Pink Sheets LLC.

Change in the Board of Directors

Effective May 21, 2007, Kenneth J. Anderson was elected by the Company’s stockholders as an independent member of the Board of Directors. Mr. Anderson is a founding partner of Quintile Wealth Management and has over twenty-five years of financial consulting and accounting experience. He replaced M. Ray Mathis, who retired from the Company’s Board of Directors effective May 20, 2007.

NOTE 4 – COMMITMENTS, CONTINGENCIES & OFF-BALANCE SHEET RISK

Warlick complaints

On October 16, 2006, Fatburger Holdings, Inc., Fatburger Corporation and Fatburger North America, Inc. filed suit against Keith A. Warlick (“Warlick”) the former Chief Executive Officer of Fatburger Holdings, Inc. and Fatburger Corporation. Warlick’s employment with Fatburger was terminated on September 21, 2006 by resolution of the Board of Directors of Fatburger Holdings, Inc. The Fatburger companies initiated the lawsuit to recover damages from Warlick arising from wrongful acts and conduct during and after his employment, and are asserting claims for: breach of contract, breach of duty of loyalty, breach of fiduciary duty, conversion – embezzlement; fraud/commencement; intentional interference with contractual relations, and equitable indemnity. Warlick filed an answer to the lawsuit denying the allegations and included a cross-complaint against Fatburger Holdings, Inc., Fatburger Corporation, Fatburger North America, Inc., Fog Cutter Capital Group, Inc., and Andrew Wiederhorn, for breach of contract, employment discrimination based on race and retaliation, wrongful termination and defamation – slander without any specification of damages. The defendants to the cross-complaint filed by Warlick dispute the allegations of the cross-complaint and intend to vigorously defend against the cross-complaint.

In further response to the termination of his employment and above lawsuit, on February 6, 2007, Warlick, his wife, and a limited liability company controlled by Warlick, each of whom is a minority shareholder of Fatburger Holdings, Inc., filed a second lawsuit against various Fatburger entities, the Company, Andrew Wiederhorn, and members of the Fatburger Holdings, Inc. Board of Directors. In an amended complaint the plaintiffs allege claims of: (1) common law fraud and negligent misrepresentation against the Company and Wiederhorn; (2) fraud pursuant to California Corporate Code §25401 against the Company, Fatburger Holdings, Inc. and Wiederhorn; (3) rescission, breach of contract, breach of the implied covenant of good faith and fair dealing against the Company and Fatburger Holdings, Inc.; and (4) breach of fiduciary duty against all defendants. These claims are based on business transactions which the plaintiffs allege were not in the best interests of Fatburger Holdings, Inc., or the plaintiff minority shareholders. The plaintiffs claim damages of \$20 million. The defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

Liquidity

As of September 30, 2007, borrowings of \$1.0 million related to one Barcelona property was reflected as a current liability in the accompanying Consolidated Statements of Financial Condition due to management’s intention to sell the property and repay the related debt at the time of sale.

As of December 31, 2006, Fatburger was not in compliance with all obligations under the agreements evidencing its indebtedness, as defined in the applicable agreements. Fatburger failed to meet the prescribed fixed charge coverage ratio and the prescribed debt-coverage ratio for

three notes payable. The lender subsequently issued a waiver of the covenant violations for December 31, 2006. As such, in the accompanying Consolidated Statements of Financial Condition, approximately \$3.9 million of long-term debt has been classified as current liabilities as of December 31, 2006, but is classified as long-term as of September 30, 2007.

The sale of real estate and other investments is considered to be a normal, recurring part of operations and management expects these transactions to generate adequate cash flow to meet the Company's liquidity needs for the 2007 fiscal year.

Dividends

The Company does not have a fixed dividend policy, and may declare and pay new dividends on common stock, subject to financial condition, results of operations, capital requirements and other factors deemed relevant by the Board of Directors. One factor the Board of Directors may consider is the impact of dividends on the Company's liquidity. No dividends have been declared or paid in 2007.

Fatburger operations

The Company expects that Fatburger will require capital resources and have negative cash flow in the near term while it pursues a growth strategy through developing additional franchisee and company-owned restaurants. Fatburger development involves substantial risks that the Company intends to manage; however, it cannot be assured that present or future development will perform in accordance with the Company's expectations or that any restaurants will generate the Company's expected returns on investment. The Company's inability to expand Fatburger in accordance with planned expansion or to manage that growth could have a material adverse effect on the Company's operations and financial condition. In addition, if Fatburger or its franchisees are unsuccessful in obtaining capital sufficient to fund this expansion, the timing of restaurant openings may be delayed and Fatburger's results may be adversely affected.

Centrisoft operations

The Company expects that Centrisoft Corporation ("Centrisoft") will require capital resources and have negative cash flow in the near term. Since Centrisoft is in the early stages of its marketing, there can be no assurance that it will be successful in attracting a significant customer base. Centrisoft is currently marketing its software to potential customers both directly and through re-seller relationships. There can be no assurance that Centrisoft will be successful in generating sufficient cash flow to support its own operations in the near term.

Other

In order to facilitate the development of franchise locations, as of September 30, 2007, Fatburger had guaranteed the annual minimum lease payments of four restaurant sites owned and operated by franchisees. The guarantees approximate \$1.0 million plus certain contingent rental payments as defined in the respective leases. These leases expire at various times through 2015.

The Company may utilize a wide variety of off-balance sheet financial techniques to manage risk. In hedging the interest rate and/or exchange rate exposure of a foreign currency denominated asset or liability, the Company may enter into hedge transactions to counter movements in interest rates and foreign currencies. These hedges may be in the form of currency and interest rate swaps, options, and forwards, or combinations thereof. As of September 30, 2007, the Company has no outstanding derivative instruments held for trading or hedging purposes.

There were no other off-balance sheet arrangements in place as of September 30, 2007.

NOTE 5 – STOCK OPTIONS AND RIGHTS

The Company has a stock option plan (the "Option Plan") which provides for options to purchase shares of the Company's common stock. The maximum number of shares of common stock that may be issued pursuant to options granted under the Option Plan is 3,500,000 shares. Newly elected directors automatically receive 5,000 options on the day they join the Board of Directors. Additionally, each independent director receives, on the last day of each quarter, an automatic non-statutory option grant to purchase 1,500 shares of common stock at 110% of the fair market value on that day. Automatic grants vest one third on each of the first three anniversaries of the grant date and expire on the tenth anniversary of the grant date. The Company granted a total of 18,500 options to its independent directors in the nine months ending September 30, 2007. In the same period, the Company granted 615,000 options to certain Company Managers (as defined by the Option Plan). These grants to purchase the Company's common stock at 110% of the fair market value on the grant dates vest one third on each of the first three anniversaries of the grant dates and expire on the tenth anniversary of the grant dates. The retirement and resignation of certain directors and Managers resulted in the forfeiture of 153,667 unvested options in the nine months ended September 30, 2007.

There were no options granted with exercise prices below the market value of the stock at the grant date. Fair values for 2007 were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used: 0% dividend yield, expected volatility of 76%, risk-free interest rate of 5.0% and expected lives of five years.

A summary of our stock options activity for the nine months ended September 30, 2007 is presented below:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2007	2,762,000	\$ 1.45
Granted	633,500	\$ 2.41
Exercised	-	\$ -
Cancelled/forfeited.....	(153,667)	\$ 2.80
Outstanding at September 30, 2007	<u>3,241,833</u>	\$ 1.57

A summary of our stock options outstanding as of September 30, 2007 is presented below:

Range of Exercise Prices	Shares	Weighted Average Remaining Life	Weighted Average Exercise Price
\$1.00 – 2.00	2,617,500	9.2	\$ 1.32
\$2.01 – 4.00	580,000	9.7	\$ 2.46
\$4.01 – 8.00	44,333	6.7	\$ 4.55
Total	<u>3,241,833</u>	9.3	\$ 1.57

NOTE 6 – VARIABLE INTEREST ENTITIES

As of September 30, 2007, the Company has loaned \$10.3 million to two related Spanish entities formed to purchase, reposition and sell apartment buildings in Barcelona, Spain. Under the terms of the loans, the investments meet the definition of a Variable Interest Entity (“VIE”) under FASB Interpretation No. 46 (“FIN 46”) and the Company is the primary beneficiary of the VIE. As a result, the assets, liabilities, and results of operations of the VIE have been consolidated into the accompanying consolidated financial statements as of September 30, 2007. Neither the creditors nor the other beneficial interest holders have recourse to the Company with regard to these investments.

The VIE currently owns two apartment buildings consisting of 33 residential units with a book value of approximately \$8.8 million, including capital improvements and carrying costs. The two properties met the criteria to be classified as “held for sale” and are classified as such on the Statement of Financial Condition at September 30, 2007. In December 2006, the VIE entered into an agreement to sell one of the two buildings for approximately \$8.6 million. In June 2007, the buyer failed to perform under terms of the contract, the Company recognized \$0.7 million in revenue from a forfeited deposit, and the building was re-listed for sale. Based upon management’s estimate of the current fair value, the Company has recorded a market value impairment totaling \$2.9 million on this building in the nine months ended September 30, 2007. Assets and liabilities of the VIE included in the accompanying consolidated statements of financial condition are summarized as follows:

Investment in real estate, held for sale, net.....	\$ 8,830,000
Other assets	5,000
Borrowings and notes payable (included in current liabilities at September 30, 2007)	976,000
Accrued expenses and other liabilities	18,000
Minority interest.....	392,000

NOTE 7 – INCOME TAXES

During the nine months ended September 30, 2007, the Company determined that it was more likely than not that certain NOL carryovers would be available to offset prior taxable income. As a result, the Company recognized an income tax benefit of \$4.4 million and reduced the deferred tax liability by the same amount. The Company recognized a similar benefit in the nine months ended September 30, 2006, in the amount of \$1.2 million.

NOTE 8 – LOANS TO SENIOR EXECUTIVES

Prior to the passage of the Sarbanes-Oxley Act of 2002, the Company's employment agreement with its Chief Executive Officer, Andrew Wiederhorn, allowed him to borrow a specified maximum amount from the Company to purchase shares of common stock. The loans are full recourse to the borrower and bear interest at the prime rate. The total amount of loans receivable from Mr. Wiederhorn, including compounded interest, was \$1.1 million at September 30, 2007. The loans matured on February 21, 2007. The Company has not extended the maturity date of the loans or amended any other terms. The Company has not declared the loans in default and is cooperating with Mr. Wiederhorn in completing the repayment of the loans in full.

NOTE 9 – INVENTORIES

Inventories relate primarily to the DAC International subsidiary and consist of the following:

	September 30, 2007	December 31, 2006
	<i>(dollars in thousands)</i>	
Raw materials	\$ 1,225	\$ 1,703
Work in progress	1,277	138
Finished goods	<u>933</u>	<u>601</u>
Total inventories	<u>\$ 3,435</u>	<u>\$ 2,442</u>

NOTE 10 – OPERATING SEGMENTS

Operating segments consist of (i) restaurant operations conducted through Fatburger, (ii) manufacturing activities conducted through DAC International, (iii) real estate and financing activities, and (iv) software development and sales conducted through Centrisoft Corporation. Each segment operates with its own management and personnel. Beginning in the fourth quarter of 2006, the Company began allocating certain corporate expenses to Fatburger through a management fee. This management fee is reflective of management's increased involvement in the restaurant operations. The Company began charging this fee to more closely represent the true costs of restaurant operations in the appropriate segment reporting. The management fee is eliminated upon consolidation. The following is a summary of each of the operating segments:

Restaurant operations

As of September 30, 2007, the Company owned approximately 82% of the voting control of Fatburger, which operates or franchises 90 hamburger restaurants located primarily in California and Nevada, as well as 12 other states, Canada, and China. Franchisees currently own and operate 52 of the Fatburger locations. Four new franchise restaurants were opened and one franchise restaurant was closed during the nine months ended September 30, 2007. In the third quarter of 2007, Fatburger acquired the net assets of two franchise locations and converted them to company-owned locations.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Company-owned restaurant sales	\$ 7,226	\$ 7,426	\$ 21,976	\$ 20,494
Royalty revenue	528	551	1,574	1,662
Franchise fee revenue	<u>71</u>	<u>40</u>	<u>131</u>	<u>164</u>
Total revenue	7,825	8,017	23,681	22,320
Cost of sales	(4,075)	(3,915)	(12,681)	(11,378)
Depreciation and amortization	(497)	(427)	(1,529)	(1,202)
Other general & administrative costs	(3,899)	(4,001)	(11,449)	(10,667)
Interest expense	(195)	(187)	(576)	(627)
Management allocation	(536)	-	(1,608)	-
Minority interest in losses	<u>193</u>	<u>5</u>	<u>676</u>	<u>71</u>
Segment loss	<u>\$ (1,184)</u>	<u>\$ (508)</u>	<u>\$ (3,486)</u>	<u>\$ (1,483)</u>
Capital expenditures	\$ 441	\$ 1,465	\$ 948	\$ 2,449
Segment assets			\$ 22,165	\$ 21,214
Minority interests			\$ 501	\$ 117

Manufacturing operations

The Company conducts manufacturing activities through its wholly-owned subsidiary, DAC International. DAC is a supplier of computer controlled lathes and milling machinery for the production of eyeglass, contact, and intraocular lenses.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Manufacturing sales	\$ 2,940	\$ 2,370	\$ 7,781	\$ 7,821
Cost of sales	(1,634)	(1,375)	(4,329)	(4,375)
Engineering and development	(256)	(214)	(724)	(655)
Depreciation and amortization	(20)	(22)	(67)	(42)
Other general & administrative costs	(612)	(446)	(1,878)	(1,323)
Interest expense	(13)	-	(28)	(6)
Other non-operating income	3	45	20	53
Segment income	<u>\$ 408</u>	<u>\$ 358</u>	<u>\$ 775</u>	<u>\$ 1,473</u>
Capital expenditures	\$ 3	\$ 145	\$ 71	\$ 205
Segment assets			\$ 6,151	\$ 5,582

Real estate and financing operations

The Company owns various interests in real estate and notes receivable. At September 30, 2007, real estate is comprised of leasehold interests in 72 freestanding retail buildings located throughout the United States and two apartment buildings located in Barcelona, Spain. At September 30, 2007, notes receivable have a carrying value of \$0.6 million and are primarily secured by real estate.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Rental income	\$ 972	\$ 928	\$ 2,851	\$ 2,978
Operating expenses	(313)	(491)	(1,022)	(1,163)
Depreciation and amortization	(112)	(111)	(335)	(370)
Other general & administrative costs	(243)	(204)	(352)	(608)
Interest income	91	66	194	242
Interest expense	(725)	(472)	(2,081)	(1,134)
Other non-operating income	562	1,678	1,819	4,469
Market value impairment reserves	(1,800)	-	(2,909)	-
Equity in earnings of equity investees	-	-	-	748
Segment income (loss)	<u>\$ (1,568)</u>	<u>\$ 1,394</u>	<u>\$ (1,835)</u>	<u>\$ 5,162</u>
Capital expenditures	\$ 71	\$ 362	\$ 225	\$ 1,552
Segment assets			\$ 24,339	\$ 26,573
Minority interests			\$ 392	\$ 349

Other non-operating income for the nine months ended September 30, 2007 is primarily composed of foreign currency gains of \$0.8 million, commission and other non-operating revenue of \$0.3 million, and a forfeited deposit on the sale of one Barcelona property of \$0.7 million. This compares to a gain on sale of real estate of \$2.9 million, gain on sale of notes receivable of \$0.5 million, foreign currency gains of \$0.6 million, and commission and other non-operating revenue of \$0.5 million for the nine months ended September 30, 2006.

Software development and sales operations

The Company holds a 79% ownership interest in Centrisoft, which conducts software development and sales activities. Centrisoft develops and sells software that controls and enhances the productivity of enterprise networks and provides first level security against unauthorized applications and users.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Software sales	\$ 46	\$ 13	\$ 60	\$ 34
Engineering and development	(105)	(156)	(367)	(513)
Depreciation and amortization	(110)	(97)	(334)	(265)
Other general & administrative costs	(107)	(340)	(479)	(1,221)

Interest expense	(294)	(232)	(846)	(585)
Market value impairment reserves	-	(46)	-	(46)
Segment loss	<u>\$ (570)</u>	<u>\$ (858)</u>	<u>\$ (1,966)</u>	<u>\$ (2,596)</u>
Capital expenditures	\$ -	\$ -	\$ -	\$ 7
Segment assets			\$ 3,478	\$ 3,759

Reconciliation to total net loss

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Segment income (loss) from operations	\$ (2,914)	\$ 386	\$ (6,512)	\$ 2,556
Corporate expenses	(2,234)	(2,648)	(9,812)	(7,953)
Elimination of intercompany charges	828	145	2,434	479
Income tax benefit	4,385	1,249	4,385	1,249
Income (loss) from discontinued operations	-	(7)	2,514	144
Net income (loss)	<u>\$ 65</u>	<u>\$ (875)</u>	<u>\$ (6,991)</u>	<u>\$ (3,525)</u>

NOTE 11 – DISCONTINUED OPERATIONS

Prior to February 2007, the Company held a 51% ownership interest in George Elkins, a California commercial mortgage banking operation. In December 2006, the Company reached an agreement to sell George Elkins to a third party and the sale closed in February 2007. As such, all assets of George Elkins have been classified as held for sale at December 31, 2006 and results from operations of George Elkins for the nine months ended September 30, 2007 and 2006 have been classified as discontinued operations. Prior to disposal, George Elkins was a reportable segment of the Company's operations.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Loan brokerage fees	\$ -	\$ 1,358	\$ 1,673	\$ 4,755
Loan servicing fees	-	217	134	708
Total revenue	-	1,575	1,807	5,463
Depreciation and amortization	-	(8)	(4)	(22)
Other general & administrative costs	-	(1,498)	(1,811)	(5,181)
Interest income	-	2	2	5
Other non-operating income	-	4	15	283
Minority interest in earnings	-	(82)	13	(404)
Gain on sale of discontinued operations	-	-	2,492	-
Income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ (7)</u>	<u>\$ 2,514</u>	<u>\$ 144</u>
Capital expenditures	\$ -	\$ 6	\$ -	\$ 6
Segment assets			\$ -	\$ 1,130
Minority interests			\$ -	\$ 178

NOTE 12 – SUBSEQUENT EVENTS

Restaurant openings

Subsequent to September 30, 2007, Fatburger opened one additional company-owned restaurant.

Borrowings on notes payable

Subsequent to September 30, 2007, the Company borrowed an additional \$0.5 million on a note payable that had a balance of \$3.3 million at September 30, 2007. The amended note has a balance of \$3.8 million and is secured primarily by the Company's interest in an LLC owned by the Company that holds the Company's real estate lease portfolio.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained herein and certain statements contained in future filings by the Company with the SEC may not be based on historical facts and are "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-Looking Statements are based on various assumptions and events (some of which are beyond the Company's control) and may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Actual results could differ materially from those set forth in Forward-Looking Statements due to a variety of factors, including, but not limited to the Risk Factors identified herein and the following:

- *economic factors, particularly in the market areas in which the Company operates;*
- *the financial and securities markets and the availability of and costs associated with sources of liquidity;*
- *competitive products and pricing;*
- *the real estate market, including the residential real estate market in Barcelona, Spain;*
- *the ability to sell assets to maintain liquidity;*
- *fiscal and monetary policies of the U.S. Government;*
- *changes in prevailing interest rates;*
- *changes in currency exchange rates;*
- *acquisitions and the integration of acquired businesses;*
- *performance of retail/consumer markets, including consumer preferences and concerns about diet;*
- *effective expansion of the Company's restaurants in new and existing markets;*
- *profitability and success of franchisee restaurants;*
- *availability of quality real estate locations for restaurant expansion;*
- *the market for Centrisoft's software products;*
- *credit risk management; and*
- *asset/liability management.*

Except as may be required by law, the Company does not undertake, and specifically disclaims any obligation, to publicly release the results of any revisions that may be made to any Forward-Looking Statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of Fog Cutter Capital Group Inc. and the notes thereto included elsewhere in this filing. References in this filing to "the Company," "we," "our," and "us" refer to Fog Cutter Capital Group Inc. and its subsidiaries unless the context indicates otherwise.

Executive Overview

Business overview

Fog Cutter Capital Group Inc. is primarily engaged in the operations of its Fatburger Holdings, Inc. ("Fatburger") restaurant business. Fatburger, "The Last Great Hamburger Stand"®, opened its first restaurant in Los Angeles in 1952. As of September 30, 2007, there were 90 Fatburger restaurants located in 14 states and in Canada and China. The restaurants specialize in fresh, made to order hamburgers and other specialty sandwiches. French fries, homemade onion rings, hand-scooped ice cream shakes and soft drinks round out the menu. We acquired the controlling interest in Fatburger in August 2003 and currently own 82% voting control.

We plan to open additional Fatburger restaurants throughout the United States and internationally, including Canada and China. We intend to continue to open company-owned restaurants in strategic markets and increase the number of franchised locations in the U.S. and internationally. Franchisees currently own and operate 52 of the Fatburger locations and we have agreements for approximately 242 new franchise locations. As is typical for our industry, the identification of qualified franchisees and quality locations has an impact on the rate of growth in the number of our restaurants.

In addition to our restaurant operation, we also conduct manufacturing activities, software development and sales activities, and make real estate and other real estate-related investments through various controlled subsidiaries.

Operating segments

Our operating segments are:

- (i) Restaurant operations – conducted through our Fatburger subsidiary,
- (ii) Manufacturing operations – conducted through our wholly owned subsidiary, DAC International (“DAC”),
- (iii) Real estate and finance operations, and
- (iv) Software development and sales operations – conducted through our subsidiary, Centrisoft Corporation (“Centrisoft”).

Due to the varied nature of our operations, we do not utilize a standard array of key performance indicators in evaluating our results of operations. Our evaluation instead focuses on an investment-by-investment or asset-by-asset analysis within our operating segments.

Significant events

The following significant events affected our operations for the three and nine months ended September 30, 2007:

- Restaurant openings – During the nine months ended September 30, 2007, we opened five additional Fatburger restaurant locations (four franchise and one company-owned), and one franchise location was closed. We also purchased the net assets of a franchisee with two locations and converted them to company-owned locations. In the acquisition, we issued a note payable to the franchisee for \$0.2 million, payable by December 31, 2007, and assumed accounts payable and notes payable totaling \$0.3 million, in exchange for \$0.5 million of property, plant and equipment.
- Sale of real estate – In July 2007, we sold one stand-alone retail location for \$0.4 million in cash. The property had a net book value of \$0.4 million at the time of disposal, and we recognized a gain on the sale of less than \$0.1 million.
- Repayment of notes receivable – In August 2007, we received payment on one note receivable of approximately half of the \$0.5 million book value, which was due on August 18, 2007. The remaining principal was extended for one year. Upon extension, we received and deferred a loan fee of less than \$0.1 million, which will be amortized over the remaining life of the note receivable.
- Discontinued operations – On February 28, 2007, Fog Cap Commercial Lending Inc., our wholly-owned subsidiary, sold its 51% interest in George Elkins Mortgage Banking Company (“George Elkins”). We received \$2.9 million for our portion of the proceeds and recorded a gain on sale of \$2.5 million.
- Borrowings on notes payable – In January 2007, we borrowed an additional \$1.1 million on a note payable that had a balance of \$2.1 million at December 31, 2006. The amended note has a balance of \$3.2 million and is secured primarily by our interest in DAC. The terms of the amended note were not significantly different from the terms at December 31, 2006.
- Borrowings on notes payable – In May 2007, we borrowed an additional \$1.0 million on a note payable that had a balance of \$2.1 million at December 31, 2006. The amended note has a balance of \$3.1 million and is secured primarily by our interest in our real estate lease portfolio. In August 2007, we agreed with the lender to extend the terms of this note and amend the interest rate from 13.0% annually to 18.0% annually.
- OTC Bulletin Board listing – Effective June 24, 2007, our common stock began trading on the OTC Bulletin Board (the “OTCBB”) market as FCCG.OB. The OTC Bulletin Board is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in qualifying over-the-counter equity securities. Prior to being listed on the OTCBB, our shares were quoted by Pink Sheets LLC.
- Change in the Board of Directors – Effective May 21, 2007, Kenneth J. Anderson was elected by our stockholders as an independent member of the Board of Directors. Mr. Anderson is a founding partner of Quintile Wealth Management and has over twenty-five years of financial consulting and accounting experience. He replaced M. Ray Mathis, who retired from our Board of Directors effective May 20, 2007.

Results of operations

We incurred net income (losses) from continuing operations as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands, except per share data)</i>			
Net income (loss) from continuing operations	\$ 65	\$ (868)	\$ (9,505)	\$ (3,669)
Net income (loss) per share	\$ 0.01	\$ (0.11)	\$ (1.19)	\$ (0.46)

Our net loss from continuing operations was \$9.5 million (or \$1.19 per share) for the nine months ended September 30, 2007, including net income of \$0.1 million (or \$0.01 per share) for the three months then ended. This compares to net losses of \$3.7 million (or \$0.46 per share) for the nine months ended September 30, 2006, and \$0.9 million (or \$0.11 per share) for the third quarter of 2006. The year-to-date net loss is primarily due to operating expenses associated with our management infrastructure, while the net income in the third quarter is due mainly to the recognition of certain income tax benefits. We have put in place a management structure that we believe will enable us to significantly expand our operations, notably our Fatburger subsidiary. However, until the growth is realized, the cost of our management structure will be borne by our existing operations.

The following sections describe the results of operations of our operating segments for the three and nine months ended September 30, 2007.

Restaurant segment operations

The following table shows our operating margin for company-owned restaurants for the three and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(% to Company-owned restaurant sales)			
Restaurant sales:				
Company-owned restaurant sales	100.0%	100.0%	100.0%	100.0%
Cost of sales – food, paper, merchandise	(23.7%)	(21.8%)	(24.2%)	(24.9%)
Cost of sales – wages and benefits	(32.7%)	(30.9%)	(33.5%)	(30.6%)
Restaurant depreciation and amortization	<u>(6.0%)</u>	<u>(4.9%)</u>	<u>(6.1%)</u>	<u>(4.9%)</u>
Operating margin (restaurant sales only)	<u>37.6%</u>	<u>42.4%</u>	<u>36.2%</u>	<u>39.6%</u>

For the nine months ended September 30, 2007, company-owned restaurant sales increased 7.3% to \$22.0 million from \$20.5 million for the same period in 2006. For the three months ended September 30, 2007, company-owned restaurant sales decreased 2.7% to \$7.2 million from \$7.4 million for the third quarter of 2006. This year-to-date increase was primarily the result of the addition of nine company-owned restaurants in 2006 and a price increase in June 2006. Same store sales for company-owned restaurants open during all of 2006 decreased 7.1% for the first nine months of 2007 compared to the same period in 2006.

The operating margin as a percentage of sales for company-owned locations decreased to 36.2% for the first nine months of 2007 from 39.6% for the same period in 2006. This was due primarily to increases in labor costs of 2.9% as a percentage of sales and restaurant depreciation expense of 1.2% (from the addition of nine company-owned restaurants in 2006), partially offset by reductions in food costs as a percentage of sales of 0.7%. Since implementing a price increase in June 2006, our sales prices have remained relatively stable. Thus, our operating margins have been declining as operating costs slowly increase over time.

The following table shows our total operating results from the restaurant segment for the three and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(% to total revenue)			
Total restaurant operations:				
Company-owned restaurant sales	92.3%	92.6%	92.8%	91.8%
Royalty revenue	6.8%	6.9%	6.6%	7.5%
Franchise fee revenue	<u>0.9%</u>	<u>0.5%</u>	<u>0.6%</u>	<u>0.7%</u>
Total revenue	100.0%	100.0%	100.0%	100.0%
Cost of sales	(57.7%)	(53.4%)	(59.3%)	(55.5%)
General & administrative costs	(50.6%)	(50.7%)	(49.1%)	(48.6%)
Interest expense	(2.5%)	(2.3%)	(2.4%)	(2.8%)
Management allocation	(6.8%)	-%	(6.8%)	-%
Minority interest in losses	<u>2.5%</u>	<u>0.1%</u>	<u>2.9%</u>	<u>0.3%</u>
Segment loss	<u>(15.1%)</u>	<u>(6.3%)</u>	<u>(14.7%)</u>	<u>(6.6%)</u>

Royalty revenue decreased 5.9%, from \$1.7 million for the first nine months of 2006 to \$1.6 million for the nine months ended September 30, 2007, and remained unchanged at \$0.5 million for the three month period then ended. The decrease was a result of decreased sales in our franchise locations and the conversion of three franchise locations to company-owned stores in the second half of 2006. We added four franchise locations during the nine months ended September 30, 2007, which is partially offset by the closure of one franchise location and

the conversion of two more locations to company-owned stores. Same store sales for franchise restaurants open during all of 2006 decreased 10.9% for the first nine months of 2007 compared to the same period in 2006.

System-wide same store sales decreased 9.9% for stores open during all of 2006 during the first nine months of 2007 compared to the same period in 2006. Our loss from restaurant operations was 14.7% of total revenue for the nine months ended September 30, 2007 (15.1% for the third quarter) compared to 6.6% for the same nine months (6.3% for the third quarter) in 2006. The change is mainly due to the implementation of a management allocation of our corporate expenses, as well as increased general and administrative expenses as we continue to set up our infrastructure to support our expansion.

We intend to continue to open company-owned restaurants in strategic markets and increase the number of franchised locations in the U.S. and internationally. Late in the third quarter of 2007, we opened our first location in China, at the Venetian Macao-Resort-Hotel. Since we acquired our interest in Fatburger in August 2003, Fatburger has added 41 new restaurants through September 30, 2007. While we seek to expand the number of restaurants, the identification of qualified franchisees and quality locations has an effect on the rate of growth in the number of our restaurants.

Manufacturing segment operations

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(% to total revenue)			
Manufacturing sales	100.0%	100.0%	100.0%	100.0%
Manufacturing cost of sales	(55.6%)	(58.0%)	(55.6%)	(55.9%)
Engineering and development	<u>(8.7%)</u>	<u>(9.0%)</u>	<u>(9.3%)</u>	<u>(8.4%)</u>
Operating margin	35.7%	33.0%	35.1%	35.7%
Compensation expense	(12.6%)	(12.6%)	(14.9%)	(12.2%)
Depreciation expense	(0.7%)	(0.9%)	(0.9%)	(0.5%)
Other operating expense	<u>(8.5%)</u>	<u>(4.3%)</u>	<u>(9.3%)</u>	<u>(4.2%)</u>
Segment income	<u>13.9%</u>	<u>15.2%</u>	<u>10.0%</u>	<u>18.8%</u>

Total revenue for this segment was \$7.8 million for the nine months ended September 30, 2007 and \$2.9 million for the three months then ended. This compares to \$7.8 million for the nine months ended September 30, 2006 and \$2.4 million for the third quarter of 2006. Net income for this segment was \$0.8 million for the first nine months of 2007 (\$0.4 million for the third quarter), compared to \$1.5 million (\$0.4 million) for the same periods in 2006. In order to focus our efforts on our restaurant segment, we intend to sell our equity position in DAC for an amount higher than our net investment. If we were to sell this segment, it would decrease our net revenue and increase our net loss. There can be no assurance that we will be able to sell this segment for a profit.

Real estate and finance segment operations

Real estate operations:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(dollars in thousands)			
Operating revenue	\$ 972	\$ 928	\$ 2,851	\$ 2,978
Operating expenses	(313)	(491)	(1,022)	(1,163)
Depreciation and amortization	<u>(111)</u>	<u>(111)</u>	<u>(335)</u>	<u>(369)</u>
Operating margin	548	326	1,494	1,446
General and administrative expenses	(243)	(100)	(340)	(483)
Interest expense	(363)	(323)	(1,064)	(985)
Gain on sale of real estate	13	1,211	13	2,905
Other non-operating income	2	-	724	6
Market value impairment reserve	<u>(1,800)</u>	<u>-</u>	<u>(2,909)</u>	<u>-</u>
Income (loss) from real estate operations	<u>\$ (1,843)</u>	<u>\$ 1,114</u>	<u>\$ (2,082)</u>	<u>\$ 2,889</u>

During the nine months ended September 30, 2007, our operating margin on real estate increased less than \$0.1 million, to \$1.5 million, compared to \$1.4 million for the same period of 2006. Our operating margin on real estate operations for the third quarter of 2007 increased \$0.2 million, to \$0.5 million, compared to \$0.3 million in the third quarter of 2006. Although we have continued to sell certain real estate investments, we have been able to maintain our operating margin at relatively stable levels due to our success in reducing vacancies and increasing lease rates.

In July 2007, we sold one stand-alone retail location for \$0.4 million in cash. The property had a net book value of \$0.4 million at the time of disposal, and we recognized a gain on the sale of less than \$0.1 million. In the first nine months of 2006, we sold ten properties for total proceeds of \$12.3 million, resulting in a net gain on sale of approximately \$2.9 million. General and administrative expenses have decreased for the first nine months of 2007 compared to 2006, primarily due to the VIE investments in Barcelona nearing completion and being marketed for sale. Interest expense for the three and nine months ended September 30, 2007 (\$0.4 million and \$1.1 million, respectively) has increased compared to the same periods of 2006 (\$0.3 million and \$1.0 million, respectively) as we borrowed money on various notes payable secured by certain real estate investments in the second half of 2006 and first half of 2007.

In December 2006, we entered into an agreement to sell one of our two Barcelona properties for a sales price of approximately \$8.6 million. In June 2007, the buyer failed to perform under terms of the contract. As a result, we recognized \$0.7 million in revenue from a forfeited deposit and re-listed the building for sale. Based upon our estimate of the current market value, we have recorded market value impairments totaling \$2.9 million on this property in the nine months ended September 30, 2007.

Interest income – Our interest income for the nine months ended September 30, 2007 has remained stable at \$0.2 million (\$0.1 million for the third quarter) compared with \$0.2 million for the first nine months of 2006 (\$0.1 million for the third quarter).

Interest expense – Our interest expense not related to real estate investments was \$1.0 million for the nine months ended September 30, 2007 (\$0.4 million for the third quarter), compared to \$0.2 million for the first nine months of 2006 (\$0.2 million for the third quarter). This increase is due to various borrowings and notes payable we have obtained beginning in late 2006.

Foreign exchange gains – Changes in foreign currency exchange rates resulted in a net gain of approximately \$0.8 million in this segment for the nine months ended September 30, 2007 compared to \$0.6 million for the same period in 2006. In the third quarter of 2007, we recognized gains of \$0.5 million compared to \$0.1 million for the same period in 2006. At September 30, 2007, approximately 16% of our total assets and 3% of our total liabilities were denominated in euros. See *Item 3 – Quantitative and Qualitative Disclosures about Market Risk* for further analysis.

Other non-operating income – In the nine months ended September 30, 2007, we had consulting revenue of \$0.3 million. For the same period in 2006, we had equity in earnings of equity investee of \$0.7 million and gain on sale of notes receivable of \$0.5 million in this segment.

Software development and sales segment operations

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Software sales	\$ 46	\$ 13	\$ 60	\$ 34
Engineering and development	(105)	(156)	(367)	(513)
Compensation expense	(38)	(128)	(195)	(646)
Depreciation expense	(110)	(97)	(334)	(265)
Other operating expense	(69)	(212)	(284)	(575)
Interest expense	(294)	(232)	(846)	(585)
Market value impairment reserves	-	(46)	-	(46)
Segment loss	<u>\$ (570)</u>	<u>\$ (858)</u>	<u>\$ (1,966)</u>	<u>\$ (2,596)</u>

Total revenue for this segment was less than \$0.1 million for each of the nine months ended September 30, 2007 and 2006. Segment loss was approximately \$2.0 million for the first nine months of 2007 (\$0.6 million for the third quarter) and \$2.6 million for the same period in 2006 (\$0.9 million for the third quarter). In order to focus our efforts on our restaurant segment, we intend to sell all, or a portion of, our equity position in Centrisoft. If we were to sell this segment, we believe that it would have a positive effect on our cash flow and decrease our net loss. There can be no assurance that we will be able to sell this segment.

Corporate expenses

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<i>(dollars in thousands)</i>			
Compensation and employee benefits	\$ 1,253	\$ 1,425	\$ 6,089	\$ 4,435
Travel and entertainment	341	323	1,382	943
Professional fees	256	499	982	1,214
Directors fees	131	109	397	269
Insurance	64	160	316	571
Occupancy costs	29	50	106	140
Other expenses	<u>160</u>	<u>82</u>	<u>540</u>	<u>381</u>

Total operating expenses	<u>\$ 2,234</u>	<u>\$ 2,648</u>	<u>\$ 9,812</u>	<u>\$ 7,953</u>
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For the nine months ended September 30, 2007, we incurred corporate operating expenses of \$9.8 million (\$2.2 million for the third quarter), compared to \$8.0 million for the first nine months of 2006 (\$2.6 million for the third quarter). This increase is primarily due to an increase in compensation expenses. Corporate expenses for the first nine months of 2007 also include \$1.4 million (\$0.5 million for the third quarter) for share based payments accounted for under FAS 123R, compared to \$0.3 million for the same period in 2006 (\$0.2 million for the third quarter). The increase is due to various stock option grants in August 2006 and a stock option exchange plan adopted in December 2006.

Management allocation and other intercompany charges

In the fourth quarter of 2006, as we focused our efforts on the Fatburger segment we began allocating a portion of our corporate expenses to our restaurant segment to more accurately reflect the operating results of that segment. This allocation was \$1.6 million for the nine months ended September 30, 2007 (\$0.5 million for the third quarter). This allocation is eliminated upon consolidation on the Consolidated Statements of Operations. There was no comparable allocation in the first nine months of 2006. Other intercompany charges, including intercompany interest expense, are eliminated upon consolidation, and totaled \$0.8 million for the nine months ended September 30, 2007 (\$0.3 million for the third quarter) and \$0.5 million for the nine months ended September 30, 2006 (\$0.1 million for the third quarter).

Income taxes

During the nine months ended September 30, 2007, we determined that it was more likely than not that certain NOL carryovers would be available to offset prior taxable income. As a result, we recognized an income tax benefit of \$4.4 million and reduced the deferred tax liability by the same amount. We recognized a similar benefit in the nine months ended September 30, 2006, in the amount of \$1.2 million.

Discontinued operations

In December 2006, we and our 49% partners reached an agreement to sell our ownership interest in George Elkins, a California commercial mortgage banking operation. The sale closed in February 2007. As such, results from operations of George Elkins for the nine months ended September 30, 2007 and 2006 have been classified as discontinued operations. Prior to the decision to sell George Elkins, it was a reportable segment of our operations. The following table shows our total operating results from George Elkins for the three and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(% to total revenue)			
Total revenue	\$ -	\$ 1,575	\$ 1,807	\$ 5,463
Compensation expense	-	(1,257)	(1,534)	(4,512)
Other operating expense	-	(249)	(281)	(691)
Non-operating income	-	6	17	288
Gain on sale of discontinued operations	-	-	2,492	-
Minority interest in earnings	-	(82)	13	(404)
Income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ (7)</u>	<u>\$ 2,514</u>	<u>\$ 144</u>

Changes in financial condition

Our assets, liabilities and stockholders' equity can be summarized as follows:

	September 30, 2007	December 31, 2006
	(dollars in thousands)	
Total assets	\$ 56,133	\$ 59,800
Total liabilities	\$ 50,575	\$ 49,005
Total minority interests	\$ 893	\$ 571
Total stockholders' equity	\$ 4,665	\$ 10,224

The decrease in total assets during the first nine months of 2007 is primarily due to market value impairment reserves on real estate investments, as well as the disposal of our George Elkins subsidiary, which was classified as held for sale at December 31, 2006. Total liabilities increased over the first nine months of 2007, primarily due to additional borrowings of \$2.6 million and an increase in accounts payable and accrued liabilities. The cash received from the disposal of George Elkins was used to support our operating activities. Stockholders' equity decreased during the first nine months of 2007 by approximately \$5.6 million, mainly resulting from our net loss of \$7.0 million, partially offset by share based compensation of \$1.4 million. These changes are described in more detail as follows:

Cash

Our cash decreased \$1.1 million between December 31, 2006 and September 30, 2007. Significant sources and uses of cash during the first nine months of 2007 include:

- \$4.8 million of cash used in operations – comprised primarily of our net loss from continuing operations of \$9.5 million adjusted for non-cash income and expense items of \$4.7 million;
- \$1.6 million of cash used in investing activities – comprised mainly of \$2.0 million invested in restaurant assets and other property, plant & equipment, partially offset by \$0.4 million from the proceeds on the sale of real estate;
- \$2.7 million of cash provided by financing activities – includes additional borrowing of \$2.2 million and \$1.1 million invested by minority interests, partially offset by repayments of borrowings and capital leases of \$0.6 million; and
- \$2.6 million net cash inflow from discontinued operations.

Net investments in real estate, and related liabilities

Our investments in real estate can be summarized as follows:

	September 30, 2007	December 31, 2006
	<i>(dollars in thousands)</i>	
US based investments – held for sale (1):		
Purchase price / improvements	\$ -	\$ 403
Accumulated depreciation and amortization	-	(35)
Net book value	-	368
Foreign-based investments – held for sale (2):		
Purchase price / improvements	8,830	10,694
Total investments in real estate, held for sale	<u>\$ 8,830</u>	<u>\$ 11,062</u>
US based investments – held for use (3):		
Purchase price / improvements	\$ 13,298	\$ 13,200
Accumulated depreciation and amortization	(2,028)	(1,698)
Total investments in real estate, held for use	<u>\$ 11,270</u>	<u>\$ 11,502</u>
Total investments in real estate, net	<u>\$ 20,100</u>	<u>\$ 22,564</u>

(1) Includes 1 commercial property within the United States at December 31, 2006.

(2) Includes 2 apartment buildings in Barcelona, Spain at September 30, 2007 and December 31, 2006.

(3) Includes 32 commercial properties under capital lease throughout the United States at September 30, 2007 and December 31, 2006.

Borrowings related to our investments in real estate were as follows:

	September 30, 2007	December 31, 2006
	<i>(dollars in thousands)</i>	
Obligations on real estate under capital lease	\$ 10,111	\$ 10,471
Borrowings on Barcelona properties	3,475	3,435
Total borrowings related to real estate	<u>\$ 13,586</u>	<u>\$ 13,906</u>

Investments in properties under capital lease decreased \$0.2 million at September 30, 2007 due to depreciation of \$0.3 million during the first nine months of 2007, partially offset by capital improvements to those properties. Obligations under capital leases related to these properties decreased \$0.4 million due to scheduled monthly payments during the same period. Our investment in apartment buildings in Barcelona, Spain decreased \$1.8 million from December 31, 2006 to September 30, 2007. This was primarily the result of a market valuation impairment of \$2.9 million, partially offset by increases in unrealized foreign currency translation of \$0.8 million and increased carrying costs of \$0.3 million. Investments in US-based owned property decreased \$0.4 million from December 31, 2006 to September 30, 2007, as we sold our one remaining owned property in July 2007 for cash proceeds of \$0.4 million.

Net property, plant and equipment

Net property, plant and equipment decreased \$0.1 million at September 30, 2007 compared to December 31, 2006, primarily due to scheduled monthly depreciation on those assets, offset by purchases of additional assets, including \$0.5 million from the acquisition of two restaurant locations owned by a franchisee. Obligations on property, plant, and equipment under capital lease decreased to \$0.1 million at September 30, 2007 compared to \$0.2 million at December 31, 2006, due to schedule monthly payments on these leases.

Goodwill and net intangible assets

	September 30, 2007	December 31, 2006
	<i>(dollars in thousands)</i>	
Goodwill – Fatburger	\$ 7,063	\$ 7,063
Goodwill – Centrisoft	1,999	1,999
Goodwill – DAC International	<u>1,464</u>	<u>1,464</u>

Total goodwill	\$ 10,526	\$ 10,526
Net intangible assets – Fatburger	\$ 4,803	\$ 4,943
Net intangible assets – Centrisoft	<u>252</u>	<u>319</u>
Total net intangible assets	<u>\$ 5,055</u>	<u>\$ 5,262</u>

Net intangible assets decreased \$0.2 million in the nine months ended September 30, 2007 due to monthly amortization of those assets. Net intangible assets at September 30, 2007 consists of trademark rights of approximately \$4.0 million, franchise agreements of approximately \$0.5 million, sales contracts for Centrisoft of approximately \$0.3 million, and other miscellaneous intangible assets of approximately \$0.2 million. We do not believe that there is any impairment of goodwill or net intangible assets at September 30, 2007.

Notes receivable

As of September 30, 2007, our notes receivable portfolio (excluding loans to senior executives) consists of three individual loans with a combined carrying value of \$0.6 million, compared to \$0.8 million at December 31, 2006. The decrease was the result of principal repayments received on one of the loans. Two of the loans are secured by real estate consisting of commercial property located in Texas and Arizona, and one loan is secured by stock in a restaurant business. The loans have a weighted average interest rate (excluding fees and points) of 14.1% and a weighted average maturity of 12 months.

Loans to senior executives

We currently have two loans to our Chairman and Chief Executive Officer, Andrew Wiederhorn, for a total of \$1.1 million. Both loans were made on February 21, 2002 (prior to the passage of the Sarbanes-Oxley Act of 2002). The loans matured on February 21, 2007, and bear interest at the prime rate, as published in the Wall Street Journal, which interest is added to the principal. We have not extended the maturity date of the loans or amended any other terms. The Company has not declared the loans in default and is cooperating with Mr. Wiederhorn in completing the repayment of the loans in full.

Other assets

	September 30, 2007	December 31, 2006
	<i>(dollars in thousands)</i>	
Trade receivables	\$ 1,743	\$ 1,586
Inventories	\$ 3,435	\$ 2,442
Other current assets:		
Prepaid expenses	\$ 396	\$ 429
Other VIE-related assets	<u>5</u>	<u>96</u>
Total other current assets	<u>\$ 401</u>	<u>\$ 525</u>
Other assets:		
Software costs	\$ 964	\$ 1,217
Security deposits	587	487
Deferred financing costs	278	306
Investment in operating leases	26	54
Other	<u>96</u>	<u>107</u>
Total other assets	<u>\$ 1,951</u>	<u>\$ 2,171</u>

Trade receivables and inventories at September 30, 2007 and December 31, 2006 relate primarily to the operations of DAC.

Deferred income

Our deferred income relating to the collection of unearned Fatburger franchise fees was \$5.1 million at September 30, 2007, compared with \$4.1 million at December 31, 2006. As of September 30, 2007, nearly all of the deferred income was comprised of the non-refundable franchise fee received by Fatburger for each future franchise location. These initial fees generally represent half of the total fee per location. The balance of the franchise fee (approximately an additional \$5.1 million) will be collected in the future when leases on these specific franchise locations are signed.

Notes payable

As of September 30, 2007, our notes payable (excluding borrowings on real estate) totaled \$14.9 million, including \$7.3 million of debt held at Fatburger, \$0.7 million at Centrisoft, and \$0.5 million at DAC. This compares to \$12.4 million at December 31, 2006. The increase was primarily due to additional borrowings of \$2.2 million and the assumption and issuance of \$0.4 million of notes payable in the acquisition of two franchisee restaurant locations.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities totaled \$13.1 million at September 30, 2007, compared with \$10.7 million at December 31, 2006, and consisted of the following:

	September 30, 2007	December 31, 2006
	<i>(dollars in thousands)</i>	
Accounts payable	\$ 7,913	\$ 6,999
Accrued wages, bonus and commissions	2,275	669
Leased real estate portfolio-related accruals	422	597
Other	2,458	2,393
Total accrued expenses and other liabilities	<u>\$ 13,068</u>	<u>\$ 10,658</u>

The increase in accounts payable relates primarily to accrued wages and bonuses due to bonuses approved by our Compensation Committee, but not yet paid.

Sales deposits

For manufacturing sales at our DAC subsidiary, we normally require a deposit on new orders in the amount of 50% of the expected sale. This deposit is not recognized as revenue until the order is complete, invoiced, and the item is shipped to the customer. Sales deposits increased from \$1.1 million at December 31, 2006 to \$1.8 million at September 30, 2007.

Deferred income taxes

During the nine months ended September 30, 2007, we determined that it was more likely than not that certain NOL carryovers would be available to offset prior taxable income. As a result, we recognized an income tax benefit of \$4.4 million and reduced the deferred tax liability by the same amount. We no longer have any deferred tax liability recorded as of September 30, 2007.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund business operations, acquisitions, and expansion (including growth of company-owned and franchised restaurant locations), engage in loan acquisition and lending activities and for other general business purposes. In addition to our cash on hand, our primary sources of funds for liquidity during the first nine months of 2007 consisted of cash provided by proceeds from the sale of discontinued operations and real estate, new borrowings, and the repayments to us from borrowers. As of September 30, 2007, we had cash or cash equivalents of \$0.7 million, which, together with projected borrowings and proceeds from the sales of assets, we believe will be sufficient to meet our current liquidity needs.

At September 30, 2007, we had total consolidated secured indebtedness of \$30.6 million, as well as \$20.0 million of other liabilities. Our consolidated secured indebtedness consisted of:

- notes payable and other debt of Fatburger of \$7.5 million secured by the assets of Fatburger;
- \$12.0 million in capital leases maturing between 2010 and 2040 which are secured mainly by real estate;
- notes payable of \$3.5 million secured by our two Barcelona properties;
- \$6.4 million of notes payable secured by various assets of the Company;
- \$0.5 million of short-term borrowings secured by the assets of DAC International; and
- \$0.7 million of notes payable secured by the assets of Centrisoft.

We consider the sale of assets to be a normal, recurring part of our operations and we are currently generating adequate cash flow as a result of these transactions. However, excluding the sale of assets from time to time, we are currently operating with negative cash flow, since many of our operations do not currently generate sufficient cash to cover operating and overhead expenses. We believe that our existing sources of funds will be adequate to meet our liquidity needs; however, there can be no assurance that this will be the case.

If our existing liquidity position were to prove insufficient, and we were unable to repay, renew or replace maturing indebtedness on terms reasonably satisfactory to us, we may be required to sell (potentially on short notice) a portion of our assets, and could incur losses as a result. Specific risks to our liquidity position include the following:

Foreign currency exchange rate risk

Our exposure to foreign currency fluctuations arises mainly from our investment in Barcelona real estate. As of September 30, 2007, approximately 16% of our total assets and 3% of our total liabilities were denominated in euros. We may, from time to time, utilize a wide variety of financial techniques to assist in the management of currency risk, including currency swaps, options, and forwards, or

combinations thereof. As of September 30, 2007, we have no outstanding derivative instruments held for trading or hedging purposes. See *Item 3 – Quantitative and Qualitative Disclosures about Market Risk* for further analysis.

Interest rate risk

Our borrowings and the availability of further borrowings are substantially affected by, among other things, changes in interest rates, changes in market spreads or decreases in credit quality of our assets. Material increases in interest expense from variable-rate funding sources, or material decreases in monthly cash receipts from operations, generally would negatively impact our liquidity. On the other hand, material decreases in interest expense from variable-rate funding sources would positively affect our liquidity. Fluctuations in interest rates will impact our net income to the extent our operations and our fixed rate assets are funded by variable rate debt. We may also be impacted to the extent that our variable rate assets re-price on a different schedule or in relation to a different index than any floating rate debt.

Fatburger debt covenant

At December 31, 2006, Fatburger was not in compliance with all obligations under the agreements evidencing its indebtedness, as defined in the applicable agreements. Fatburger failed to meet the prescribed fixed charge coverage ratio and the prescribed debt-coverage ratio for three notes payable. The lender subsequently issued a waiver of the covenant violations for December 31, 2006. As such, on our Consolidated Statements of Financial Condition, \$3.9 million of long-term debt has been classified as current at December 31, 2006, but is classified as non-current at September 30, 2007.

Fatburger expansion

Fatburger is involved in a nationwide expansion of franchise and company-owned locations, which requires significant liquidity. If real estate locations of sufficient quality cannot be located, the timing of restaurant openings may be delayed. Additionally, if Fatburger or its franchisees cannot obtain capital sufficient to fund this expansion, the timing of restaurant openings may be delayed.

Centrisoft operations

We expect that Centrisoft will require capital resources and have negative cash flow for the near term. Since Centrisoft is in the early stages of its marketing, there can be no assurance that it will be successful in attracting a significant customer base. Centrisoft is currently marketing its software to potential customers both directly and through re-seller relationships. There can be no assurance that Centrisoft will be successful in generating sufficient cash flow to support its own operations in the near term.

Dividends

While we do not have a fixed dividend policy, we may declare and pay new dividends on our common stock, subject to our financial condition, results of operations, capital requirements and other factors deemed relevant by the Board of Directors. One factor the Board of Directors may consider is the impact of dividends on our liquidity. We have not declared or paid any dividends in 2007.

Stock listing

We are currently listed on the OTC Bulletin Board, a regulated quotation service for stocks that are not listed on one of the major U.S. stock exchanges. Trading of our common stock on the OTC Bulletin Board may reduce the liquidity of our common stock compared to quotation on a major US stock exchange. Also, the coverage of the Company by security analysts and media could be reduced, which could result in lower prices for our common stock than might otherwise prevail and could also result in increased spreads between the bid and ask prices for our common stock. Additionally, certain investors will not purchase securities that are not quoted on a national market, which could materially impair our ability to raise funds through the issuance of common stock or other securities convertible into common stock.

Common stock trading price

If the trading price of our common stock is less than \$5.00 per share, trading in our common stock could be subject to Rule 15g-9 of the Securities Exchange Act of 1934, as amended. Under that Rule, brokers that recommend such securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including an individualized written suitability determination for the purchaser and the purchaser's written consent prior to any transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, any equity security not traded on an exchange or quoted on the NASDAQ Stock Market that has a market price of less than \$5.00 per share), including the delivery of a disclosure schedule explaining the penny stock market and the associated risks. Such requirements could severely limit the market liquidity of our common stock. There can be no assurance that our common stock will not become treated as penny stock.

Off Balance Sheet Arrangements

In order to facilitate the development of franchise locations, as of September 30, 2007, Fatburger had guaranteed the annual minimum lease payments of four restaurant sites owned and operated by franchisees. The guarantees approximate \$1.0 million plus certain contingent rental payments as defined in the respective leases. These leases expire at various times through 2015.

The lease guarantees by Fatburger do not provide us with a material source of liquidity, capital resources or other benefits. There are no revenues, expenses or cash flows connected with the lease guarantees other than the receipt of normal franchise royalties. As of September 30, 2007, we were not aware of any event or demand that was likely to trigger the guarantee by Fatburger.

We have various operating leases for office and retail space which expire through 2015. The leases provide for varying minimum annual rental payments including rent increases and free rent periods. We have future minimum rental payments under non-cancelable operating leases with initial or remaining terms of one year or more of approximately \$14.2 million as of September 30, 2007.

We did not have any other off-balance sheet arrangements in place as of September 30, 2007.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk results from instruments entered into other than for trading purposes and consists primarily of exposure to loss resulting from changes in foreign currency exchange rates, interest rates and commodity prices.

Foreign currency exchange rate risk

Our exposure to foreign currency fluctuations arises mainly from our investment in Barcelona real estate. As of September 30, 2007, approximately 16% of our total assets and 3% of our total liabilities were denominated in euros. The following table illustrates the projected effect on our net asset value as a result of hypothetical changes in foreign currency rates as of September 30, 2007:

Change in foreign exchange rates (1)	Projected change in net asset fair value	Projected percentage change in net asset fair value
Decrease 20%	\$ (1,850,000)	-33.3%
Decrease 10%	\$ (925,000)	-16.6%
No Change	\$ -	0.0%
Increase 10%	\$ 925,000	16.6%
Increase 20%	\$ 1,850,000	33.3%

(1) Assumes that uniform percentage changes occur instantaneously in the euro. A decrease in the foreign exchange rate indicates a strengthening of the U.S. dollar against the euro. An increase in the foreign exchange rate indicates a weakening of the U.S. dollar against the euro.

We can utilize a wide variety of financial techniques to assist in the management of currency risk, including currency swaps, options, and forwards, or combinations thereof. No such currency hedging techniques were in use as of September 30, 2007.

Interest rate risk

Changes in interest rates can affect net income by increasing the cost associated with operating and expanding our restaurant operation. Changes in the level of interest rates can also affect, among other things, the value of our interest-earning assets (and the associated default rates), our payments on variable-interest rate debt, our ability to acquire loans and general levels of consumer spending.

Other market risks

Our restaurant operations are exposed to the impact of commodity and utility price fluctuations related to unpredictable factors such as weather and various other market conditions outside our control. Our ability to recover increased costs through higher prices is limited by the competitive environment in which we operate.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities and Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, have concluded that our disclosure controls and procedures were effective and designed to ensure that material information

relating to us and our consolidated subsidiaries is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no significant changes in our internal control over financial reporting in connection with an evaluation that occurred during our third fiscal quarter of 2007 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Warlick complaint

Fatburger Holdings, Inc., et al. v. Keith A. Warlick/ Warlick v. Fatburger, et al, Superior Court of California for the County of Los Angeles, Case No. SC 091436. On October 16, 2006, Fatburger Holdings, Inc., Fatburger Corporation and Fatburger North America, Inc. filed suit against Keith A. Warlick (“Warlick”) the former Chief Executive Officer of Fatburger Holdings, Inc. and Fatburger Corporation. Warlick’s employment with Fatburger was terminated on September 21, 2006 by resolution of the Board of Directors of Fatburger Holdings, Inc. The Fatburger companies initiated the lawsuit to recover damages from Warlick arising from wrongful acts and conduct during and after his employment, and are asserting claims for: breach of contract, breach of duty of loyalty, breach of fiduciary duty, conversion – embezzlement; fraud/commencement; intentional interference with contractual relations, and equitable indemnity. Warlick filed an answer to the lawsuit denying the allegations and included a Cross-complaint against Fatburger Holdings, Inc., Fatburger Corporation, Fatburger North America, Inc., Fog Cutter Capital Group, Inc., and Andrew Wiederhorn, for breach of contract, employment discrimination based on race and retaliation, wrongful termination and defamation – slander without any specification of damages. The defendants to the Cross-complaint filed by Warlick dispute the allegations of the cross-complaint and intend to vigorously defend against the cross-complaint.

Keith Warlick, et al. v. Fog Cutter Capital Group, et al., Superior Court of California for the County of Los Angeles, Case No. 58365915. In further response to the termination of his employment and above lawsuit, on February 6, 2007, Warlick, his wife, and a limited liability company controlled by Warlick, each of whom is a minority shareholder of Fatburger Holdings, Inc., filed a second lawsuit against various Fatburger entities, the Company, Andrew Wiederhorn, and members of the Fatburger Holdings Inc. Board of Directors. In an amended complaint the plaintiffs allege claims of: (1) common law fraud and negligent misrepresentation against the Company and Wiederhorn; (2) fraud pursuant to California Corporate Code §25401 against the Company, Fatburger Holdings, Inc. and Wiederhorn; (3) rescission, breach of contract, breach of the implied covenant of good faith and fair dealing against the Company and Fatburger Holdings, Inc.; and (4) breach of fiduciary duty against all defendants. These claims are based business transactions which the plaintiffs allege were not in the best interests of Fatburger Holdings, Inc. or the plaintiff minority shareholders. The plaintiffs claim damages of \$20 million. The defendants dispute the allegations of the lawsuit and intend to vigorously defend against the claims.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors set forth in *Part I, Item 1A – Risk Factors* of our Annual Report as of and for the year ended December 31, 2006 on Form 10-K, as previously filed with the SEC on April 2, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Form 10-Q for the period ended September 30, 1999, as previously filed with the SEC on November 22, 1999 (File No. 000-23911).
- 3.2 Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.

- 4.1 Common Stock Certificate Specimen, incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.
- 4.2 Form of Registration Rights Agreement, incorporated by reference to Exhibit 10.8 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.
- 4.3 Form of Stock Option Plan, incorporated by reference to Exhibit 10.3 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.
- 4.4 Waiver, Release, Delegation and Amendment to Stock Option and Voting Agreement among Andrew A. Wiederhorn, Lawrence A. Mendelsohn, Joyce Mendelsohn, Tiffany Wiederhorn, and the Registrant, dated July 31, 2002, incorporated by reference to Exhibit 2.1 to the Form 8-K dated August 8, 2002, as previously filed with the SEC on August 15, 2002.
- 4.5 Summary of Rights to Purchase Shares, incorporated by reference to Exhibit 99.1 to the Form 8-K dated October 18, 2002, as previously filed with the SEC on October 18, 2002.
- 4.6 Rights Agreement dated as of October 18, 2002 between the Registrant and The Bank of New York, incorporated by reference to Exhibit 1 to Form 8-A, as previously filed with the SEC on October 29, 2002.
- 4.7 Amendment to the Rights Agreement, dated as of May 1, 2004, by and between the Registrant and The Bank of New York, as previously filed with the SEC on March 30, 2005.
- 4.8 Long Term Vesting Trust Agreement among the Registrant and Lawrence Mendelsohn, Andrew Wiederhorn and David Egelhoff, dated October 1, 2000, incorporated by reference to Exhibit 4.4 to the Form 10-K for the year ended December 31, 2002, as previously filed with the SEC on March 3, 2003.
- 4.9 Amendment Number 1 to the Long Term Vesting Trust Agreement dated as of September 19, 2002, by and between the Registrant and Andrew Wiederhorn, Don Coleman, and David Dale-Johnson, as previously filed with the SEC on March 30, 2005.
- 4.10 Amendment Number 2 to the Long Term Vesting Trust Agreement, dated as of May 26, 2004, by and between the Registrant and Andrew Wiederhorn, Don Coleman, and David Dale-Johnson, as previously filed with the SEC on March 30, 2005.
- 11.1 Computation of Per Share Earnings.
- 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 the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FOG CUTTER CAPITAL GROUP INC.

By: /s/ Andrew A. Wiederhorn

Andrew A. Wiederhorn
Chief Executive Officer

By: /s/ R. Scott Stevenson

R. Scott Stevenson
Senior Vice President and Chief Financial Officer

Date: November 13, 2007

EXHIBIT INDEX

- 3.1 Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Form 10-Q for the period ended September 30, 1999, as previously filed with the SEC on November 22, 1999 (File No. 000-23911).
- 3.2 Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.
- 4.1 Common Stock Certificate Specimen, incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.
- 4.2 Form of Registration Rights Agreement, incorporated by reference to Exhibit 10.8 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.
- 4.3 Form of Stock Option Plan, incorporated by reference to Exhibit 10.3 to Amendment No. 3 to the Registration Statement (Registration No. 333-39035) on Form S-11, as previously filed with the SEC on March 30, 1998.
- 4.4 Waiver, Release, Delegation and Amendment to Stock Option and Voting Agreement among Andrew A. Wiederhorn, Lawrence A. Mendelsohn, Joyce Mendelsohn, Tiffany Wiederhorn, and the Registrant, dated July 31, 2002, incorporated by reference to Exhibit 2.1 to the Form 8-K dated August 8, 2002, as previously filed with the SEC on August 15, 2002.
- 4.5 Summary of Rights to Purchase Shares, incorporated by reference to Exhibit 99.1 to the Form 8-K dated October 18, 2002, as previously filed with the SEC on October 18, 2002.
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- 32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

COMPUTATION OF EARNINGS (LOSS) PER COMMON SHARE

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Diluted earnings (loss) per share from continuing operations:				
Net income (loss) from continuing operations available to common shareholders	\$ 65,000	\$ (868,000)	\$ (9,505,000)	\$ (3,669,000)
Weighted average number of shares outstanding	7,957,428	7,957,428	7,957,428	7,957,428
Net effect of dilutive stock options based on treasury stock method	-	-	-	-
Total average shares.....	<u>7,957,428</u>	<u>7,957,428</u>	<u>7,957,428</u>	<u>7,957,428</u>
Fully diluted earnings (loss) per share from continuing operations	\$ 0.01	\$ (0.11)	\$ (1.19)	\$ (0.46)

CERTIFICATION

EXHIBIT 31.1

I, Andrew A. Wiederhorn, Chief Executive Officer of Fog Cutter Capital Group Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fog Cutter Capital Group 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 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)) 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) 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
 - (c) 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 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 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 function):
 - (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: November 13, 2007

/s/ ANDREW A. WIEDERHORN
Andrew A. Wiederhorn
Chief Executive Officer

CERTIFICATION

EXHIBIT 31.2

I, R. Scott Stevenson, Chief Financial Officer of Fog Cutter Capital Group Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fog Cutter Capital Group 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 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)) 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) 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
 - (c) 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 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 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 function):
 - (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: November 13, 2007

/s/ R. SCOTT STEVENSON

R. Scott Stevenson
Chief Financial Officer

Section 906 Certification
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER OR
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying quarterly report on Form 10-Q of Fog Cutter Capital Group Inc. for the quarter ended September 30, 2007 (the "Report"), I, Andrew A. Wiederhorn, Chief Executive Officer of Fog Cutter Capital Group Inc., hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Fog Cutter Capital Group Inc.

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report.

November 13, 2007

/s/ Andrew A. Wiederhorn

Date

Andrew A. Wiederhorn
Chief Executive Officer

A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Section 906 Certification
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER OR
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying quarterly report on Form 10-Q of Fog Cutter Capital Group Inc. for the quarter ended September 30, 2007 (the "Report"), I, R. Scott Stevenson, Senior Vice President and Chief Financial Officer of Fog Cutter Capital Group Inc., hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Fog Cutter Capital Group Inc.

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report.

November 13, 2007

/s/ R. Scott Stevenson

Date

R. Scott Stevenson
Senior Vice President and Chief
Financial Officer

A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.