

PRECISION AUTO CARE, INC.

A Virginia Corporation

Quarterly Report

December 31, 2016

Item 1 **Exact name of the issuer and the address of its principal executive offices.**

The name of the issuer is ôPrecision Auto Care, Inc.ô The issuer did not acquire capital or assets from a predecessor during the preceding five year period.

Precision Auto Care, Inc.
748 Miller Drive, S.E.
Leesburg, VA 20175
Phone: (703) 777-9095
Fax: (703) 771-7108
Website: www.precisiontune.com

Investor Relations: Robert R. Falconi
Phone: (703) 777-9095
E-mail: robert.falconi@precisionac.com
748 Miller Drive, S.E.
Leesburg, VA 20175

Item 2 **Shares outstanding.**

The Company had 6,720 Preferred Class A Stock shares outstanding, and 19,402,468 Common Stock shares outstanding as of 12/31/2016. Our CUSIP No. is 74018R105 and our Trading Symbol is PACI.

A. Par or Stated Value for each class of outstanding securities.

Preferred Class A Stock - Par Value \$10.36
Authorized Common Stock - Par Value \$0.01

B. The number of shares or total amount of the securities outstanding for each class of securities outstanding.

Common Stock	
(i) Period End Date	December 31, 2016
(ii) Authorized	39,000,000
(iii) Issued and Outstanding	19,402,468
(iv) Freely tradable shares (public float)	7,362,104
(v) Number of shareholders of record	159

Class A Preferred Stock	
(i) Period End Date	December 31, 2016
(ii) Authorized	1,000,000
(iii) Issued and Outstanding	6,720
(iv) Freely tradable shares (public float)	-
(v) Number of shareholders of record	2

C. Transfer agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Phone: (718) 921-8200
Fax: (718) 236-2641

American Stock Transfer & Trust Company has registered under the Securities Exchange Act of 1934.

PRECISION AUTO CARE, INC.

**Consolidated Financial Statements
as of
December 31, 2016**

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, <u>2016</u> (unaudited)	June 30, <u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 2,956,338	\$ 3,122,257
Accounts receivable, net of allowance of \$16,000 and \$19,000, respectively	357,756	560,378
Notes receivable.....	63,707	93,960
Deferred tax asset.....	829,201	829,201
Inventory and other assets	<u>1,569,953</u>	<u>1,052,671</u>
Total current assets.....	5,776,955	5,658,467
Property and equipment, net	5,701,496	5,830,659
Goodwill	11,410,734	11,350,034
Notes receivable, net of allowances of \$17,000 and \$18,000	184,138	135,394
Deferred tax asset	971,887	1,225,387
Deposits and other	<u>171,828</u>	<u>166,830</u>
Total assets.....	<u>\$ 24,217,038</u>	<u>\$ 24,366,771</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line-of-credit	\$ -	\$ -
Notes payable and capital lease obligation- current.....	274,435	320,560
Accounts payable and accrued liabilities.....	612,250	880,763
Taxes payable	104,855	159,704
Accrued commission payable	91,956	140,862
Accrued salaries and related expenses	489,834	492,039
Due to related party.....	159,871	159,922
Deferred revenue.....	<u>14,090</u>	<u>72,990</u>
Total current liabilities	1,747,291	2,226,840
Notes payable and capital lease obligation, net of current portion.....	<u>1,043,694</u>	<u>1,173,279</u>
Total liabilities	2,790,985	3,400,119
Commitments and contingencies	-	-
Series A redeemable preferred stock, \$10.36 par value; 1,000,000 shares authorized; 6,720 shares issued and outstanding	69,619	69,619
Stockholders' equity:		
Common stock, \$.01 par value; 39,000,000 shares authorized; 19,402,468 and 19,227,468 shares issued and outstanding	194,025	192,275
Additional paid-in capital	64,622,023	64,502,523
Accumulated deficit	<u>(43,459,614)</u>	<u>(43,797,765)</u>
Total stockholders' equity.....	<u>21,356,434</u>	<u>20,897,033</u>
Total liabilities and stockholders' equity.....	<u>\$ 24,217,038</u>	<u>\$ 24,366,771</u>

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2016 (unaudited)	2015 (unaudited)
Revenues:		
Franchise royalties	\$ 1,938,364	\$ 1,984,033
Franchise development.....	5,695	15,703
Company-operated store retail sales	4,884,504	4,396,241
Other	<u>80,272</u>	<u>80,639</u>
Total revenues.....	6,908,835	6,476,616
Direct costs:		
Franchise support costs	1,201,095	1,030,645
Company-operated store retail costs	<u>4,763,565</u>	<u>4,248,908</u>
Total direct costs.....	5,964,660	5,279,553
General and administrative expenses	708,025	745,939
Depreciation and amortization expenses	<u>200,880</u>	<u>182,516</u>
Operating income	35,270	268,608
Interest expense	(11,984)	(10,244)
Interest income	1,310	1,072
Other income.....	<u>35,345</u>	<u>22,879</u>
Total other income	<u>24,671</u>	<u>13,707</u>
Income before income taxes	59,941	282,315
Provision for income taxes.....	<u>(26,000)</u>	<u>(122,000)</u>
Net income	33,941	160,315
Preferred stock dividends.....	<u>348</u>	<u>348</u>
Net income applicable to common shareholders.....	<u>\$ 33,593</u>	<u>\$ 159,967</u>
Net income per common share- Basic	\$ 0.00	\$ 0.01
Net income per common share- Diluted	\$ 0.00	\$ 0.01
Weighted average common shares outstanding- Basic.....	19,306,272	19,227,468
Weighted average common shares outstanding- Diluted	19,418,738	19,227,468

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended December 31,	
	2016 (unaudited)	2015 (unaudited)
Revenues:		
Franchise royalties	\$ 4,057,973	\$ 4,072,179
Franchise development.....	6,157	17,703
Company-operated store retail sales	9,957,933	8,746,902
Other	<u>163,748</u>	<u>159,481</u>
Total revenues.....	14,185,811	12,996,265
Direct costs:		
Franchise support costs	2,256,477	2,068,217
Company-operated store retail costs	<u>9,569,876</u>	<u>8,386,954</u>
Total direct costs.....	11,826,353	10,455,171
General and administrative expenses	1,444,437	1,481,219
Depreciation and amortization expenses	<u>393,995</u>	<u>358,247</u>
Operating income	521,026	701,628
Interest expense	(24,529)	(19,378)
Interest income	2,470	1,933
Other income	<u>93,380</u>	<u>33,724</u>
Total other income	<u>71,321</u>	<u>16,279</u>
Income before income taxes	592,347	717,907
Provision for income taxes.....	<u>253,500</u>	<u>319,500</u>
Net income	338,847	398,407
Preferred stock dividends.....	<u>696</u>	<u>696</u>
Net income applicable to common shareholders.....	<u>\$ 338,151</u>	<u>\$ 397,711</u>
Net income per common share- Basic	\$ 0.02	\$ 0.02
Net income per common share- Diluted	\$ 0.02	\$ 0.02
Weighted average common shares outstanding- Basic.....	19,267,085	19,227,468
Weighted average common shares outstanding- Diluted	19,365,514	19,227,468

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31,	
	2016 (unaudited)	2015 (unaudited)
Operating activities:		
Net income applicable to common shareholders.....	\$ 338,151	\$ 397,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	393,995	358,247
Stock based compensation.	-	23,027
Bad debt expense.....	400	3,620
Deferred taxes.	253,500	319,500
Changes in assets and liabilities:		
Accounts and notes receivable.	183,731	129,632
Inventory, prepaid expenses, deposits and other.	(522,280)	(282,269)
Accounts payable and accrued liabilities	(373,777)	(537,298)
Due to related party	(51)	(31,030)
Deferred revenue and other	<u>(58,900)</u>	<u>(15,695)</u>
Net cash provided by operating activities	214,769	365,445
Investing activities:		
Purchases of property and equipment.....	(247,532)	(777,968)
Purchase of company-operated stores.....	<u>(19,000)</u>	<u>(140,000)</u>
Net cash used in investing activities.....	(266,532)	(917,968)
Financing activities:		
Proceeds from issuance of common stock.....	121,250	-
Payment of preferred stock dividends.....	(696)	(696)
Payment of notes payable and capital lease obligation	<u>(234,710)</u>	<u>(261,503)</u>
Net cash used in financing activities	<u>(114,156)</u>	<u>(262,199)</u>
Net change in cash and cash equivalents.....	(165,919)	(814,722)
Cash and cash equivalents at beginning of year.....	<u>3,122,257</u>	<u>3,197,401</u>
Cash and cash equivalents at end of period.	<u>\$ 2,956,338</u>	<u>\$ 2,382,679</u>
Cash paid for the period for:		
Interest.....	<u>\$ 24,529</u>	<u>\$ 19,378</u>
Income taxes.....	<u>\$ 49,817</u>	<u>\$ 18,881</u>
Supplemental schedule of non-cash investing and finance activities:		
Property acquired under term loanë ë ë ë ë ë ë ë ..ë ë ë ë ë ë ë ë ë	<u>\$ -</u>	<u>\$ 650,000</u>
Company-operated stores acquired under notes payableë ë ë ë ë ë ë ë ë .	<u>\$ 59,000</u>	<u>\$ 85,000</u>

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2016

	<u>Common Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at June 30, 2016	19,227,468	\$192,275	\$64,502,523	\$(43,797,765)	\$20,897,033
Issuance of common stock.....	175,000	1,750	119,500	ò	121,250
Net income	<u>ò</u>	<u>ò</u>	<u>ò</u>	<u>338,151</u>	<u>338,151</u>
Balance at December 31, 2016..	<u>19,402,468</u>	<u>\$194,025</u>	<u>\$64,622,023</u>	<u>\$(43,459,614)</u>	<u>\$21,356,434</u>

See accompanying notes.

Note 1 – Interim Financial Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments consisting primarily of recurring accruals considered necessary for a fair presentation have been included. Operating results for such interim periods are not necessarily indicative of the results, which may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes included in Precision Auto Care Inc.'s (the "Company") annual report posted by the Company at www.otcmarkets.com, Financials, for the year ended June 30, 2016.

Unless the context requires otherwise, all references to the Company herein mean Precision Auto Care, Inc. and those entities owned or controlled by Precision Auto Care, Inc. Significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Note 2 – Accounting Policy

Goodwill and Intangible Assets

Goodwill represents the excess of cost of the acquired net assets over the net amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather evaluated for impairment at least annually. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. Impairment testing is performed in the first quarter of each fiscal year and management concluded that after this years review the carrying value of goodwill was not impaired.

Stock Option Plan

A summary of option activity under all plans as of December 31, 2016, and changes during the period then ended is presented below:

	Shares <u>Under Option</u>	Weighted- Average Exercise <u>Price</u>	Weighted-Average Remaining <u>Contractual Term</u>
June 30, 2016	440,000	\$0.54	8.82
Options granted	-	-	
Options exercised	-	-	
Options forfeited.....	-	-	
December 31, 2016.....	440,000	\$0.54	8.32

Note 3 – Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the period plus the dilutive effect of common stock equivalents. The number of shares outstanding related to stock options at December 31, 2016 and 2015 was 440,000. Only stock options with exercise prices lower than the average market price of the common shares were included in the diluted EPS calculation. For the three and six months ended December 31, 2016 and 2015, respectively, 0 and 440,000 shares attributable to outstanding stock options were excluded from the calculation of diluted income as they were anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share:

	<u>Three Months Ended</u> December 31,		<u>Six Months Ended</u> December 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Numerator:				
Net income	\$ 33,941	\$ 160,315	\$ 338,847	\$ 398,407
Preferred stock dividends	<u>(348)</u>	<u>(348)</u>	<u>(696)</u>	<u>(696)</u>
Net income applicable to common Shareholders	\$ 33,593	\$ 159,967	\$ 338,151	\$ 397,711
Denominator:				
Denominator for basic EPS weighted-average-shares	19,306,272	19,227,468	19,267,085	19,227,468
Common stock equivalents- stock options	<u>112,466</u>	<u>-</u>	<u>98,429</u>	<u>-</u>
Denominator for diluted EPS weighted-average-shares	19,418,738	19,227,468	19,365,514	19,227,468
Basic earnings per share applicable to common shareholders	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.02
Diluted earnings per share applicable to common shareholders	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.02

Note 4 - Contingencies

The Company is subject to litigation that could have a material adverse impact on its liquidity (see Item 5 Interim Financial Statements - Legal Proceedings). Management believes a material adverse impact from these claims is remote as many have been outstanding for more than a few years.

Note 5 - Company-store transactions

The Company purchased one automotive service center during the six months ended December 31, 2016 for approximately \$78,000. At the closing, the Company paid approximately \$19,000 with the remaining balance, \$59,000, being financed with an interest free note payable.

The Company purchased two automotive service centers during the six months ended December 31, 2015 for an aggregate of approximately \$225,000. At the closings, the Company paid approximately \$140,000 with the remaining balances, \$85,000, being financed with interest free notes payables.

Note 6 - Real Estate Transaction

On December 2, 2015, the Company purchased the land and building of an existing franchisee in Apple Valley, MN for approximately \$1.1 million. At closing, the Company paid approximately \$450,000 with the remaining balance, \$650,000, financed with a five-year term loan at an interest rate of 4.5% with seller. The Company will continue to lease the property and building to the current franchisee. The monthly rental income will be recognized as other income.

Note 7 - Director Stock Purchase Plan

Pursuant to the Company's 2016 Director Stock Purchase Plan (the "Plan"), effective September 23, 2016, and approved by the shareholders on November 16, 2016, each of the Company's active members of the Board of Directors was offered an opportunity to purchase common stock of the Company. This benefit, offered on an annual basis to each director, allows a director to purchase no less than 25,000 shares of the Company's common stock and no more than 75,000 shares of the Company's common stock at a purchase price equal to the then-current fair-market value of the common stock of the Company at the time a director exercises his right to purchase shares. In addition to the limitation placed upon each director, each annual offering is limited to no more than 200,000 shares of the common stock of the Company. In the event an annual offering is oversubscribed, shares will be sold on a pro-rata basis. In the event an annual offering is undersubscribed, any unsubscribed shares will be returned to the Plan for issuance at a later date because the Board of Directors has decided that the maximum benefit available to each director on an annual basis will not exceed 75,000 shares. Pursuant to the Director Stock Purchase Plan, during the six months ended December 31, 2016 active directors of the Company purchased 175,000 shares of common stock providing cash proceeds to the Company of \$121,250.

Note 8 ñ Recently Issued Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance for the reporting of revenue from contracts with customers. This guidance provides guidelines a company will apply to determine the measurement of revenue and timing of when it is recognized. In August 2015, the FASB delayed the effective date of the guidance to fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date for public entities. In May 2016, the FASB finalized its amendments to this guidance by providing narrow-scope improvements and practical expedients to implementation. The Company is currently evaluating the potential effect of the adoption of this guidance on our Consolidated Financial Statements.

In July 2015, the FASB issued new accounting guidance for the reporting of inventory. This guidance requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company has elected early adoption of this guidance during the fiscal year ended June 30, 2016. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In September 2015, the FASB issued new accounting guidance that is intended to simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. This guidance requires an entity to present separately on the face of the income statement or disclose in the notes the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for fiscal years and for interim periods within those years beginning after December 15, 2015. The Company feels the adoption of this guidance will not have a material impact on our Consolidated Financial Statements.

In November 2015, the FASB issued new accounting guidance related to the balance sheet classification of deferred taxes. This guidance will require that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. Upon adoption, the standard shall be applied retrospectively to all periods presented. The Company is currently evaluating the potential effect of the adoption of this guidance on our Consolidated Financial Statements.

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. Most prominent among the amendments is the recognition of assets and liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. Under the new standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The new standard will be effective for the Company beginning July 1, 2019, with early adoption permitted. The Company anticipates this standard will have a material impact on our Consolidated Financial Statements, and we are currently evaluating its impact.

In March 2016, the FASB issued new accounting guidance intended to simplify various aspects related to accounting for share-based payments and their presentation in the financial statements. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the potential impact of the adoption of this guidance on our Consolidated Financial Statements.

Other recent authoritative guidance issued by the FASB (including technical corrections to the Accounting Standards Codification) did not, or are not expected to have a material effect on our Consolidated Financial Statements.

Item 4 Management's discussion and analysis or plan of operation.

The following discussion and analysis and plan of operation of Precision Auto Care, Inc. (the "Company") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto included in "Item 5. ñ Interim Financial Statements" of this quarterly report and the audited consolidated financial statements and notes thereto and the section titled "Management's Discussion and Analysis or Plan of Operation" in the Company's annual report for the fiscal year ended June 30, 2016 posted by the Company at www.otcmartket.com, Financials, on September 22, 2016. Historical results and percentage relationships set forth herein are not necessarily indicative of future operations.

The Company's subsidiary, Precision Franchising LLC (PFL), a Virginia limited liability company and subsidiary of the Company is a franchisor of automotive service centers located in the United States and in certain foreign countries. In addition, the

Company's subsidiary, PTAC Operating Centers, Inc. (PTACOC), a Virginia corporation and also a subsidiary of the Company, operates forty-two company-owned centers in Virginia (8), Maryland (12), Texas (4), Ohio (3), Washington (4), Nevada (1), Michigan (1), Kansas (1), Florida (1), Missouri (1), Minnesota (5) and Pennsylvania (1). Through its company and franchised centers, services are provided to automobile owners and focus on those high-frequency items required on a periodic basis to maintain the vehicle properly.

Critical Accounting Policies

The following is a summary of the Company's critical accounting policies. These critical accounting policies require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. Due to their nature, estimates involve judgments based on available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the consolidated financial statements. Therefore, understanding these policies is important in understanding the reported results of operations and the financial position of the Company.

Revenue Recognition

PFL enters into domestic Area Development agreements which grant the area developer the right to solicit prospective franchisees for the operation of Precision Tune Auto Care centers within a specific geographic region. Revenues from the sale of Area Development agreements are recognized when all material services or conditions related to the agreements are satisfied and to the extent no known issues involving collection exist.

PFL enters into international Master Franchise agreements which grant the master franchisee the right to sell franchises for the operation of Precision Tune Auto Care centers within a specific geographic region. Revenues from the sale of international Master Franchise agreements are recognized when all material services or conditions related to the agreements are satisfied and the Company has received any payments that are due.

Revenues from the sale of a franchise are recognized when all material services and conditions have been satisfied, generally at the opening of the franchised center and to the extent no known issues involving collection exist.

Domestic royalty revenues are recognized in the period earned and to the extent no known issues involving collection exist. In cases where revenues are not likely to be collected, the Company establishes reserves for such amounts. Such reserves are based upon our historical collection experience with the various franchisees taking into consideration the financial stability of such franchisees.

The Company's international royalty and development revenues are recognized when all material services or conditions related to the agreements are satisfied and payment is received.

Product services in the form of equipment and other marketing materials related to sales are recognized upon delivery to the franchisee.

Retail revenues are realized from providing maintenance and repair services, as well as from the parts that are provided as part of that service to the general public. Revenues are recognized when the service is performed.

Goodwill

Goodwill represents the excess of cost of the acquired net assets over the net amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather evaluated for impairment at least annually. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. Impairment testing is performed in the first quarter of each fiscal year, and after this year's review, management concluded that the carrying value of goodwill was not impaired.

Income Taxes

The Company recognizes deferred income tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets reflect the effects of tax losses and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company recognizes deferred tax assets if it is more likely than not that the asset will be realized in future years.

The Company regularly reviews the recoverability of its deferred tax assets and establishes a valuation allowance as deemed appropriate. In assessing the need for a valuation allowance against the deferred tax asset, management considers factors such as future reversals of existing taxable temporary differences, tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards.

While the Company anticipates recognizing a full provision in future periods, the Company expects to pay only alternative minimum tax and state taxes until such time that its net operating loss carryforwards are fully utilized.

Results of Operations

Comparison of the three months ended December 31, 2016 to the three months ended December 31, 2015

Summary (in thousands)

	Three Months Ended December 31,			
	2016	%	2015	%
Automotive care franchising revenues	\$1,944	28	\$2,000	31
Company-operated store retail sales	4,885	71	4,396	68
Other	<u>80</u>	<u>1</u>	<u>81</u>	<u>1</u>
Total revenues	<u>\$6,909</u>	100%	<u>\$6,477</u>	100%
Franchise support costs	1,154	17	984	15
Company-operated store retail costs	4,764	69	4,249	66
Other	<u>47</u>	<u>-</u>	<u>47</u>	<u>-</u>
Total direct costs	<u>5,965</u>	86	<u>5,280</u>	81
General and administrative expenses	708	10	746	12
Depreciation and amortization expenses	201	3	183	3
Operating income	35	1	268	4
Other income, net	25	-	14	-
Income before income taxes	60	1	282	4
Provision for income taxes	<u>26</u>	<u>-</u>	<u>122</u>	<u>2</u>
Net income	<u>34</u>	<u>1</u>	<u>160</u>	<u>2</u>
Preferred stock dividends	-	-	-	-
Net income applicable to common shareholders	<u>\$ 34</u>	<u>1%</u>	<u>\$ 160</u>	<u>2%</u>

Revenues. Total revenues for the three months ended December 31, 2016 were approximately \$6.9 million, an increase of approximately \$432,000, or 7%, compared with total revenues of approximately \$6.5 million for the three months ended December 31, 2015.

Automotive care franchising revenues for the three months ended December 31, 2016 were approximately \$1.9 million, a decrease of approximately \$56,000 or 3%, compared to \$2.0 million for the three months ended December 31, 2015. The decrease in automotive care franchising revenues was driven by a decrease in product service revenues of approximately \$53,000.

Company-operated store retail sales for the three months ended December 31, 2016 were \$4.9 million, an increase of approximately \$489,000, or 11%, compared to \$4.4 million for the three months ended December 31, 2015. Approximately \$402,000 of the increase in retail revenues was due to an increase in the number of company-operated stores during the three months ended December 31, 2016. There were forty-two company-operated stores generating revenue during the three months ended December 31, 2016 compared to thirty-eight company-operated stores during the three months ended December 31, 2015. The balance of the increase of approximately \$87,000 was due to a 2.0% increase in same store sales during the three months ended December 31, 2016.

Other revenues for the three months ended December 31, 2016 were approximately \$80,000, which was consistent with the three months ended December 31, 2015.

Direct Costs. Total direct costs for the three months ended December 31, 2016 totaled \$6.0 million, an increase of \$685,000 or 13%, compared with \$5.3 million for the three months ended December 31, 2015.

Franchise support costs for the three months ended December 31, 2016 were \$1.2 million, an increase of \$170,000 or 17%, compared with \$984,000 for the three months ended December 31, 2015. During the three months ended December 31, 2016, the Company incurred expenses of approximately \$187,000 for its bi-annual convention in Atlanta, GA. There were no comparable expenses in the three months ended December 31, 2015.

For the three months ended December 31, 2016, company-operated store retail costs, which included an internal cost allocation of approximately \$153,000, were \$4.8 million, an increase of approximately \$515,000, or 12%, compared to \$4.2 million for the three months ended December 31, 2015, which included an internal cost allocation of approximately \$200,000. The increase in the retail costs was due to the additional number of company-operated stores. There were forty-two company-operated stores operating during the three months ended December 31, 2016 compared to thirty-eight company-operated stores during the three months ended December 31, 2015. That increase was offset by the fact that the Company incurred expenses of approximately \$44,000 related to the bi-annual company store manager's meeting in Baltimore, MD during the three months ended December 31, 2015. There were no comparable expenses in the three months ended December 31, 2016.

Other direct costs the three months ended December 31, 2016 were approximately \$47,000, which was consistent with the three months ended December 31, 2015.

General and Administrative Expenses. General and administrative expenses were \$708,000 for the three months ended December 31, 2016, a decrease of \$38,000 or 5%, compared with \$746,000 for the three months ended December 31, 2015. The decrease in general and administrative expenses was primarily due to a decrease in outside legal expenses during the three months ended December 31, 2016.

Operating Income. The Company recorded operating income for the three months ended December 31, 2016 of approximately \$35,000 compared with operating income of \$268,000 for the three months ended December 31, 2015. As previously discussed, the significant variable was the net increase of \$143,000 in expenses when comparing the bi-annual convention in Atlanta, GA in the three months ended December 31, 2016 to expenses from the company store manager's meeting in the three months ended December 31, 2015.

Other Income, net. The Company recorded other income of \$25,000 for the three months ended December 31, 2016, which represents an increase of approximately \$11,000 or 79%, compared to \$14,000 for the three months ended December 31, 2015. The increase in other income was primarily due to the additional rental income of approximately \$10,000 for the three months ended December 31, 2016 related to the property in Apple Valley, MN purchased in December 2015.

Income Taxes. The Company's effective tax rate for the three months ended December 31, 2016 and 2015 was approximately 43%.

Net Income Applicable to Common Shareholders and Earnings Per Share. The Company recorded Net Income Applicable to Common Shareholders of \$34,000, or \$0.00 per share, for the three months ended December 31, 2016 compared to Net Income Applicable to Common Shareholders of \$160,000, or \$0.01 per share, for the three months ended December 31, 2015.

Results of Operations

Comparison of the six months ended December 31, 2016 to the six months ended December 31, 2015

Summary (in thousands)

	Six Months Ended December 31,			
	2016	%	2015	%
Automotive care franchising revenues	\$ 4,064	29	\$ 4,090	32
Company-operated store retail sales	9,958	70	8,747	67
Other	163	1	159	1
Total revenues	<u>\$14,185</u>	100%	<u>\$12,996</u>	100%
Franchise support costs	2,159	15	1,976	15
Company-operated store retail costs	9,570	67	8,386	65
Other	97	1	93	1
Total direct costs	<u>11,826</u>	83	<u>10,455</u>	81
General and administrative expenses	1,444	10	1,481	11
Depreciation and amortization expenses	394	3	358	3
Operating income	521	4	702	5
Other income, net	71	-	16	-
Income before income taxes	592	4	718	5
Provision for income taxes	253	2	320	2
Net income	<u>339</u>	2	<u>398</u>	3
Preferred stock dividends	1	-	1	-
Net income applicable to common shareholders	<u>\$338</u>	2%	<u>\$397</u>	3%

Revenues. Total revenues for the six months ended December 31, 2016 were approximately \$14.2 million, an increase of approximately \$1.2 million, or 9%, compared with total revenues of approximately \$13.0 million for the six months ended December 31, 2015.

Automotive care franchising revenues for the six months ended December 31, 2016 were approximately \$4.0 million, which was consistent with the six months ended December 31, 2015.

Company-operated store retail sales for the six months ended December 31, 2016 were \$9.9 million, an increase of approximately \$1.2 million, or 14%, compared to \$8.7 million for the six months ended December 31, 2015. Approximately \$944,000 of the increase in retail revenues was due to an increase in the number of company-operated stores during the six months ended December 31, 2016. There were forty-two company-operated stores generating revenue during the six months ended December 31, 2016 compared to thirty-eight company-operated stores during the six months ended December 31, 2015. The balance of the increase of approximately \$256,000 was due to a 2.8% increase in same store sales during the three months ended December 31, 2016.

Other revenues for the six months ended December 31, 2016 were \$163,000, an increase of approximately \$4,000, or 3%, compared to \$159,000 for the six months ended December 31, 2015. The increase in other revenues was due to an increase in revenues from rebate and training programs of \$3,000 and an increase of \$1,000 from support fees associated with the point of sale system.

Direct Costs. Total direct costs for the six months ended December 31, 2016 totaled approximately \$11.8 million, an increase of \$1.3 million or 13%, compared with approximately \$10.5 million for the six months ended December 31, 2015.

Franchise support costs for the six months ended December 31, 2016 totaled \$2.2 million, an increase of approximately \$183,000 or 9%, compared to \$2.0 million for the six months ended December 31, 2015. During the six months ended December 31, 2016, the Company incurred expenses of approximately \$187,000 for its bi-annual convention in Atlanta, GA. There were no comparable expenses in the six months ended December 31, 2015.

For the six months ended December 31, 2016, company-operated store retail costs, which included an internal cost allocation of approximately \$311,000, were \$9.6 million, an increase of approximately \$1.2 million, or 14%, compared to \$8.4 million for the six months ended December 31, 2015, which included an internal cost allocation of approximately \$367,000. The increase in retail costs was due to the increase in the number of company-operated stores. There were forty-two company-operated stores incurring costs during the six months ended December 31, 2016 compared to thirty-eight company-operated stores during the six months ended December 31, 2015. That increase was offset by the fact that the Company incurred expenses of approximately \$44,000 related to the bi-annual company store manager's meeting in Baltimore, MD during the six months ended December 31, 2015. There were no comparable expenses in the six months ended December 31, 2016.

Other direct costs for the six months ended December 31, 2016 totaled \$97,000, an increase of \$4,000 or 4%, compared with \$93,000 for the six months ended December 31, 2015. The increase in other direct costs was primarily due to an increase in expenses related to the rebate and training programs.

General and Administrative Expenses. General and administrative expenses for the six months ended December 31, 2016 were approximately \$1.4 million, which was consistent with the six months ended December 31, 2015.

Operating Income. The Company recorded operating income for the six months ended December 31, 2016 of approximately \$522,000 compared with operating income of \$702,000 for the six months ended December 31, 2015. The significant variable was the net increase of \$143,000 in expenses when comparing the bi-annual convention in Atlanta, GA in the six months ended December 31, 2016 to expenses from the company store manager's meeting in the six months ended December 31, 2015.

Other Income, net. The Company recorded other income of \$71,000 for the six months ended December 31, 2016 compared to \$16,000 for the six months ended December 31, 2015. The increase in other income was principally due to the additional rental income of approximately \$48,000 recognized during the six months ended December 31, 2016 related to the property in Apple Valley, MN purchased in December 2015.

Income Taxes. The Company's effective tax rates for the six months ended December 31, 2016 and 2015 was approximately 43% and 45%, respectively. The increase in the effective tax rate was a result of the non-deductible stock compensation expense incurred during the six months ended December 31, 2015.

Net Income Applicable to Common Shareholders and Earnings Per Share. The Company recorded Net Income Applicable to Common Shareholders of \$338,000, or \$0.02 per share, for the six months ended December 31, 2016 compared to Net Income Applicable to Common Shareholders of \$397,000, or \$0.02 per share, for the six months ended December 31, 2015.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash at December 31, 2016 was \$3.0 million. During the period, cash provided by operations was approximately \$215,000.

Cash used in investing activities for the six months ended December 31, 2016 was approximately \$267,000. Cash used in investing activities during the six months ended December 31, 2016 consisted of the purchase of property and equipment of approximately \$248,000 for use in the company-store operations and \$19,000 for the purchase of a company-operated store.

Cash used in financing activities for the six months ended December 31, 2016 was approximately \$114,000. Cash used in financing activities during the period consisted of proceeds from issuance of common stock (see Note 7) and payments of preferred dividends and notes payables.

Management believes that the Company's current cash balance, cash generated from operations, and the currently unused \$500,000 credit line with Capital One Bank will be sufficient to meet the Company's working capital needs, capital expenditures, and contractual obligations for fiscal year 2017. At December 31, 2016, the entire line was available.

Seasonality and Quarterly Fluctuations

Seasonal changes may impact various sectors of the Company's business differently and, accordingly, the Company's operations may be affected by seasonal trends in certain periods. In particular, severe weather in winter months can adversely affect the Company because such weather makes it difficult for consumers in affected parts of the country to travel to Precision Tune Auto Care centers.

Item 5 Legal proceedings.

Any current, past, pending, or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past, or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.

From time to time, the Company and its subsidiaries are subject to litigation in the ordinary course of business, including contract, franchisee and employment-related litigation. In the course of enforcing its rights under existing and former franchisee agreements, the Company is subject to complaints and letters threatening litigation concerning the interpretation and applicability of these agreements, particularly in cases involving defaults and terminations of franchises.

The Company is involved in litigation. The details of the litigation are as follows:

Active Claims

Elaine Cain v. Precision Tune, Florence County Court of Common Pleas, South Carolina, C/A NO: 2014-CP-21-926, Filed April 11, 2014.

The plaintiff, Ms. Elaine Cain, was a customer at a Precision Tune Auto Care center (the "Center") in Florence, South Carolina. She alleges she brought her vehicle to the Center for service and that, while servicing the vehicle, a technician at the Center caused the transmission to fall out of the vehicle damaging the transmission beyond repair. Ms. Cain claims actual, consequential, and punitive damages for breach of contract, fraud, negligence, gross negligence, intentional infliction of emotional distress, and negligent misrepresentation.

WTF, Inc. (WTF) owns and operates the Center pursuant to a Precision Tune Auto Care Franchise Agreement with Precision Franchising LLC (the "Company").

Neither the Company nor any affiliate of the Company (collectively the, "Named Defendant") owned or operated or had any control over the operation of the Center. Therefore, the Company believes the plaintiff has improperly sued the Named Defendant. The Company believes the proper defendant in this matter is WTF.

The Company communicated to WTF its belief that WTF should be the defendant in this matter, and WTF put its insurance carrier on notice of the plaintiff's claim.

WTF's insurance carrier assigned counsel to defend the Named Defendant, and assigned counsel has filed an answer on behalf of Named Defendant. Assigned counsel is currently in communication with plaintiff's counsel seeking to convince plaintiff's counsel to voluntarily dismiss Named Defendant and substitute WTF as the proper defendant.

As an improper party in this matter, the Company does not expect to incur any loss or cost in this matter. In addition WTF, as the franchisee of the Center, has an obligation to defend and indemnify the Company for claims by third parties against the Company, such as the claim made by the plaintiff.

Lumnivision, S.A. de C.V. v. Praxis Afinaciones, S.A. de C.V., Third Civil Court, First Judicial District, Monterrey, Nuevo Laredo, Mexico, Filed: 2002.

Lumnivision filed suit against Praxis Afinaciones, an indirect wholly owned subsidiary of the Company. Praxis Afinaciones denies the allegations.

The amount in controversy is 766,000 Mexican Pesos, plus interest at the rate of 5% per month, for services under a contract.

The Company is not aware of any activity in this matter since the initial lawsuit was filed, and the Company does not expect to incur liability in this matter.

United Bank, NA v. C. Eugene Deal, Miracle Partners, Inc., Star Auto Center, Inc., Common Pleas Court of Cuyahoga County, Ohio, Case No. 01-CV0019, Filed January 11, 2001.

Miracle Partners, Inc., a wholly-owned subsidiary of the Company, was party to a confessed judgment for approximately \$1.3 million. Miracle Partners, Inc. is currently inactive and has no assets.

Management believes this judgment will have no material impact on the company's consolidated results of operations. Furthermore, the Company believes it has a meritorious claim against Mr. Deal for misrepresentations made in connection with Precision Auto Care, Inc.'s acquisition of Miracle Partners, Inc. in 1997 for all amounts covered by the judgment.

Threatened Claim

Mouren-Laurens Oil Company v. National 60 Minute Tune, Inc. & Precision Tune, Inc., Joint Notice of Intent to Sue Pursuant to 42 U.S.C. §§6972, 9607 and 9613 and Cal. Health & Safety Code § 25363 Against Persons Alleged to Be Liable under the Comprehensive Environmental Responses, Compensation, and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA) and the California Hazardous Substances Account Act (HSAA), October 6, 2010.

This claim stems from an allegation that National 60 Minute Tune, Inc. (N60MT) and/or Precision Tune, Inc. (PTI) are culpable in the generation, storage, transportation, or disposal of hazardous waste in connection with the operation of two National 60 Minute Tune businesses, one operated in Compton, California (the Compton Location) and the other operated in Gardena, California (the Gardena Location).

Based upon the Company's records, there is no evidence PTI, N60MT, or any of their affiliates (the Company) operated or franchised the operation of a National 60 Minute Tune, Precision Tune, or Precision Tune Auto Care business at either the Compton or Gardena Locations. In addition, there is no evidence the Company ever had any ownership interest in the real property (leasehold or otherwise) at the Compton or Gardena Locations. Accordingly, the Company responded on October 22, 2010 to the Notice of Intent to Sue that there was no evidence in the Company's possession to support a claim by Mouren-Laurens Oil Company under CERCLA, RCRA, or HSAA.

* * * * *

The Company does not believe that any of the above proceedings will result in material judgments against the Company. There can be no assurance, however, that these suits will ultimately be decided in its favor. Any one of these suits may result in a material judgment against the Company, which could cause material adverse consequences to its operations.

Item 6 Defaults upon senior securities.

NONE.

Item 7 Other information.

NONE.

Item 8 Exhibits.

A) Material Contracts.

NOT APPLICABLE.

Item 9 Certifications.

CHIEF EXECUTIVE OFFICER CERTIFICATION:

I, Robert R. Falconi, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report of Precision Auto Care, Inc.,
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

IN WITNESS WHEREOF, the undersigned has executed this Certification as of this 2nd of February, 2017.

Certified By: /s/ Robert R. Falconi
Robert R. Falconi
Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION:

I, Mark P. Francis, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report of Precision Auto Care, Inc.,
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

IN WITNESS WHEREOF, the undersigned has executed this Certification as of this 2nd of February, 2017.

Certified By: /s/ Mark P. Francis
Mark P. Francis
Chief Financial Officer

[A signed original of this written certification will be retained by Precision Auto Care, Inc. and furnished to the OTC Markets Group, Inc. or its staff upon request.]