

PRECISION AUTO CARE, INC.

A Virginia Corporation

Quarterly Report

December 31, 2015

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

The name of the issuer is Precision Auto Care, Inc. 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 19,227,468 Common Stock shares outstanding as of 12/31/2015. 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, 2015
(ii) Authorized	39,000,000
(iii) Issued and Outstanding	19,227,468
(iv) Freely tradable shares (public float)	7,361,904
(v) Number of shareholders of record	153

Class A Preferred Stock	
(i) Period End Date	December 31, 2015
(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, 2015**

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2015 (unaudited)	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 2,382,679	\$ 3,197,401
Accounts receivable, net of allowance of \$17,506 and \$17,207, respectively	396,427	471,116
Notes receivable	109,867	123,456
Deferred tax asset.....	597,596	597,596
Inventory and other assets	<u>1,129,042</u>	<u>846,570</u>
Total current assets.....	4,615,611	5,236,139
Property and equipment, net	5,182,695	4,048,176
Goodwillí í	11,240,034	11,080,034
Notes receivable, net of allowances of \$21,000 and \$18,500	166,976	211,950
Deferred tax asset	1,847,330	2,166,830
Deposits and other	<u>162,866</u>	<u>162,867</u>
Total assets.....	<u>\$ 23,215,512</u>	<u>\$ 22,905,996</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line-of-credit	\$ -	\$ -
Notes payable and capital lease obligation- current.....	316,792	356,430
Accounts payable and accrued liabilities.....	592,372	803,190
Taxes payable	128,796	140,442
Accrued commission payable	107,539	120,129
Accrued salaries and related expenses	411,032	713,972
Due to related party.....	127,776	158,806
Deferred revenue.....	<u>15,895</u>	<u>31,590</u>
Total current liabilities	1,700,202	2,324,559
Notes payable and capital lease obligation, net of current portion.....	<u>1,271,337</u>	<u>758,202</u>
Total liabilities	2,971,539	3,082,761
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
Stockholdersø equity:		
Common stock, \$.01 par value; 39,000,000 shares authorized;		
19,227,468 shares issued and outstanding	192,275	192,275
Additional paid-in capital	64,502,523	64,479,496
Accumulated deficit	<u>(44,520,444)</u>	<u>(44,918,155)</u>
Total stockholdersø equity.....	<u>20,174,354</u>	<u>19,753,616</u>
Total liabilities and stockholdersø equity.....	<u>\$ 23,215,512</u>	<u>\$ 22,905,996</u>

See accompanying notes.

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

	Three Months Ended December 31,	
	2015 (unaudited)	2014 (unaudited)
Revenues:		
Franchise royalties	\$ 1,984,033	\$ 1,909,433
Franchise development.....	15,703	23,333
Company-operated store retail sales	4,396,241	3,857,244
Other	<u>80,639</u>	<u>89,348</u>
Total revenues.....	6,476,616	5,879,358
Direct costs:		
Franchise support costs	1,030,645	1,167,525
Company-operated store retail costs	<u>4,248,908</u>	<u>3,718,762</u>
Total direct costs.....	5,279,553	4,886,287
General and administrative expenses	745,939	696,843
Depreciation and amortization expenses	<u>182,516</u>	<u>167,361</u>
Operating income	268,608	128,867
Interest expense	(10,244)	(9,639)
Interest income	1,072	1,233
Other income.....	<u>22,879</u>	<u>38,403</u>
Total other income	<u>13,707</u>	<u>29,997</u>
Income before income taxes.....	282,315	158,864
Provision for income taxes.....	<u>(122,000)</u>	<u>(68,500)</u>
Net income	160,315	90,364
Preferred stock dividends.....	<u>348</u>	<u>348</u>
Net income applicable to common shareholders.....	<u>\$ 159,967</u>	<u>\$ 90,016</u>
Net income per common share- Basic	\$ 0.01	\$ 0.00
Net income per common share- Diluted.....	\$ 0.01	\$ 0.00
Weighted average common shares outstanding- Basic.....	19,227,468	19,227,468
Weighted average common shares outstanding- Diluted	19,227,468	19,227,468

See accompanying notes.

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

	Six Months Ended December 31,	
	2015 (unaudited)	2014 (unaudited)
Revenues:		
Franchise royalties	\$ 4,072,179	\$ 4,024,988
Franchise development.....	17,703	51,333
Company-operated store retail sales	8,746,902	8,058,024
Other	<u>159,481</u>	<u>177,987</u>
Total revenues.....	12,996,265	12,312,332
Direct costs:		
Franchise support costs	2,068,217	2,292,902
Company-operated store retail costs	<u>8,386,954</u>	<u>7,697,586</u>
Total direct costs.....	10,455,171	9,990,488
General and administrative expenses	1,481,219	1,393,219
Depreciation and amortization expenses	<u>358,247</u>	<u>330,732</u>
Operating income	701,628	597,893
Interest expense	(19,378)	(20,679)
Interest income	1,933	2,401
Other income	<u>33,724</u>	<u>79,696</u>
Total other income	<u>16,279</u>	<u>61,418</u>
Income before income taxes	717,907	659,311
Provision for income taxes.....	<u>319,500</u>	<u>283,500</u>
Net income	398,407	375,811
Preferred stock dividends.....	<u>696</u>	<u>696</u>
Net income applicable to common shareholders.....	<u>\$ 397,711</u>	<u>\$ 375,115</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.....	19,227,468	19,227,468
Weighted average common shares outstanding- Diluted	19,227,468	19,227,468

See accompanying notes.

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

	Six Months Ended December 31,	
	2015 (unaudited)	2014 (unaudited)
Operating activities:		
Net income applicable to common shareholders.....	\$ 397,711	\$ 375,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	358,247	330,732
Stock based compensation.	23,027	-
Bad debt expense.....	3,620	10,400
Deferred taxes.	319,500	283,500
Changes in assets and liabilities:		
Accounts and notes receivable.	129,632	112,573
Inventory, prepaid expenses, deposits and other.	(282,269)	(150,479)
Accounts payable and accrued liabilities	(537,298)	(438,406)
Due to related party	(31,030)	(32,837)
Deferred revenue and other	<u>(15,695)</u>	<u>(42,014)</u>
Net cash provided by operating activities	365,445	448,584
Investing activities:		
Purchases of property and equipment.....	(777,968)	(126,640)
Purchase of company-operated stores.....	<u>(140,000)</u>	<u>-</u>
Net cash used in investing activities.....	(917,968)	(126,640)
Financing activities:		
Payment of preferred stock dividends.....	(696)	(696)
Payment of notes payable and capital lease obligation	<u>(261,503)</u>	<u>(264,720)</u>
Net cash used in financing activities	<u>(262,199)</u>	<u>(265,416)</u>
Net change in cash and cash equivalents.....	(814,722)	56,528
Cash and cash equivalents at beginning of year.....	<u>3,197,401</u>	<u>2,946,354</u>
Cash and cash equivalents at end of period.	<u>\$ 2,382,679</u>	<u>\$ 3,002,882</u>
Supplemental schedule of non-cash investing and finance activities:		
Property acquired under term loan í í í í í í í í ..í í í í í í í í í	<u>\$ 650,000</u>	<u>\$ -</u>
Company-operated stores acquired under notes payableí í í í í í í í í .	<u>\$ 85,000</u>	<u>\$ -</u>

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

	<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, 2015	19,227,468	\$192,275	\$64,479,496	\$(44,918,155)	\$19,753,616
Stock based compensation.....	ô	ô	23,027	ô	23,027
Net income	<u>ô</u>	<u>ô</u>	<u>ô</u>	<u>397,711</u>	<u>397,711</u>
Balance at December 31, 2015..	<u>19,227,468</u>	<u>\$192,275</u>	<u>\$64,502,523</u>	<u>\$(44,520,444)</u>	<u>\$20,174,354</u>

See accompanying notes.

Note 1 6 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.otcmart.com, Financials, for the year ended June 30, 2015.

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 6 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. Management concluded that the carrying value of goodwill was not impaired.

Stock Option Plan

A summary of option activity under all plans as of December 31, 2015, 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, 2015	365,000	0.54	9.64
Options granted	75,000	0.56	
Options exercised	-	-	
Options forfeited	-	-	
December 31, 2015	440,000	0.54	9.32

75,000 and 0 options were granted in the six months ended December 31, 2015 and 2014, respectively.

Note 3 6 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, 2015 and 2014 was 440,000 and 0, respectively. 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, 2015 and 2014, respectively, 440,000 and 0 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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Numerator:				
Net income	\$ 160,315	\$ 90,361	\$ 398,407	\$ 375,811
Preferred stock dividends	<u>(348)</u>	<u>(348)</u>	<u>(696)</u>	<u>(696)</u>
Net income applicable to common Shareholders	\$ 159,967	\$ 90,013	\$ 397,711	\$ 375,115
Denominator:				
Denominator for basic EPS weighted-average-shares	19,227,468	19,227,468	19,227,468	19,227,468
Common stock equivalents- stock optionsí	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Denominator for diluted EPS weighted-average-shares	19,227,468	19,227,468	19,227,468	19,227,468
Basic earnings per share applicable to common shareholdersí í í í í í í í í	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.02
Diluted earnings per share applicable to common shareholders í í í í í í í í í ..	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.02

Note 4 ó 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 ó Company-store transactions

The Company purchased two automotive service centers during the six months ended December 31, 2015 for 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. There were no automotive service centers purchased during the six months ended December 31, 2014.

Note 6 ó 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 ó Recently Issued Accounting Guidance

In June 2014, the FASB issued ASU No. 2014-12, "Compensation ó Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation ó Stock Compensation (Topic 718)" should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Company does not expect the adoption of ASU 2014-12 to have a material impact on our consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those

strategic shifts should have a major effect on the organization's operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The adoption of this ASU did not have a material impact on the Company's 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. 6 Interim Financial Statements" of this quarterly report and the audited consolidated financial statements and notes thereto and the section titled "Item XVII - Management's Discussion and Analysis" in the Company's annual report for the fiscal year ended June 30, 2015 posted by the Company at www.otcmart.com, Financials, on September 18, 2015. 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 thirty-eight company-owned centers in Virginia (7), Maryland (11), Michigan (1), Texas (4), Ohio (3), Washington (3), Nevada (1), Kansas (1), Florida (1), Missouri (1), Minnesota (4) 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 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, 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. 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 our net operating loss carryforwards are fully utilized.

Results of Operations

Comparison of the three months ended December 31, 2015 to the three months ended December 31, 2014

Summary (in thousands)

	Three Months Ended December 31,			
	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Automotive care franchising revenues	\$2,000	31	\$1,933	33
Company-operated store retail sales	4,396	68	3,857	66
Other	<u>81</u>	<u>1</u>	<u>89</u>	<u>1</u>
Total revenues	<u>\$6,477</u>	100%	<u>\$5,879</u>	100%
Franchise support costs	984	15	1,112	19
Company-operated store retail costs	4,249	66	3,719	63
Other	<u>47</u>	<u>-</u>	<u>55</u>	<u>1</u>
Total direct costs	<u>5,280</u>	81	<u>4,886</u>	83
General and administrative expenses	746	12	697	12
Depreciation and amortization expenses	183	3	167	3
Operating income	268	4	129	2
Other income, net	14	-	30	1
Income before income taxes	282	4	159	3
Provision for income taxes	<u>122</u>	<u>2</u>	<u>69</u>	<u>1</u>
Net income	<u>160</u>	<u>2</u>	<u>90</u>	<u>2</u>
Preferred stock dividends	-	-	-	-
Net income applicable to common shareholders	<u>\$ 160</u>	<u>2%</u>	<u>\$ 90</u>	<u>2%</u>

Revenues. Total revenues for the three months ended December 31, 2015 were approximately \$6.5 million, an increase of approximately \$598,000, or 10%, compared with total revenues of approximately \$5.9 million for the three months ended December 31, 2014.

Automotive care franchising revenues for the three months ended December 31, 2015 were approximately \$2.0 million, an increase of approximately \$67,000 or 3%, compared to \$1.9 million for the three months ended December 31, 2014. The increase in royalty

revenues was driven by an increase in product service revenues of approximately \$72,000. This increase was offset by a decrease in development revenues of approximately \$5,000.

Company-operated store retail sales for the three months ended December 31, 2015 were \$4.4 million, an increase of approximately \$539,000, or 14%, compared to \$3.9 million for the three months ended December 31, 2014. The increase in the retail revenues was due to an increase in company-operated stores during the three months ended December 31, 2015. There were thirty-eight company-operated stores generating revenues during the three months ended December 31, 2015 compared to thirty-three company-operated stores during the three months ended December 31, 2014.

Other revenues for the three months ended December 31, 2015 were \$81,000, a decrease of \$8,000, or 9%, compared to \$89,000 for the three months ended December 31, 2014. The decrease in other revenues was due to a decrease in revenues from rebate and training programs of approximately \$8,000.

Direct Costs. Total direct costs for the three months ended December 31, 2015 totaled \$5.3 million, an increase of \$394,000 or 8%, compared with \$4.9 million for the three months ended December 31, 2014.

Franchise support costs for the three months ended December 31, 2015 were \$983,000, a decrease of \$128,000 or 12%, compared with \$1.1 million for the three months ended December 31, 2014. During the three months ended December 31, 2014, the Company incurred expenses of approximately \$137,000 for its bi-annual convention in Nashville, TN. There were no comparable expenses in the three months ended December 13, 2015.

For the three months ended December 31, 2015, company-operated store retail costs, which included an internal cost allocation of approximately \$200,000, were \$4.2 million, an increase of approximately \$530,000, or 14%, compared to \$3.7 million for the three months ended December 31, 2014, which included an internal cost allocation of approximately \$116,000. The increase in the retail costs was due to the additional number of company-operated stores. There were thirty-eight company-operated stores operating during the three months ended December 31, 2015 compared to thirty-three company-operated stores during the three months ended December 31, 2014. Additionally, 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, 2014.

Other direct costs for the three months ended December 31, 2015 totaled \$47,000, a decrease of \$8,000 or 15%, compared with \$55,000 for the three months ended December 31, 2014.

General and Administrative Expenses. General and administrative expenses were \$746,000 for the three months ended December 31, 2015, an increase of \$49,000 or 7%, compared with \$697,000 for the three months ended December 31, 2014. The increase in general and administrative expenses was primarily due to an increase in outside legal expenses during the three months ended December 31, 2015. Additionally, during the three months ended December 31, 2015, the Company incurred expenses related to moving from the Pink tier to the OTCQX tier within OTC Markets. There were no comparable expenses in the three months ended December 31, 2014.

Operating Income. The Company recorded operating income for the three months ended December 31, 2015 of approximately \$268,000 compared with operating income of \$129,000 for the three months ended December 31, 2014. As previously discussed, the significant variable was the difference of \$93,000 in the expenses incurred for the bi-annual convention in Nashville, TN in the three months ended December 31, 2014 compared to the 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 \$14,000 for the three months ended December 31, 2015, which represents a decrease of approximately \$16,000 or 53%, compared to \$30,000 for the three months ended December 31, 2014. The decrease in other income was primarily due to a decrease in the amount of rebate revenues from used oil.

Income Taxes. The Company's effective tax rate for the three months ended December 31, 2015 and 2014 was approximately 43%.

Net Income Applicable to Common Shareholders and Earnings Per Share. The Company recorded Net Income Applicable to Common Shareholders of \$160,000, or \$0.01 per share, for the three months ended December 31, 2015 compared to Net Income Applicable to Common Shareholders of \$90,000, or \$0.00 per share, for the three months ended December 31, 2014.

Results of Operations

Comparison of the six months ended December 31, 2015 to the six months ended December 31, 2014

Summary (in thousands)

	Six Months Ended December 31,			
	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Automotive care franchising revenues	\$ 4,090	32	\$ 4,076	33
Company-operated store retail sales	8,747	67	8,058	65
Other	<u>159</u>	<u>1</u>	<u>178</u>	<u>2</u>
Total revenues	<u>\$12,996</u>	100%	<u>\$12,312</u>	100%
Franchise support costs	1,976	15	2,183	17
Company-operated store retail costs	8,386	65	7,698	63
Other	<u>93</u>	<u>1</u>	<u>110</u>	<u>1</u>
Total direct costs	<u>10,455</u>	81	<u>9,991</u>	81
General and administrative expenses	1,481	11	1,393	11
Depreciation and amortization expenses	358	3	330	3
Operating income	702	5	598	5
Other income, net	16	-	61	-
Income before income taxes	718	5	659	5
Provision for income taxes	<u>320</u>	<u>2</u>	<u>283</u>	<u>2</u>
Net income	<u>398</u>	<u>3</u>	<u>376</u>	<u>3</u>
Preferred stock dividends	1	-	1	-
Net income applicable to common shareholders	<u>\$397</u>	<u>3%</u>	<u>\$375</u>	<u>3%</u>

Revenues. Total revenues for the six months ended December 31, 2015 were approximately \$13.0 million, an increase of approximately \$684,000, or 6%, compared with total revenues of approximately \$12.3 million for the six months ended December 31, 2014.

Automotive care franchising revenues for the six months ended December 31, 2015 were approximately \$4.0 million, which were consistent with the six months ended December 31, 2014.

Company-operated store retail sales for the six months ended December 31, 2015 were \$8.7 million, an increase of approximately \$689,000, or 9%, compared to \$8.1 million for the six months ended December 31, 2014. The increase in the retail sales was due to the additional company-operated stores. As previously stated, there were thirty-eight company-operated stores generating revenues during the six months ended December 31, 2015 compared to thirty-three company-operated stores during the six months ended December 31, 2014.

Other revenues for the six months ended December 31, 2015 were \$159,000, a decrease of approximately \$19,000, or 11%, compared to \$178,000 for the six months ended December 31, 2014. The decrease in other revenues was due to a decrease in revenues from rebate and training programs of \$18,000 and a decrease 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, 2015 totaled approximately \$10.5 million, an increase of \$464,000 or 5%, compared with approximately \$10.0 million for the six months ended December 31, 2014.

Franchise support costs for the six months ended December 31, 2015 totaled \$2.0 million, a decrease of approximately \$207,000 or 9%, compared to \$2.2 million for the six months ended December 31, 2014. During the three months ended December 31, 2014, the Company incurred expenses of approximately \$137,000 for its bi-annual convention in Nashville, TN. There were no comparable expenses in the six months ended December 13, 2015. Additionally, the remaining decrease in the franchise support costs was primarily due to lower commission payments to the area developers during the six months ended December 31, 2015. The Company bought back the area developer rights to the Minnesota market at the end of fiscal year 2015 and as a result, the Company supports the area and does not pay any money to an area developer for that market, which results in a cost savings.

For the six months ended December 31, 2015, company-operated store retail costs, which included an internal cost allocation of approximately \$367,000, were \$8.4 million, an increase of approximately \$688,000, or 9%, compared to \$7.7 million for the six months ended December 31, 2014, which included an internal cost allocation of approximately \$263,000. The increase in retail costs was due to the increase in the number of company-operated stores. There were thirty-eight company-operated stores incurring costs during the six months ended December 31, 2015 compared to thirty-three company-operated stores during the six months ended

December 31, 2014. Also, 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, 2014.

Other direct costs for the six months ended December 31, 2015 totaled \$93,000, a decrease of \$17,000 or 15%, compared with \$110,000 for the six months ended December 31, 2014. The decrease in other direct costs was primarily due to a decrease in expenses related to the rebate and training programs.

General and Administrative Expenses. General and administrative expenses were approximately \$1.5 million for the six months ended December 31, 2015, an increase of approximately \$88,000 or 6%, compared with approximately \$1.4 million for the six months ended December 31, 2014. During the six months ended December 31, 2015, the Company recorded total compensation expense of approximately \$23,000 related to the stock options that were granted. \$9,000 of the compensation expense was recorded as general and administrative expense and the remaining \$14,000 was recorded as franchise support costs. There was no comparable compensation expense in the six months ended December 31, 2014. The remaining increase in general and administrative expenses was due to an increase in outside legal expenses and travel expenses during the six months ended December 31, 2015.

Operating Income. The Company recorded operating income for the six months ended December 31, 2015 of approximately \$702,000 compared with operating income of \$598,000 for the six months ended December 31, 2014. The significant variable was the difference of \$93,000 in the expenses incurred for the bi-annual convention in Nashville, TN in the six months ended December 31, 2014 compared to the 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 \$16,000 for the six months ended December 31, 2015 compared to \$61,000 for the six months ended December 31, 2014. The decrease in other income was primarily due to a decrease in the amount of rebate revenues from used oil.

Income Taxes. The Company's effective tax rates for the six months ended December 31, 2015 and 2014 was approximately 45% and 43%, 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 \$397,000, or \$0.02 per share, for the six months ended December 31, 2015 compared to Net Income Applicable to Common Shareholders of \$375,000, or \$0.02 per share, for the six months ended December 31, 2014.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash at December 31, 2015 was \$2.4 million. During the period, cash provided by operations was approximately \$365,000.

Cash used in investing activities for the six months ended December 31, 2015 was approximately \$918,000. Cash used in investing activities during the six months ended December 31, 2015 consisted of the purchase of property and equipment of approximately \$778,000 for use in the company-store operations and \$140,000 for the purchase of company-operated stores.

Cash used in financing activities for the six months ended December 31, 2015 was approximately \$262,000. Cash used in financing activities during the period consisted of primarily of the payments of notes payable, dividends, and a capital lease obligation.

Management believes that the Company's current cash balance, cash generated from operations, and the \$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 2016. At December 31, 2015, 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.

Krystyne Peterson v. US Pierson, LLC and Precision Tune Auto Care, District Court, County of Hennepin, Minnesota, Served on March 6, 2014.

The plaintiff, Ms. Krystyne Peterson, was employed at a Precision Tune Auto Care center (the "Center") in Coon Rapids, Minnesota. She alleges during her employment at the Center she suffered sexual harassment and discrimination, reprisal, retaliation, and that she did not receive equal pay for equal work as required under Minnesota Statutes, Section 118.

US Pierson, LLC owns and operates the Center pursuant to a Precision Tune Auto Care Franchise Agreement.

Since the plaintiff was not employed by Precision Tune Auto Care, Inc. or any of its affiliates (the "Company"), the Company believes the plaintiff has improperly sued the Company. The Company has communicated to counsel for the plaintiff that the Company is not a proper party in this matter.

The Company also put its insurance carrier on notice of the matter, and the Company's insurance carrier retained counsel to defend the Company's interests.

Plaintiff's counsel gave the Company an extension to file an answer in this matter, and the Company has not yet filed an answer pending its request to be dismissed. On September 22, 2014, the plaintiff filed an action in Hennepin County District Court (27-CV-14-15900) against US Pierson LLC, Motorscope, Inc., and James Erik Pierson. The Company was not named as a defendant

in that action.

As an improper party in this matter, the Company does not expect to incur any loss or cost in this matter. In addition US Pierson, LLC, 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.

JPMorgan Chase Bank, National Association v. Rizkallah Dokmaji, Precision Tune Auto Care, Inc. et al., Circuit Court, Miami-Dade County, Florida, Case No. 12 31547CA15, Filed August 07, 2012.

JPMorgan Chase Bank (JPMorgan) filed suit to foreclose on a mortgage (the "Mortgage") on real property in Miami-Dade County, Florida.

JPMorgan alleges Precision Tune Auto Care, Inc. holds a lien (the "PTAC Lien") upon property subject to the Mortgage; and JPMorgan desires to extinguish the PTAC Lien or, in the alternative, to have the court declare the PTAC Lien is junior to the Mortgage.

The Company does not expect to receive any proceeds from the PTAC Lien, nor does the Company expect to incur any losses or costs in this matter.

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. 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 PACI'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.

Resolved Claim

The plaintiff, Ms. Rhonda Marlow was a business invitee at a Precision Tune Auto Care center (the "Center") in Jacksonville, Florida. She alleges during a visit to the Center she slipped and fell suffering permanent physical injury and pain, disability, scarring, disfigurement, mental pain and suffering, loss of the capacity for the enjoyment of life, medical and healthcare expenses, loss of earnings, and loss of the ability to earn a living.

Mandarin Tune, Inc. (MTI) owns and operates the Center pursuant to a Precision Tune Auto Care Franchise Agreement.

Neither Precision Tune Auto Care, Inc. nor any affiliate (the "Company") owned or operated or had any control over the operation of the Center; and the proper defendant in this matter is MTI. Accordingly, MTI was substituted as the defendant, and the Company was dismissed from. Subsequent to the Company's dismissal, MTI and Ms. Marlow settled all claims.

* * * * *

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, 2016.

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, 2016.

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.]