PRECISION AUTO CARE, INC.

A Virginia Corporation

Corporate Information

Financial and shareholder information through fiscal year ending June 30, 2008

Part A General Company Information

Item I The exact name of the issuer and its predecessor.

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.

Item II The address of the issuer's principal executive offices.

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*
Address: Same as above

Item III The jurisdiction(s) and date of the issuer's incorporation or organization.

Precision Auto Care, Inc. (the "Company") is a Virginia corporation formed on April 14, 1997.

Item IV The name and address of the transfer agent.

American Stock Transfer & Trust Company
59 Maiden Lane, Plaza Level
New York, NY 10038-4502
Phone: (718) 921-8319
Fax: (718) 765-8729

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

Item V The nature of the issuer's business.

A. ***Business Development.***

Through subsidiaries, the Company franchises the operation of Precision Tune Auto Care service centers (the "Franchised Centers," or "Centers"), owns and operates Precision Tune Auto Care centers (the "Company Centers," or "Centers"); and provides products and services to the system (the "System) of Precision Tune Auto Care Centers. Centers offer automotive products and services to the public, including the diagnosis, maintenance and repair of ignition systems, fuel systems, computerized engine control systems, cooling systems, starting/charging systems, emissions control systems, engine drive train systems, electrical systems, air conditioning systems, oil and other fluid systems, and brake systems.

A predecessor of the Company began operation of the first "Precision Tune" automotive service center in 1976 in Beaumont, Texas. The "Precision Tune" business model of the early years offered a

limited menu of services and focused on low price-point engine performance services. Over the ensuing years, with changes in the industry and advancement of automotive technology, Precision Tune centers expanded their menu of services and became full-service repair facilities. In 1996, the name "Precision Tune" was changed to "Precision Tune Auto Care" to capture the fact that Centers offer to the public a full range of automotive products and services. Within the last three years, the Company has made a strategic decision to expand the service offering in select centers to include the sale of tires and tire related services. In addition, within the last eighteen months, the Company has made the strategic decision to purchase, own, and operate Company Centers in an effort to grow top and bottom-line results.

1. **the form of organization of the issuer;**
   Precision Auto Care, Inc. is a Virginia corporation.

2. **the year that the issuer was organized;**
   Precision Auto Care, Inc. was organized in 1997.

3. **the issuer's fiscal year end date;**
   Precision Auto Care, Inc.'s fiscal year end date is June 30th.

4. **whether the issuer has been in bankruptcy, receivership, or any similar proceeding;**
   The Company has not been involved as a debtor in any bankruptcy, receivership, or any similar proceeding during the immediately preceding three years.

5. **any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets;**
   There has not been during the immediately preceding three year period any material reclassification, merger, consolidation, or purchase or sale of any significant amount of assets of the Company.

6. **any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments;**
   During the immediately preceding three year period, the Company has not defaulted on the terms of any note, loan, lease, or other material indebtedness or financing arrangement.

7. **any change of control;**
   There has been no change in control of the Company during the immediately preceding three year period.

8. **any increase of 10% or more of the same class of outstanding equity securities;**
   During the immediately preceding three year period, there has not been any increase of more than 10% or more in any class of securities of the Company.

9. **any past, pending, or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization;**
   The Company pays dividends on its preferred shares, which are not freely tradable. Other than dividends paid on preferred shares, the Company has no present intention, and there has been none in the immediately preceding three year period, any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.

10. **any delisting of the issuer's securities by any securities exchange or deletion from the OTC Bulletin Board; and**
    During the immediately preceding three year period, the Company's shares have not been delisted by any securities exchange. In an effort to save costs, the Company filed a Form 15 with the SEC on February 22, 2008, and thereby avoided the continuing requirement to file periodic reports with the SEC. As a result shares of the Company are

no longer traded on the OTC Bulletin Board. Shares of the Company are now traded only on the PinkSheets.

11. **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 claims, controversies, and litigation in the ordinary course of business, including contract, franchise, and employment-related matters. In the course of enforcing its rights under existing and former 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 franchise agreements. The Company was a party to the following material law suits or was aware of the following material claims:

Precision Franchising LLC v. A&A Auto, Inc. and Angelo Manerchia, United States District Court, Eastern District of Virginia Alexandria Division, 1:08CV538 GBL/TRJ, Filed: May 27, 2008.

This case stems from a breach of contract dispute between Precision Franchising LLC (PFL) and A&A Auto, Inc. (A&A) and Mr. Angelo Manerchia (Manerchia), President of A&A, (collectively, the "Defendants").

The Defendants agreed, upon expiration or termination of the Precision Tune Auto Care franchise agreement (the "Franchise Agreement") between A&A and PFL, to cease operating any competing business within a defined radius of the Precision Tune Auto Care center (the "Center") operated by A&A. Manerchia, however, opened a competing business in near proximity to the Center.

On May 27, 2008, PFL filed suit to enforce its rights. The Defendants were served on June 3, 2008 and an answer was due on June 23, 2008. The Defendants did not timely file an answer. On July 15, 2008, the Judge entered an agreed order that: (1) the Defendants were not in default and were granted leave to file late pleadings in response to the Complaint; (2) the Defendants must file their responsive pleadings no later than July 14, 2008; and (3) the Defendants had not waived any objection to venue, personal jurisdiction, or subject matter jurisdiction. As of September 16, 2008, PFL and Manerchia were negotiating a settlement.

Vigneswaran Thambirajah and Mahemdra Kumar and the Personal Insurance Company and Canadian Fine Motors Inv. and 1589145 Ontario Inc. doing business as Precision Tune Auto Care Scarborough and PT Auto Care Canada, Inc., Ontario Superior Court of Justice, CV-0701719-00 B1, Filed: April 21, 2008.

This case stems from a personal injury sustained by the Plaintiff, Vigneswaran Thambirajah (Thambirajah), when a wheel came off of the vehicle driven by defendant Mahemdra Kumar (Kumar) and struck Thambirajah's vehicle causing property and personal injury.

On April 15, 2006, Thambirajah was operating his vehicle, a 2004 Nissan Maxima, on Highway #401 in Canada when the wheel of Kumar's vehicle came off and hit the roof of Thambirajah's vehicle. Thambirajah filed suit against Kumar alleging that Kumar negligently operated the vehicle causing the accident. Thambirajah is asking for $500,000 in general damages and $500,000 in special damages, as well as attorney and court fees, plus interest. Kumar filed suit against Canadian Fine Motors (CFM) alleging that CFM sold Kumar an unsafe car. CFM filed suit against PT Auto Care Canada, Inc. (PT Canada), and Precision Tune Auto Care Scarborough (PTAC Scarborough), a franchisee of PT Canada, alleging that if the car was not safe, it was because PTAC Scarborough was negligent when it inspected the car and that PTAC Scarborough failed to properly reinstall the wheels when removing them to perform the inspection.

PT Canada intends to defend the claims filed against it. At this time, there is no evidence that Kumar had his vehicle inspected at PTAC Scarborough, and, if he did, PT Canada and the franchisee, PTAC Scarborough, have an independent contractor relationship since PT Canada did not control the business operations of its franchisee. In August, 2008, PT Canada filed a response to CFM denying the allegations asserted against it. PT Canada does not expect to incur any liability in this case.

Double Eagle Refinery Superfund Site, Oklahoma City, OK-Small Party Settlement Offer to Precision Auto Care, Inc., dated: March 3, 2008.

Union Pacific Railroad Company (Union Pacific) has identified Precision Auto Care, Inc. (PACI) as a potentially responsible party in connection with the Double Eagle Refinery Superfund Site (Double Eagle Site) in Oklahoma City, Oklahoma. On February 11, 2008, Union Pacific sent a letter to PACI indentifying three Precision Tune Auto Care Centers that allegedly arranged for the transportation of hazardous substances to the Double Eagle Site and offering PACI the chance to settle any liability relating to the Double Eagle Site for a lump sum payment of $32,500.

PACI sent a letter to Union Pacific dated March 3, 2008 explaining that PACI is not a responsible party at the Double Eagle Site. PACI did not generate the hazardous materials in question, did not have any control over the hazardous materials that were transported to the Double Eagle Site, and did not control or make arrangements for disposal of the hazardous materials in question. PACI does not expect to incur any liability 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.

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 does not expect to incur liability in this case. Praxis Afinaciones denies the allegations.

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.

The amount in controversy is approximately $1.3 million, the amount of the confessed judgment. The company's management believes this judgment will have no material impact on the company's consolidated results of operations. Furthermore, the Company believes that 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.

Rukiya Eaddy vs. Heather Enterprises, Inc. d/b/a Precision Tune Auto Care, Mary McCracken, and Precision Tune Auto Care Incorporated d/b/a Precision Franchising LLC (State Court of Fulton County, GA, CA-2007-EV-3229E).

The above referenced case stems from an alleged assault and battery. On July 24, 2006, the plaintiff, Ms. Rukiya Eaddy noticed steam coming from the hood of her vehicle and called the Precision Tune Auto Care franchise location owned and operated by Heather Enterprises, Inc. (the "Center"). Ms. Eaddy alleges one of the employees of the Center quoted a price to Ms. Eaddy that was less than the amount she was asked to pay when she came in to pick up her vehicle on July 25, 2006. Eaddy further alleges that Ms. McCracken assaulted her when she questioned the cost of the

repairs. Ms. Eaddy is seeking compensatory and punitive damages, as well as reimbursement for the cost of the above referenced action and reasonable attorneys' fees.

While Precision Tune Auto Care, Inc. (PTAC) has been named in this suit, PTAC has not yet received service of process. PACI does not expect to incur any liability in this case due to the fact that PTAC had no control over the premises or the employees of the Center. In addition, franchisee has a duty to indemnify PTAC, Precision Franchising LLC (PFL) and its affiliates, including PACI. The franchisee's insurance carrier has agreed to provide a defense for PTAC, however, PACI's insurance carrier has retained independent counsel to represent PTAC's interests in this matter. Discovery is being conducted at this time.

The Company does not believe 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.

B. ***Business of Issuer.***

OVERVIEW

As of June 30, 2008, the System was comprised of five Company Centers, owned and operated by PTAC Operating Centers, Inc. (POC), a Virginia corporation and subsidiary of the Company. Also as of June 30, 2008, Precision Franchising LLC (PFL), a Virginia limited liability company and also a subsidiary of the Company, was the franchisor for 279 domestic Franchise Centers, and 103 international Franchise Centers. A third subsidiary of the Company, Precision Tune Auto Care, Inc., a Virginia corporation, employed 26 full-time employees and one part-time employee to manage the operations of these entities. The Company's primary SIC code is 7500. The operations of the Company's subsidiaries (including PFL and POC) are included in the consolidated financial statements prepared by the Company and included in this initial disclosure statement and any financial statements the Company may post to the PinkSheets website.

The current prototype Center is a free-standing building with six to eight service bays, of which two to four are drive-through and include pits to facilitate fast oil change and lubrication services. Centers are developed either by entering into a build-to-suit lease, under which the landlord constructs the center and leases it to the franchisee, or by purchasing land and building a facility. Centers are typically located in commercial areas with a minimum population of 50,000 people within a five mile radius. Exclusive of real estate, the estimated capital required to open a prototype Center ranges from $123,000 to $208,075.

Marketing strategies for the System focus on three objectives: (1) increase top-line revenue at the Centers by driving more traffic to each Center; (2) enhance the experience for first-time customers; and (3) bolster customer retention efforts. To further these objectives, the System has developed and implemented a marketing plan containing programs and materials for use by Centers, including targeted marketing programs designed to reach key market segments, in-store merchandising materials designed to enhance retail sales and first time customer trials, and other local marketing materials (e.g., second car discounts, service reminder cards, and ATM receipt coupons) designed to generate customers and improve customer retention.

The Company believes that PFL's franchise program is a point of distinction in a competitive market place. New franchisees are required to successfully complete over 40 hours of initial training at the PFL's training center in Leesburg, Virginia. The Company also offers a full line of technical training, including courses on engine performance, fuel systems and emissions, automotive electronics, fuel injection, and brake certification. These courses, which include both classroom and hands-on

training, are designed to allow franchisees and Center technicians to maintain and update their technical capability to service today's more complex vehicles.

PFL's franchise sales process includes advertising in appropriate franchise and business publications, establishing relationships and working with sales brokers, conducting franchise sales seminars, maintaining a home page on the Internet through which interested parties may submit a franchise inquiry, and advertising on several franchise sales orientated web sites. Prospective franchisees are asked to complete a Confidential Qualifications Report, which serves as the initial screening to determine whether a prospect is qualified. PFL seeks individuals who will make a full-time commitment to the operation of their Center and who have a minimum of $70,000 and $250,000 in liquid assets and net worth, respectively.

In some areas of the United States, PFL employs an area-development system to facilitate expansion of the System. PFL grants area developers the right and obligation to develop franchises within specific geographic regions for stated periods of time. Franchise agreements within the area are between PFL and the franchisee. The area developer typically receives up to one-half of the initial franchise fee, one-half of the subsequent royalty revenues and one-half of franchise renewal and transfer fees. After execution of a franchise agreement, the area developer performs many of PFL's franchise support obligations. As of June 30, 2008, 11 area developers and their affiliates had an ownership interest in approximately 27% of the total number of domestic Franchised Centers.

PFL's strategy is also to pursue new area developers to develop open areas in which current area developers have not been granted rights. To attract new area developers, PFL employs strategies similar to those used in marketing unit franchises. However, the net worth requirements for prospective area developers are greater than those required for a unit franchisee. These requirements range from $500,000 to $1,000,000 net worth, depending upon the size of the particular area.

During the last twenty-four months, PFL has aggressively enforced its agreements with area developers, and has either terminated or repurchased rights to areas that were previously developed and supported by area developers. These areas have ranged over a wide geography, including Michigan, Colorado, Virginia, Florida, Missouri, Arizona, Delaware, and Pennsylvania. The market for new area developers has been competitive, and PFL has not issued any new area development rights during the last twelve months.

PFL has offered franchises during the preceding three years under franchise agreements that vary in detail as the System has evolved. Royalty rates in existing franchise agreements range from 6.0% to 7.5%. Currently, PFL's standard franchise agreement requires payment of an initial franchise fee of $25,000 and a continuing royalty of 6.0% to 7.5% of weekly gross receipts. In addition, the franchisee is required to contribute to or expend up to 9% of weekly gross receipts on advertising, of which 1.5% is currently paid into a national marketing fund and up to 7.5% of which is spent locally. The current standard form franchise agreement has an initial term of ten years and provides for two five-year renewal options.

PFL has implemented a domestic program under which qualified franchisees are eligible to have their royalty rate reduced to as low as 6% if they satisfy certain criteria. Under the program, franchisees are also provided with an incentive to purchase additional franchises. Any franchisee that has owned and operated a center for at least one year in accordance with this program will be charged an initial franchise fee of $15,000 for a second franchise and $10,000 for each additional franchise purchased, provided certain conditions are met.

Under its current form of domestic franchise agreement, PFL has a continuing obligation to make technical and administrative support available, centralized marketing support, and training and related support available to its franchisees. In areas where there are area developers, the Company has delegated most of these duties to area developers under its area developer system.

Upon non-renewal and transfer, PFL has the first right to purchase the operating assets and obtain an assignment of leased facilities in certain cases. PFL may exercise its rights directly or assign them to a third party. In certain situations, PFL or POC will repurchase Franchised Centers. The decision to repurchase is made solely at its discretion and is not a contractual obligation. PFL may also periodically obtain possession of some Centers by exchanging for such assets notes payable or other consideration, or by exercising or foregoing other rights outlined in an applicable franchise agreement.

PFL also enters into master franchise agreements to develop international markets. At the present time, the Company has master franchise agreements in Taiwan, Oman, United Arab Emirates, Saudi Arabia, Spain, Portugal, Qatar, Kuwait and Bahrain. Generally, the master franchisee pays a license fee and is required to develop Precision Tune Auto Care centers in accordance with an agreed upon schedule within the defined area. Franchise agreements within the area are between the master franchisee and the unit franchisee. The master franchisee is required to perform all of the obligations of the franchisor including training, administrative, and operational support, and the Company generally receives 20% of the initial franchise fee and 20% of royalties.

COMPETITION

Centers encounter competition in all aspects of their business. The Company believes automobile dealerships, including recently emerging national and regional new and used automotive dealerships, represent the principal competition for Centers in the System. Other competitors include tire companies and regional under-the-hood service specialists. National competitors include Sears Auto Center and the automotive maintenance centers operated by Goodyear, Midas, Meineke, Jiffy Lube, and Firestone, among others. The Company believes the greater technical complexity of today's vehicles provides a substantial barrier to entry for competitors in the "under-the-hood" segment of the automotive care services industry.

The Company believes Centers compete on the basis of customer service, convenience, location and, to a lesser extent, on price. The Company believes the ability to offer a wide variety of services at Centers may offer a competitive advantage.

In addition to competition related to the operation of Centers, PFL also faces competition relating to the sale of franchises. Competitive factors influencing franchise sales include: start-up costs, royalty rates, franchise support, and the general viability of the business models employed by competitive franchise systems. PFL faces competition for franchisees not only from other automotive service franchises but from franchise companies operating in other industries as well.

GOVERNMENT REGULATION

PFL is subject to federal, international, and state laws and regulations, including the regulations of the Federal Trade Commission as well as similar authorities in individual states, in connection with the offer, sale, and termination of franchises and the regulation of the franchisor/franchisee relationship. From time to time, PFL experiences periods during which sales are restricted while PFL renews its registrations for the sale of franchises with various state agencies. Such delays may have an adverse effect on its ability to offer and sell franchises.

PFL may become subject to litigation with franchisees or with the federal or state agencies that regulate the sale of franchises or the franchise relationship. The failure by PFL to comply with the myriad laws impacting the sale of franchises or the franchise relationship could subject PFL to liability to franchisees and to fines or other penalties imposed by governmental authorities and could have a material adverse effect on its financial condition and results of operations. Nevertheless, PFL has established systems and procedures to comply with these franchise regulations, and fosters a corporate culture of robust compliance.

Centers store new oil and handle large quantities of used automotive oils and fluids. As a result of these activities, Centers are subject to various federal, state and local environmental laws and regulations dealing with the transportation, storage, presence, use, disposal and handling of hazardous materials and hazardous wastes, and underground fuel storage tanks. If any such substances were improperly released or improperly stored on the property of any Company Center, including leased properties, POC may be found in violation of applicable environmental laws and regulations, and could be held liable for costs of clean-up, property damage and fines or other penalties, any one of which could have a material adverse effect on its financial condition and results of operations. Similarly, in the event any Franchised Center failed to comply with environment regulations, PFL could be sued under a theory of vicarious liability. However, in the Company's estimation, the chance PFL would be held liable for any Franchisee's actions, or failure to act, regarding environmental compliance is negligible.

TRADEMARKS

PFL has registered a number of trademarks and service marks with the United States Patent and Trademark Office, including "Precision Tune Auto Care." Its failure to obtain and maintain trademark and service mark registration could have a material adverse effect on its operations. PFL has also registered or made application to register trademarks in foreign countries where master franchise licenses have been granted.

SEASONALITY

Seasonal changes may impact various sectors of the System's businesses and, accordingly, its operations may be adversely affected by seasonal trends in certain periods. In particular, severe weather in winter months may make it difficult for consumers in affected parts of the country to travel to Centers and obtain services.

RISK FACTORS

The Company's business and investment in its common stock are subject to certain risks, which the Company believes includes the following:

Competition. As noted above, Centers encounter competition in all aspects of their operation. Certain competitors discussed above have greater financial resources than the Company. There can be no assurance the Company or individual Centers will be able to compete effectively.

In addition to competition related to the operation of Centers, PFL also faces competition relating to the sale of franchises. Competitive factors influencing franchise sales include: start-up costs, royalty rates, franchise support, and the general viability of the business models employed by competitive franchise systems. PFL faces competition for franchisees not only from other automotive service franchises but from franchise companies operating in other industries as well.

Reliance on Franchising. Franchise royalties are a significant component of PFL's and the Company's revenue base. Therefore, the Company depends upon the ability of its franchisees to promote and capitalize upon the System and the System's notoriety. There can be no assurance that PFL or its area developers will be able to recruit and retain franchisees with the business abilities or financial resources necessary to open Centers on schedule or that the franchisees will conduct operations profitably. Over the preceding twelve month period, the number of Franchised Centers in the System has dropped from 300 centers to 284 centers.

In addition, to the extent franchisees finance their operations with secured indebtedness, the Company's rights to receive franchise royalties would be effectively subordinated to the rights of franchisees' lenders. Accordingly, the Company is also following closely the ongoing developments in

the credit markets and is conscious of developments that could impact the availability of credit for the development of Centers, whether by franchisees or by the Company's affiliate, POC.

Automotive Technology Advances. The demand for the services offered by Centers could be adversely affected by continuing developments in automotive technology. Automotive manufacturers are producing cars that last longer and require service and maintenance at less frequent intervals. For example, some manufacturers now recommend that consumers change oil at 10,000 mile intervals and replace spark plugs and other engine components at 100,000 miles, a significant increase from the mileage intervals recommended for earlier models and those currently recommended by most manufacturers. The demand for Centers' services also could be adversely affected by longer and more comprehensive warranty programs offered by automobile manufacturers and other third parties. The Company and PFL believe a majority of new automobile owners have their cars serviced by a dealer during the period the car is under warranty. In addition, advances in automotive technology may require Centers to incur additional costs to update its technical training program and upgrade the diagnostic capabilities of its centers.

Labor Availability. The provision of high quality maintenance services Centers requires an adequate supply of skilled labor. In addition, the operating costs and operating revenues of such centers may be adversely affected by high turnover in skilled technicians. Trained and experienced automotive technicians are in high demand. Accordingly, a center's ability to increase productivity and revenues could be affected by its inability to maintain the employment of skilled technicians necessary to provide the profitable services. There can be no assurance that Centers will be able to attract and maintain an adequate skilled labor force necessary to operate profitably or that labor expenses will not increase as a result of a shortage in the supply of skilled technicians, thereby adversely impacting financial performance.

Dependence on Management and Key Personnel. The Company's success depends to a significant extent on the performance and continued services of senior management and certain key personnel. The Company believes these individuals possess the necessary experience in financing, operating and managing a company intent on improving its financial performance. The loss of the services of one or more of these key employees could have a material adverse impact on its financial condition and results of operations.

Seasonal Nature of Portions of the Business. Seasonal changes may impact various sectors of its businesses and, accordingly, its operations may be adversely affected by seasonal trends in certain periods. In particular, severe weather in winter months may make it difficult for consumers in affected parts of the country to travel to Centers and obtain services.

Control by Management and Principal Shareholders. As of August 31, 2008, the Company's directors, executive officers, and shareholders beneficially owning more than 5% of its outstanding common stock, in the aggregate, beneficially owned approximately 84% of its outstanding common stock. Accordingly, these persons have substantial influence over the Company and its subsidiaries, including the ability to influence the election of directors and appointment of management, the outcome of votes by its shareholders on major corporate transactions, including mergers, and the sales of substantial assets and other matters requiring shareholder approval.

Regulatory Risks. As noted above, PFL is subject to franchise regulation impacting the sale of franchises and the franchise relationship. In addition, the business of the Centers face a wide range of regulations, including environmental laws and regulations, occupational regulations (including OSHA); and local licensing requirements.

Income Taxes. The Company has recognized a deferred tax asset, which is subject to analysis under Section 382 of the IRC. Under Section 382, if the sale (or cumulative sales) of shares in the

Company during any three-year period results in a "change of control," the deferred tax asset may be impaired. To date, however, there has not been a "change of control" that would impair this asset, and at this time, the Company is not aware of any circumstance that would result in a "change of control." Nevertheless, the Company does have a few large, individual shareholders who own collectively more than a majority of the outstanding shares of the Company and could, in combination, effect a "change of control" of the Company, resulting in the impairment of the deferred tax asset.

Cautions Regarding Forward Looking Statements. This initial disclosure statement includes forward-looking statements within the meaning of the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934. When used in this report, words such as "anticipate," "believe," "estimate," "expect," "intend," or "plan," as they relate to the Company or its management, are intended to identify such forward-looking statements. All statements regarding the Company or the Company's expected future financial position, business strategy, cost savings, and operating synergies, projected costs, and plans and objectives of management for future operations are forward-looking statements. Although the Company believes the expectations reflected in such forward-looking statements are based on reasonable assumptions, no assurance can be given that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements herein include, among others, the factors set forth above under the caption "Risk Factors," general economic and business and market conditions, changes in federal and state laws, and increased competitive pressure in the automotive aftermarket industry.

1. **the issuer's primary and secondary SIC Codes;**
   Standard Industrial Code for the Company's main line of business is: 7500

2. **if the issuer has never conducted operations, is in the development stage, or is currently conducting operations;**
   The Company and its affiliates are currently conducting business and operations.

3. **if the issuer is considered a "shell company" pursuant to Securities Act Rule 405;**
   The Company is not a "shell company." However, most operations of the Company are conducted through its subsidiaries.

4. **the names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this disclosure statement;**
   As mentioned through out this disclosure statement, the Company's operations are conducted, directly or indirectly, through wholly-owned subsidiaries.

5. **the effect of existing or probable governmental regulations on the business;**
   As discussed above, there are numerous governmental regulations which impact the operations of the Company and its subsidiaries. These regulations include: environmental, tax, corporate governance, various licensing requirements, and franchise compliance laws and regulations at both the state and federal level.

6. **an estimate of the amount spent during each of the last two fiscal years on research and developmental activities, and, if applicable, the extent to which the cost of such activities are borne directly by customers;**
   The Company has not spent any material amounts in the last two fiscal years on research or development activities.

7. **costs and effects of compliance with environmental laws (federal, state and local); and**
   The business of the Centers face a wide range of regulations, including environmental laws and regulations, occupational regulations (including OSHA); and local licensing requirements. To address concerns associated with environmental laws and regulations at company owned centers, the Company has purchased insurance and established processes and procedures to minimize risk. The costs of compliance have not adversely affected operations.

8. **the number of total employees and number of full-time employees.**
   The Company employs twenty-seven employees, of which twenty-six are full-time.

Item VI The nature of products or services offered.

A. principal products or services, and their markets;

The Company has two principal products or services. Through its subsidiary POC, the Company provides automotive maintenance and repair services, such as engine performance, oil change and lubrication and brake services, which require relatively short service times. At June 30, 2008, these services were provided at five Company Centers owned and operated by POC.

In addition to the sale of retail products and services, the Company, through its subsidiary PFL, the Company is a global franchisor of auto care centers. At June 30, 2008, these services were provided at 382 domestic and international Precision Tune Auto Care centers owned and operated by franchisees.

Company revenues are derived from four primary areas: franchise development, royalties, company-operated retail stores, and product sales. Franchise development revenues include sales of franchises and master licenses. Royalty revenues are derived from royalty fees paid by individual franchisees to the Company based on qualified retail sales by 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. Product revenues are derived from the sale of automotive related supplies and equipment to Franchise Centers.

The Company's core auto care and franchising business continues to benefit from an improved focus on unit economics, offering certain product services to the franchisees such as equipment and other marketing related materials as well as in-the-field training programs. Additionally, the Company is seeking growth through acquisitions.

B. distribution methods of the products or services;

As of June 30, 2008, the overwhelming majority of Centers, domestic and international, were owned and operated by franchisees. Domestic Franchise Centers have been sold during the preceding years under franchise agreements that vary in detail as the System has evolved. Under its current form of domestic franchise agreement, PFL has a continuing obligation to make technical and administrative support available, centralized marketing support, and training and related support available to Franchise Centers. In areas where there are area developers, the Company has delegated most of these duties to area developers under its area-developer system.

PFL also enters into master franchise agreements to develop international markets. At the present time, PFL has master franchise agreements in Taiwan, Oman, United Arab Emirates, Saudi Arabia, Spain, Portugal, Qatar, Kuwait, and Bahrain.

C. status of any publicly announced new product or service;

Other than announcements relating to the Company's strategic initiatives to expand product offerings to include tires and tire related services and to pursue the operation of Company Centers, the Company has not made any public announcement regarding new products or services.

D. competitive business conditions, the issuer's competitive position in the industry, and methods of competition;

The Centers encounter competition in all aspects of their business. The Company believes automotive dealerships (for both used and new vehicles), including recently emerging national and regional, represent the System's principal competitors. Other competitors include: tire companies and regional under-the-hood service specialists. National direct competitors include: Sears Auto Center, Goodyear, Midas, Meineke, Jiffy Lube, and Firestone, among others. The Company believes the greater technical complexity of today's vehicles provides a substantial barrier to entry for competitors in the "under-the-hood" segment of the automotive care services industry.

The Company believes Centers all compete on the basis of customer awareness through advertising, service, convenience, and location and, to a lesser extent, on price. The Company believes Centers' ability to offer a wide array of services and products may offer a competitive advantage.

E. sources and availability of raw materials and the names of principal suppliers;

In general, the Company, its subsidiaries, and Centers in the System do not rely upon "raw materials" in the operation of their businesses. However, certain commodities often present challenges to the profitable operation of a Center. Over the last twelve months, the price of automotive lubricants has caused some loss of profitability at some Centers due to an inability to pass price increases onto the customer.

F. dependence on one or a few major customers;

The Company is not dependent upon one or a few major customers.

G. patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration; and

PFL has registered a number of trademarks and service marks with the United States Patent and Trademark Office, including "Precision Tune Auto Care." Its failure to obtain and maintain trademark and service mark registration could have a material adverse effect on its operations. PFL has also registered or made application to register trademarks in foreign countries where master franchise licenses have been granted. The principal domestic trademarks obtained by PFL include the following:

Mark/First Use Date	Registration No. /Registration Date	Identification of Goods/Services
PRECISION TUNE February 1976	1,214,325 October 26, 1982	Vehicle tune-up services, in Class 37.
PRECISION TUNE & Design December 1977	1,214,326 October 26, 1982	Vehicle tune-up services, in Class 37.
PRECISION TUNE August 1982	1,259,155 November 29, 1983	Spark plugs, in Class 7.
PRECISION TUNE February 1976	1,497,068 July 19, 1988	Vehicle tune-up and lubrication services, in Class 37.

Mark/First Use Date	Registration No. /Registration Date	Identification of Goods/Services
PRECISION TUNE & Design (with color) December 1977	1,520,139 January 10, 1989	Vehicle tune-up services, in Class 37.
PRECISION TUNE AUTO CARE & Design August 1996	2,125,311 December 30, 1997	Auto repair, maintenance, and lubrication services, in Class 37.
PRECISION LUBE EXPRESS August 1996	2,239,299 April 13, 1999	Vehicle oil change and lubrication services in Class 37
PRECISION TUNE AUTO CARE August 1996	3,015,281 Nov 15, 2005	Auto and vehicle tune-up, repair and maintenance services; Repair and maintenance of automobile climate control and lighting systems in class 37.
AMERICA'S NEIGHBORHOOD AUTO CARE EXPERTS	3,091,303 May 9, 2006	Auto and vehicle tune-up, repair and maintenance August, 2004 services; Repair and maintenance of automobile climate control and lighting systems, in class 37

H. the need for any government approval of principal products or services and the status of any requested government approvals.

PFL is subject to federal, international, and state laws and regulations, including the regulations of the Federal Trade Commission as well as similar authorities in individual states, in connection with the offer, sale, and termination of franchises and the regulation of the franchisor/franchisee relationship. From time to time, PFL experiences periods during which sales are restricted while PFL renews its registrations for the sale of franchises with various state agencies. Such delays may have an adverse effect on its ability to offer and sell franchises.

Item VII The nature and extent of the issuer's facilities.

The Company's corporate headquarters are located in approximately 18,000 square feet of leased office space in Leesburg, Virginia pursuant to a lease that expires in 2009. In the opinion of management, the Company's current space is adequate for its operating needs. The Company is currently negotiating a new lease with the landlord.

Part B Share Structure and Issuance History

Item VIII The exact title and class of securities outstanding.

The Company has 11,227 Preferred Class A Stock shares outstanding, and 28,993,752 Common Stock shares outstanding as of 06/30/2008. Our CUSIP No. is 74018R105 and our Trading Symbol is PACI.PK.

Item IX Description of the security.

A. Par or Stated Value for each class of outstanding securities.
Preferred Class A Stock—Par Value $0.01
Authorized Common Stock—Par Value $0.01

B. Common or Preferred Stock.

1. **For common equity, describe any dividend, voting and preemption rights.**
   The common stock of the Company has no rights to any dividend or any preemption rights. Only shareholders of record on the books of the Company at the close of the record date will be entitled to vote at any subsequent annual meeting of shareholders, whether in person or by proxy. Each share of common stock is entitled to one vote for each matter submitted to the shareholders for approval.

2. **For preferred stock, describe the dividend, voting, conversion and liquidation rights as well as redemption or sinking fund provisions.**
   Preferred stock may be converted to common shares. The holders of the outstanding Preferred Stock receive cash dividends at the rate of 2.0% payable quarterly in arrears in cash. The preferred stock of the Company has no voting rights, but the shares are subject to preferential payment in the event the business of the Company is liquidated.

3. **Describe any other material rights of common or preferred stockholders.**
   Other than the rights discussed above, the holders of common or preferred shares of the Company have no other material rights.

4. **Describe any provision in issuer's charter or by-laws that would delay, defer or prevent a change in control of the issuer.**
   There is not a provision in the issuer's charter or by-laws that would delay, defer or prevent a change in control of the issuer. Additionally, see "Risk Factors".

Item X The number of shares or total amount of the securities outstanding for *each class* of securities authorized.

(i)	Period End Date	June 30, 2007	June 30, 2008
(ii)	Authorized—Common	39,000,000	39,000,000
(iii)	Issued and Outstanding	28,993,752	28,993,752
(iv)	Freely tradable shares (public float)	6,320,270	6,500,000
(v)	Number of Shareholders of record	185	184
(i)	Period End Date	June 30, 2007	June 30, 2008
(ii)	Authorized—Preferred	1,000,000	1,000,000
(iii)	Issued and Outstanding	11,227	11,227
(iv)	Freely tradable shares (public float)	—	—
(v)	Number of Shareholders of record	2	2

Item XI List of securities offerings and shares issued for services in the past two years.

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer (1) within the two-year period ending on the last day of the issuer's most recent fiscal year and (2) since the last day of the issuer's most recent fiscal year.

There are no events with the two year period ending on the last day of the Company's most recent fiscal year that have changed the total number of shares outstanding. The total numbers of shares that may be issued without amending the Articles of Incorporation are limited to 40 million shares, divided into two classes—39 million shares of common stock and 1 million shares of preferred stock. Currently, there are 28,993,752 and 11,227 shares outstanding, respectively.

Part C Management and Control Structure

Item XII The name of the chief executive officer, members of the board of directors, as well as control persons.

A. *Officers and Directors*. In responding to this item, please provide the following information for each of the issuer's executive officers, directors, general partners and control persons, as of the date of this information statement.

As of June 30, 2008:

Name	Position	Share Ownership/Percentage
Louis M. Brown, Jr. 748 Miller Dr, SE Leesburg, VA 20175	Chairman	13.39%
Robert R. Falconi 748 Miller Dr, SE Leesburg, VA 20175	President/CEO	3.86%
Woodley A. Allen 2831 Rifle Ridge Road Oakton, VA 22124	Director	Less Than 1% Common
Bassam N. Ibrahim PO BOX 1404 Alexandria, VA 22314	Director	Less Than 1% Common
John D. Sanders 9209 Marina Parkway Myrtle Beach, SC 29572	Director	Less Than 1% Common
Peter C. Keefe 1725 K Street NW, Ste 410 Washington, DC 20006	Director	Less Than 1% Common
Mark P. Francis 748 Miller Dr, SE Leesburg, VA 20175	Chief Financial Officer	None
Frederick F. Simmons 748 Miller Dr, SE Leesburg, VA 20175	Sr. VP General Counsel	Less Than 1% Common
John T. Wiegand 748 Miller Dr, SE Leesburg, VA 20175	Sr. VP-Operations	Less Than 1% Common
Kevin Bates 748 Miller Dr, SE Leesburg, VA 20175	Sr. VP-Marketing	Less Than 1% Common
Joel Burrows 748 Miller Dr, SE Leesburg, VA 20175	VP-Training & Research	Less Than 1% Common
Glyn D. Massingill 748 Miller Dr, SE Leesburg, VA 20175	VP-Franchise Services	Less Than 1% Common
Lee Oppenheim 748 Miller Dr, SE Leesburg, VA 20175	VP-Business Development	None

Louis M. Brown, Jr. became Chairman of the Board in October 2003. From October 2003 to May 2006, he was Chairman of the Board and Chief Executive Officer. From August 2000 until October 2003, he was the Company's President and Chief Executive Officer. He is Vice Chairman of Micros Systems, Inc. since April 2003 and was Chairman of the Board from January 1987 to April 2003.

Robert R. Falconi became Chief Executive Officer in May 2006. He also remains President. From November 2003 to April 2006, he was Chief Operating Officer and Chief Financial Officer. From March 2002 to October 2003, he was Executive Vice President and Chief Operating Officer/Chief Financial Officer. From September 2000 to February 2002, he was the Company's Vice President—Finance, Administration and Chief Financial Officer. From August 1998 until September 2000, he was Chief Financial Officer of Apptis, Inc.

Woodley A. Allen was Chairman of the Board of the Company from February 2000 until October 2003, and serves as Chairman of the Audit Committee, and serves on the Nominating Committee. He also serves as the Board's financial expert. He served as Chief Financial Officer of EZ Communications, Inc. (publicly traded radio broadcasting company) from March 1973 to May 1992, and has been acting Chief Financial Officer of BIA Financial Network, Chantilly, VA (merchant banking and investment firm) since February 2004.

Bassam N. Ibrahim is a shareholder in the law firm of Buchanan Ingersoll PC, which merged with Burns, Doane, Swecker & Mathis, where he was a partner since 1996. Mr. Ibrahim is Chairman of the Nominating Committee and serves on the Organization and Compensation Committee.

Peter C. Keefe, has been President of Avenir Corporation since January 2000, and served as its Vice President from May 1991 until January 2000. Mr. Keefe serves as Chairman of the Organization and Compensation Committee and is a member of the Audit Committee.

John D. Sanders Ph.D. serves as a business consultant to emerging technology companies. Dr. Sanders has been a Registered Representative of Wachtel & Co., Inc., a Washington D.C.-based stock brokerage firm, since 1968. Dr. Sanders serves on the Audit and Nominating Committees.

Mark P. Francis became Chief Financial Officer in May 2006. From October 2004 to April 2006, he was Controller. From April 2004 until October 2004, Mr. Francis was the Assistant Controller of the Company. From December 1999 until April 2004, he was an accounting manager of REHAU, Inc.

Frederick F. Simmons became Senior Vice President, General Counsel and Secretary in March 2001. From December 1995 to February 2001, he was Assistant General Counsel and Assistant Secretary of Advantica Restaurant Group, Inc.

John T. Wiegand became Senior Vice President—Operational Programs and Training in March 2002. From August 2000 to March 2002, he was Senior Vice president of Franchise Operations and from June 1998 to August 2000, he was Vice President of North American Operations. Mr. Wiegand joined WE JAC Corporation, the Company's predecessor, as Director of Field Operations in August 1996.

Kevin Bates became Senior Vice President of Marketing in August 2004. From October 1999 to August 2004, Mr. Bates was Vice President—Marketing and Advertising. From January 1998 until October 1999, he was our Director of Field Operations.

Joel Burrows became Vice President—Training/Research and Development in September 1999. From December 1997 until September 1999, he was the PTAC Director of Training/Research and Development.

Glyn D. Massingill became Vice President—Franchise Services in January 2000. From September 1990 through December 1999, Mr. Massingill was Vice President and General Manager of Precision Automotive Components Manufacturing and Distribution (PAC), a division of the Company.

Lee Oppenheim became Vice President—Business Development in September 2007. Mr. Oppenheim has over six years experience in the franchising industry. Previously he held the position of Senior Director of Business Development at Realogy Corporation, the leader in residential real estate formerly a division of Cendant Corporation, in Parsippany NJ.

B. ***Legal/Disciplinary History*. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:**

1. **A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);**
   NOT APPLICABLE
2. **The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;**
   NOT APPLICABLE
3. **A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or**
   NOT APPLICABLE
4. **The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.**
   NOT APPLICABLE

C. ***Disclosure of Certain Relationships*. Describe any relationships existing among and between the issuer's officers, directors and shareholders.**

Peter Keefe is the President of Avenir Corporation. Avenir, as the investment advisor to the Arthur Kellar Charitable Lead Annuity Trust (CLAT), will vote the shares owned by the CLAT, which is 10,924,710.

D. ***Disclosure of Conflicts of Interest*. Describe any related party transactions or conflicts of interests. Provide a description of circumstances, parties involved and mitigating factors for any related party transactions or executive officer or director with competing professional or personal interests.**

The Company manages the operation of PTAC Marketing Fund, Inc. ("PMF"), the national advertising fund for Precision Tune Auto Care Centers, pursuant to a Management Agreement approved by the Board of Directors of PMF, which is comprised of franchisee and Company personnel. The Company charged PMF $676,000 and $707,000 for administrative and other expenses incurred on behalf of PMF, for the years ended June 30, 2008 and 2007, respectively. Based on the timing of receipts and disbursements, it is common for amounts to be due to and from the Company and PMF. At June 30, 2008 and 2007, the amount due from PMF was $55,000 and $58,000, respectively. This amount is included in accounts receivable. At June 30, 2008 and 2007, the amount due to PMF was $160,556 and $190,801, respectively. This amount is included in due to related party.

Bassam N. Ibrahim, a director of the Company, is a shareholder in Buchanan Ingersoll PC, an Alexandria, Virginia law firm that performs legal services for the Company related to intellectual property protection. Fees paid in the amount of approximately $30,000 and $49,000 to the firm by the Company in the fiscal years ended June 30, 2008 and 2007, respectively, did not exceed five percent of the firm's gross revenues.

Item XIII Beneficial Owners.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Outstanding Common Stock
Avenir Corporation(1) 1725 K Street, NW, Suite 410, Washington, DC 20006	2,847,381	9.40%
Falcon Solutions Limited(1) 2 Harbormaster Place, Custom House Dock, Dublin 1 Ireland	6,449,757	21.29%
Arthur C. Kellar Charitable Lead Annuity Trust (CLAT)	10,924,710(2)	36.07%
Louis M. Brown, Jr.(3)	4,055,380	13.39%

(1) Reflects the Company's reasonable good faith effort to calculate ownership based on (1) the Company's and transfer agent's records, and (2) Schedule 13 G & D filings in September 2007 (Avenir) and Form 4 & 5 filings in July 2007 (Falcon Solutions). No Schedule 13 filings or Forms 4 or 5 have been made since that time to our knowledge.

(2) Avenir, as investment advisor to the Arthur Kellar Charitable Lead Annuity Trust, will vote the shares owned by the CLAT, which is 10,924,710. These shares are reflected in Avenir's Schedule 13 filing in September 2007. Also includes options to purchase 27,500 shares that are exercisable within 60 days.

(3) Mr. Brown is Chairman of the Board of Directors. Includes 4,055,380 shares owned. There are no options exercisable within 60 days.

Item XIV The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to the operations, business development and disclosure:

1. **Investment Banker**
   NOT APPLICABLE

2. **Promoters**
   NOT APPLICABLE

3. **Counsel**

   Arent Fox LLP
   PO Box 758670
   Baltimore, MD 21275
   Ph: (202) 857-6000

   Hunton & Williams
   Riverfront Plaza, East Tower
   951 East Byrd Street
   Richmond, VA 23219
   Ph: (804)788-8200

   Haynes and Boone, LLPPO
   Box 841399 Dallas, TX 75284
   Ph: (214) 651-5000

4. **Accountant or Auditor**
   Yount, Hyde, & Barbour, P.C.
   C. Scott Moulden, CPA
   PO Box 2560
   Winchester, VA 22604
   Ph: (540) 662-3417
   Email: *smoulden@yhbcpa.com*

   Responsibilities include but not limited to an audit of the consolidated balance sheets and related statements of operations, stockholders' equity, and cash flows.

5. **Public Relations Consultant(s)**
   NOT APPLICABLE

6. **Investor Relations Consultant**
   NOT APPLICABLE

7. **Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement—the information shall include the telephone number and e-mail address of each advisor.**
   NOT APPLICABLE

Part D Financial Information

Item XV Financial information for the issuer's most recent fiscal period.

Report of Independent Certified Public Accountants

To the Board of Directors and
Stockholders of Precision Auto Care, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Precision Auto Care, Inc. (the Company) and subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Precision Auto Care, Inc. and subsidiaries as of June 30, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
September 17, 2008

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2008	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,761,725	$ 4,859,025
Accounts receivable, net of allowance of $113,148 and $215,792, respectively	517,068	371,716
Notes receivable, net of allowance of $183,729 and $155,943, respectively	75,176	110,700
Deferred tax asset	704,568	810,821
Other assets	437,598	414,102
Total current assets	6,496,135	6,566,364
Property and equipment, net	800,218	151,791
Goodwill	9,276,265	8,941,744
Notes receivable, net of allowance of $232,145 and $346,056, respectively	130,448	159,656
Deferred tax asset	4,596,905	4,873,376
Deposits and other	106,024	74,394
Total assets	$ 21,405,995	$ 20,767,325
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line-of-credit	$ —	$ —
Notes payable and capital lease obligation—current	82,476	8,989
Accounts payable and accrued liabilities	173,588	257,330
Taxes payable	668,136	551,098
Accrued commission payable	211,988	216,061
Accrued salaries and related expenses	453,136	390,251
Due to related party	160,556	190,801
Deferred revenue	170,225	196,140
Total current liabilities	1,920,105	1,810,670
Notes payable and capital lease obligation, net of current portion	53,569	26,357
Total liabilities	1,973,674	1,837,027
Commitments and contingencies	—	—
Series A redeemable preferred stock, $.01 par value; 1,000,000 shares authorized; 11,227 shares issued and outstanding	116,312	116,312
Stockholders' equity:		
Common stock, $.01 par value; 39,000,000 shares authorized; 28,993,752 shares issued and outstanding	289,938	289,938
Additional paid-in capital	67,816,821	67,808,942
Accumulated deficit	(48,790,750)	(49,284,894)
Total stockholders' equity	19,316,009	18,813,986
Total liabilities and stockholders' equity	$ 21,405,995	$ 20,767,325

See accompanying notes.

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

	For The Years Ended June 30,	
	2008	2007
Revenues:		
Franchise royalties	$10,639,754	$10,619,819
Franchise development	200,851	667,396
Company-operated retail stores	1,489,754	415,397
Other	385,303	369,000
Total revenues	12,715,662	12,071,612
Direct costs:		
Franchise support	7,124,748	7,723,939
Company-operated retail stores	1,517,020	482,392
Total direct costs	8,641,768	8,206,331
General and administrative expense	3,131,664	3,106,409
Depreciation and amortization expense	95,677	59,608
Operating income	846,553	699,264
Interest expense	(4,255)	(7,690)
Interest income	169,021	203,673
Other income	1,656	585
Total other income	166,422	196,568
Income before income tax expense (benefit)	1,012,975	895,832
Provision (benefit) for income taxes	410,602	(2,513,100)
Net income	602,373	3,408,932
Preferred stock dividends	2,326	2,326
Net income applicable to common shareholders	$ 600,047	$ 3,406,606
Net income per common share—Basic	$ 0.02	$ 0.12
Net income per common share—Diluted	$ 0.02	$ 0.12
Weighted average common shares outstanding—Basic	28,993,752	28,993,752
Weighted average common shares outstanding—Diluted	29,056,543	29,117,768

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended June 30,	
	2008	2007
Operating activities:		
Net income applicable to common shareholders	$ 600,047	$ 3,406,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95,677	59,608
Bad debt expense	10,000	42,100
Decrease in deferred tax valuation allowance	—	(2,899,000)
Deferred taxes	382,724	330,483
Stock based benefit due to variable accounting	—	(45,634)
Stock based compensation	7,879	44,740
Changes in assets and liabilities:		
Accounts and notes receivable	(106,140)	70,722
Prepaid expenses, deposits and other	(22,006)	(18,449)
Accounts payable and accrued liabilities	(11,469)	(93,338)
Due to related party	(30,245)	23,748
Deferred revenue and other	(25,915)	(123,889)
Net cash provided by operating activities	900,552	797,697
Investing activities:		
Purchases of property and equipment	(136,225)	(40,343)
Purchase of company-operated stores	(770,000)	(330,000)
Net cash used in investing activities	(906,225)	(370,343)
Financing activities:		
Payment of preferred stock dividends	(2,326)	(2,326)
Repayment of notes payable and capital lease	(89,301)	(7,853)
Net cash used in financing activities	(91,627)	(10,179)
Net change in cash and cash equivalents	(97,300)	417,175
Cash and cash equivalents at beginning of year	4,859,025	4,441,850
Cash and cash equivalents at end of period	$4,761,725	$ 4,859,025
Cash paid for the period for:		
Interest	$ 4,255	$ 7,690
Income taxes	$ 29,825	$ 56,066
Supplemental schedule of non cash investing and finance activities:		
Company-operated stores acquired under notes payable and release of notes receivable	$ 205,521	$ —

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at June 30, 2006	28,993,752	$289,938	$67,809,836	$(52,691,500)	$15,408,274
Stock based benefit due to variable accounting	—	—	(45,634)	—	(45,634)
Stock based compensation	—	—	44,740	—	44,740
Net income	—	—	—	3,406,606	3,406,606
Balance at June 30, 2007	28,993,752	$289,938	$67,808,942	$(49,284,894)	$18,813,986
Adjustment due to FIN 48 implementation	—	—	—	(105,903)	(105,903)
Stock based compensation	—	—	7,879	—	7,879
Net income	—	—	—	600,047	600,047
Balance at June 30, 2008	28,993,752	$289,938	$67,816,821	$(48,790,750)	$19,316,009

See accompanying notes.

Precision Auto Care, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1—Business Description and Financial Statement Presentation

Precision Auto Care, Inc. (the "Company") is headquartered in Leesburg, VA and is a franchisor of automotive maintenance service centers which provide specialized automotive care services, and fast oil change and lube services. The company-owned centers and franchisee owned centers operate primarily under the Precision Tune Auto Care brand name.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

The Company enters into domestic Area Development agreements and international Master License agreements which grant the area developer and master licensor, respectively, the right to sell, on the Company's behalf, Precision Tune Auto Care franchises within a specific geographic region. Revenue from the sale of Area Development agreements and international Master License agreements is recognized as all material services or conditions related to the agreements are satisfied.

Revenue from the sale of a franchise is recognized when all material services and conditions have been satisfied, generally at the opening of the franchised center.

The Company's royalty revenue is recognized in the period earned and to the extent no known issues involving collection exist. In the case when 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.

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

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.

Cash and Cash Equivalents

Cash and cash equivalents, consisting of certificates of deposit of approximately $3.1 million, are comprised of highly liquid debt instruments with original maturities of three months or less. Cash balances may exceed insured amounts.

Note 2—Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis for book purposes and accelerated methods for tax purposes over the estimated useful lives of the related assets. The estimated useful lives are as follows:

	Years
Furniture and fixtures	5-7
Equipment	3-10
Other items	3-7
Leasehold improvements	Life of lease

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.

Impairment of Long-Lived Assets

The Company evaluates the carrying amount of long-lived assets to be held and used, including goodwill and other intangible assets, when events and circumstances warrant such a review. The carrying amount of a long lived asset is considered impaired when the estimated undiscounted cash flow from each asset is less than its carrying amount. In that event, the Company would record a loss equal to the amount by which the carrying amount exceeds the fair value of the long-lived asset.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, trade accounts receivable and notes receivable. The trade receivable balances are dispersed among a wide customer and franchisee base. The Company routinely assesses the financial strength of its franchises. The Company maintains reserves for credit losses, and such losses have been within management's expectations. The Company holds cash and cash equivalents primarily in one financial institution, which often exceed FDIC insured limits. Historically, the Company has not experienced any losses due to such concentration of credit risk.

Fair Value of Financial Instruments

The Company's financial instruments, as defined under SFAS No. 107, Disclosures about Fair Value of Financial Instruments, include its cash, accounts receivable and accounts payable and line of credit debt. The fair value of cash, accounts receivable, accounts payable and borrowings outstanding under our line of credit approximate their respective carrying values at June 30, 2008 and 2007 based on the short-term maturities of these instruments.

Note 2—Summary of Significant Accounting Policies (Continued)

Advertising Costs

The Company expenses all advertising costs as incurred. The Company incurred $103,000 and $60,000 in advertising costs for the years ended June 30, 2008 and 2007, respectively.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Goodwill and Intangible Assets

Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Intangible Assets", requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. The Company engaged a valuation specialist in fiscal year 2007 to assist management with its test for impairment. The fair value of franchising operations was estimated utilizing a discounted cash flow approach that estimates revenue, driven by assumed market growth rates and appropriate discount rates. These estimates are consistent with the plans and estimates management uses to manage the underlying business. The Company carried forward the valuation from fiscal year 2007 for the current year analysis since the fair value of the franchising operations exceeded its carrying value by a substantial margin and the fact that there have been no events and circumstances that have had a material impact on the franchising operations since the most recent fair value determination. Additionally, the Company reviewed the fair value of the company-owned store purchased in fiscal year 2007. Similar to the franchising operations, the fair value of the company-owned store was estimated utilizing a discounted cash flow approach that estimates revenue, driven by assumed market growth rates and appropriate discount rates. Impairment testing is performed in the first quarter of each fiscal year. Based upon the above analysis, management has concluded that the $8.9 million carrying value of goodwill was not impaired. There was additional goodwill of $335,000 associated with the purchase of two operating automotive service centers during fiscal year 2008, which was not included in the annual impairment test. However, there were no substantial changes in the operations of the automotive service centers that would indicate impairment.

Accounting for Stock Based Compensation

On July 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, including grants of employee and director stock options, to be recognized in the income statement based on their fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" ("APB 25") for the periods beginning fiscal 2007.

The Company adopted SFAS 123(R) using the modified prospective transition method, which required the application of the accounting standard as of July 1, 2006. The Company's Consolidated Financial Statements for the twelve months ended June 30, 2008 and 2007, respectively, reflect the

Note 2—Summary of Significant Accounting Policies (Continued)

impact of SFAS 123(R). As a result of the adoption of SFAS 123(R), the Company recognized a pre-tax charge of approximately $8,000 and $45,000 (included in general and administrative expenses), $5,000 and $26,000 after-tax and no impact per share on a diluted basis in the periods ended June 30, 2008 and 2007, respectively, associated with the expensing of stock options. Employee stock option compensation expense includes the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period for the entire portion of the award.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for the stock-based awards to employees and directors using the intrinsic value method. Additionally, certain outstanding stock options are subject to variable accounting. In the years ended June 30, 2008 and 2007, the Company recorded a benefit of approximately $0 and $46,000, respectively, as a result of a decline in the Company's stock price over the previous twelve months.

A summary of option activity under all plans as of June 30, 2008 and 2007, respectively, and changes during the periods then ended are presented below:

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
June 30, 2006	1,601,700	0.89	5.0
Options granted	—	—	
Options exercised	—	—	
Options forfeited	—	—	
June 30, 2007	1,601,700	0.89	4.54
Options granted	—	—	
Options exercised	—	—	
Options forfeited	50,000	10.00	
June 30, 2008	1,551,700	0.60	3.66

No options were granted in the twelve months ended June 30, 2008 and 2007, respectively. The exercise price of options outstanding at June 30, 2008 ranged from $0.25 to $3.63 per share.

The intrinsic value of in the money options at June 30, 2008 and 2007 was approximately $27,000 and $50,000, respectively.

A summary of the status of the Company's non-vested shares as of June 30, 2008 and 2007, respectively, and changes during the periods then ended are presented below:

	Shares Under Option	Weighted-Average Grant Date Fair Value
Non-vested shares at June 30, 2007	125,000	.62
Granted	—	
Vested	125,000	
Forfeited	—	
Non-vested shares at June 30, 2008	—	—

Note 2—Summary of Significant Accounting Policies (Continued)

Earnings Per Share

The Company reports earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" which specifies the methods of computation, presentation, and disclosure. Basic 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 and warrants at June 30, 2008 and 2007 was 1,895,320 and 1,945,320, respectively. Only stock options and warrants with exercise prices lower than the average market price of the common shares were included in the diluted EPS calculation for fiscal year 2008 and 2007. For the years ended June 30, 2008 and 2007, respectively 1,321,700 and 432,950 shares attributable to outstanding stock options were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

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

	For The Years Ended June 30,	
	2008	2007
Numerator:		
Net income	$ 602,373	$ 3,408,932
Preferred stock dividends	(2,326)	(2,326)
Net income applicable to common Shareholders	$ 600,047	$ 3,406,606
Denominator:		
Denominator for basic EPS weighted-average-shares	28,993,752	28,993,752
Common stock equivalents—stock options and warrants	62,791	124,016
Denominator for diluted EPS weighted-average-shares	29,056,543	29,117,768
Basic earnings per share applicable to common shareholders	$ 0.02	$ 0.12
Diluted earnings per share applicable to common shareholders	$ 0.02	$ 0.12

Reclassifications

Certain amounts on the prior period financial statements have been reclassed to be in conformity with the current period financial statements.

Note 3—Recently Issued Accounting Standards

Recently Adopted Accounting Pronouncements

On July 1, 2007, we adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes

Note 3—Recently Issued Accounting Standards (Continued)

recognized in a company's financial statements in accordance with FAS 109, "Accounting for Income Taxes". The Interpretation provides a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures.

As a result of the implementation of FIN 48, the Company recognized a charge to our beginning accumulated deficit as a cumulative effect of a change in accounting principle of approximately $105,000 related to uncertain state tax positions. The Company conducts business in the U.S. and Canada and is subject to tax in those jurisdictions. As a result of its business activities, the Company files tax returns that are subject to examination by the respective federal, state, local and foreign tax authorities. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examination by tax authorities for years before June 30, 2004, although carryforward tax attributes that were generated prior to June 30, 2004 may still be adjusted upon examination by tax authorities if they either have been or will be utilized. The Company has not received any communications by taxing authorities that cause it to believe it is currently under examination by the tax authorities in any of the jurisdictions in which it operates. Adopting FIN 48 had the following impact on our financial statements: increased our income taxes payable and our retained deficit by $105,000. There was no change to the liability at June 30, 2008. The Company recognized interest expense related to uncertain tax expenses as a component of the charge to the beginning accumulated deficit. Penalties, if incurred, were also recognized as a component of the charge to the beginning accumulated deficit. As of June 30, 2008, approximately $31,000 of interest and penalties were accrued related to uncertain state tax positions on our balance sheet.

Recent Accounting Pronouncements Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for us beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as

Note 3—Recently Issued Accounting Standards (Continued)

any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for us beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the potential impact that adoption of SFAS No. 160 may have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 gives us the irrevocable option to carry many financial assets and liabilities at fair values, with changes in fair value recognized in earnings. SFAS No. 159 is effective for us beginning July 1, 2008, although early adoption is permitted. We do not believe SFAS No. 159 will have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 is effective for us beginning July 1, 2008; FSP 157-2 delays the effective date for certain items to July 1, 2009. We do not believe SFAS No. 157 will have a material impact on our financial statements.

Note 4—Master License Agreements

In May 2005, the Company signed a master franchise agreement with Precision—Sociedade Gestora de Franchising S.A. de C.V. giving that corporation a license to open and operate at least 180 Precision Tune Auto Care (PTAC) car care centers in Spain over a five year period. Under the terms of the agreement, Precision—Sociedade Gestora de Franchising S.A. de C.V. is obligated to pay the Company $750,000. The Company received $150,000 upon the signing of the master franchising agreement and will receive the remaining $600,000 through 2010 in accordance with an agreed upon payment schedule. The Company recognized revenue of $225,000 for the year ended June 30, 2007 as the Company had substantially fulfilled all required obligations. No comparable revenue was recognized for the year ended June 30, 2008. Additionally, future revenue will not be recognized until collection of such amounts is probable. Three centers were open and operating as of June 30, 2008.

In March 2007, the Company signed a master franchise agreement with Opal Marketing & Industry LLC (Opal Marketing), giving that company a license to open and operate Precision Tune Auto Care (PTAC) car care centers in Qatar, Kuwait, and Bahrain. Under the terms of the agreement, Opal Marketing was obligated to pay the Company $100,000 for these rights. The Company recognized $100,000 as income as all substantial obligations under that agreement have been fulfilled and the amount had been paid in full.

Note 5—Property and Equipment

The components of property and equipment are as follows:

	June 30, 2008	June 30, 2007
Land	$ 190,900	$ —
Buildings	336,555	—
Furniture and fixtures	62,269	45,844
Equipment	531,627	360,542
Capital leases	47,875	47,875
Leasehold improvements	74,330	65,070
Other items	86,986	86,986
	1,330,542	606,317
Accumulated depreciation	(530,324)	(454,526)
Property and equipment, net	$ 800,218	$ 151,791

Note 6—Acquisitions

On December 5, 2007, the Company purchased a center in Northern Virginia. This center will be operated as a company-owned store and operations of such have been included in the Company's consolidated financial statements from the purchase date through June 30, 2008. The Company purchased the land and assets for $640,000 with up to an additional $90,000 available to the seller if certain sales objectives are met. Per the purchase agreement, an additional $5,000 will be paid each month during the first eighteen months after the execution of agreement if the center reaches net sales of $48,000 per month. There were additional payments totaling $20,000 as of June 30, 2008. The goodwill is deductible for tax purposes. The following table summarizes the estimated fair values of the land and assets acquired at the date of acquisition:

Current assets	$ 5,000
Equipment	44,000
Intangible asset	30,000
Land	121,900
Building	228,100
Goodwill	211,000 - 301,000
Total assets acquired	$640,000 - 730,000

On December 13, 2007, the Company purchased the land and building of a site previously operated as a Precision Tune Auto Care center in Detroit, Michigan. The operations of the center began in January 2008, and the operations have been included in the Company's consolidated financial statements through June 30, 2008. The Company purchased the land and building for $175,000. The

Note 6—Acquisitions (Continued)

following table summarizes the estimated fair values of the land and building acquired at the date of acquisition:

Land	$ 69,000
Building	106,000
Total assets acquired	$175,000

On October 19, 2006, the Company purchased an existing Precision Tune Auto Care center in Northern Virginia. This center will be operated as a company-owned store and operations of such have been included in the Company's consolidated financial statements from the purchase date through June 30, 2008 and 2007, respectively. The Company purchased the assets of this center for $330,000. Goodwill of $230,000 is deductible for tax purposes. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition:

Current assets	$ 10,000
Equipment	40,000
Intangible asset	50,000
Goodwill	230,000
Total assets acquired	$330,000

Note 7—Income Taxes

The provision (benefit) for income taxes consisted of the following items:

	Years Ended June 30,	
	2008	2007
Current tax expense:		
Federal	$ —	$ 35,000
State	28,000	23,000
Total current tax expense	28,000	58,000
Deferred tax expense:		
Federal	314,000	271,000
State	69,000	60,000
Total deferred tax expense	383,000	331,000
Change in valuation allowance	—	(2,899,000)
Total income tax expense (benefit)	$411,000	$(2,510,000)

Note 7—Income Taxes (Continued)

The effective tax rate differed from the statutory rate as follows:

	Years Ended June 30,	
	2008	2007
Statutory federal rate	34.0%	34.0%
State taxes	7.3	7.3
Foreign taxes	0.0	1.8
Nondeductible expenses	(0.3)	0.6
Adjustment to deferred tax assets	0.0	(0.1)
Change in valuation allowance	0.0	(323.7)
Other	(0.7)	0.0
Effective tax rate	40.3%	(280.1)%

Deferred tax assets and liabilities 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.

Significant components of the Company's deferred tax liabilities and assets are as follows:

	June 30,	
	2008	2007
Deferred tax assets:		
Net operating loss	$4,657,000	$4,970,000
Other	645,000	714,000
Net deferred taxes	$5,302,000	$5,684,000

As of June 30, 2008, the Company had net operating loss carryforwards for federal tax purposes of approximately $12.1 million, which expire from 2019 through 2024.

The Company regularly reviews the recoverability of its tax deferred assets and establishes a valuation allowance as deemed appropriate. As of June 30, 2006, the Company had a valuation allowance of $2.9 million against its deferred tax assets. Based on the Company's evaluation of positive and negative evidence, which includes recent operating performance and projections for future profitability, management determined that it is more likely than not that its deferred tax assets would be realized. Accordingly, management released the remaining valuation allowance of $2.9 million at June 30, 2007.

Note 8—Debt

Line of Credit

On March 4, 2008, the Company renewed the $250,000 line of credit with Chevy Chase Bank. The interest rate on this line of credit is indexed to the Prime Rate as published in *The Wall Street Journal* (5.00% at June 30, 2008) and the Company has pledged the assets of its wholly-owned subsidiaries as collateral. The Company has not borrowed against this line of credit. Under this agreement, the Company must meet financial covenants relating to profitability, debt service coverage and a maximum leverage ratio.

Notes Payable and Capital Lease Obligations

Notes payable and capital lease obligations consist of the following:

	June 30,	
	2008	2007
Notes payable and lease obligations	$136,045	$35,346
Less: current maturities	(82,476)	(8,989)
Long-term portion	$ 53,569	$26,357

The future notes payable and capital lease obligations with maturities in excess of one year as of June 30, 2008 are as follows:

	Future Maturities
2009	82,476
2010	30,527
2011	23,042
	$136,045

Note 9—Lease Commitments

At June 30, 2008, the Company has lease commitments for office space, a training center, and a number of service center locations as well as office equipment under operating and capital leases. These leases expire between 2008 and 2012, with renewal options in certain of the leases. The monthly rent for the office space increases by 3% on February 1 of each year. The Company recognizes rent expense on a straight-line basis for certain leases which contain fixed escalations. Rent expense for office space and warehouse facilities of approximately $399,000 and $347,000 is included in operating expenses for the years ended June 30, 2008 and 2007, respectively. Rent expense for service center locations of approximately $295,000 and $130,000 is recorded net of sublease income of $52,000 and $73,000 for the years ended June 30, 2008 and 2007, respectively.

Note 9—Lease Commitments (Continued)

Operating Leases

The future minimum lease payments and related sublease payments for operating leases with terms in excess of one year as of June 30, 2008 are as follows:

	Future Minimum Lease Payments	Sublease Income	Net
2009	$ 427,000	$47,000	$ 380,000
2010	192,000	—	192,000
2011	204,000	—	204,000
2012	161,000	—	161,000
2013	100,000	—	100,000
Thereafter	76,000	—	76,000
	$1,160,000	$47,000	$1,113,000

Capital Leases

The Company had recorded capital assets of $47,875 as of June 20, 2008 and 2007, respectively. Accumulated amortization related to the leased assets was $26,331 and $16,756 at June 30, 2008 and 2007, respectively.

The future minimum lease payments for capital leases with terms in excess of one year as of June 30, 2008 are as follows:

	Future Minimum Lease Payments
2009	13,244
2010	13,244
2011	4,414
Total lease payments	$30,902
Less amounts representing interest	4,545
Present value of net lease payments	$26,357

Lease

On July 15, 2006, the Company was party to a lease amendment related to one of its franchise centers. Under the terms of the original lease agreement which was executed in fiscal year 2001, the Company agreed to guarantee the lessee performance. Under the terms of the amendment, the Company has agreed to continue its guarantor obligations in conjunction with the leasing of the facility to another non-related party. The terms of the amendment are in effect through April 30, 2009. In the event that the new lessee defaults, the Company could be required to perform as the lessee resulting in additional rental expense of approximately $136,400 through April 30, 2009. In accordance with the provisions of FIN 45; Guarantor's Accounting and Disclosure Requirements for Guarantees, the Company utilized a third party to assist with assessing the fair value of the leased property. Based on the fair market valuation of comparable properties, if there was an imbedded premium in the lease due to the fact the Company was the guarantor on the lease, it was immaterial. The Company did not

Note 9—Lease Commitments (Continued)

record a liability at the inception of the lease amendment for issuing the guarantee pursuant to paragraph 9 of FIN 45.

Note 10—Area Developer Agreements

On January 4, 2007, the Company and the area developer for the Dallas, Texas market mutually agreed to terminate the area developer agreement for the Dallas, Texas market for an amount slightly in excess of $100,000. The Company bought back the area rights and the amount was expensed as a direct franchise support cost for the year ended June 30, 2007.

On February 15, 2007, the Company and the area developer for the southern Florida market mutually agreed to terminate the area development agreement for the Florida market for an amount slightly in excess of $150,000. The Company bought back the area rights and the amount was expensed as a direct franchise support cost for the year ended June 30, 2007.

With no area developer for these markets, the Company will support the franchisees and develop new stores in that market and will keep 100 percent of the royalty stream instead of splitting those monies with an area developer.

Note 11—Related Party Transactions

The Company manages the operation of PTAC Marketing Fund, Inc. ("PMF"), the national advertising fund for Precision Tune Auto Care Centers, pursuant to a Management Agreement approved by the Board of Directors of PMF, which is comprised of franchisee and Company personnel. The Company charged PMF $676,000 and $707,000 for administrative and other expenses incurred on behalf of PMF, for the years ended June 30, 2008 and 2007, respectively. Based on the timing of receipts and disbursements, it is common for amounts to be due to and from the Company and PMF. At June 30, 2008 and 2007, the amount due from PMF was $55,000 and $58,000, respectively. This amount is included in accounts receivable. At June 30, 2007 and 2006, the amount due to PMF was $160,556 and $190,801, respectively. This amount is included in due to related party.

Bassam N. Ibrahim, a director of the Company, is a shareholder in Buchanan Ingersoll PC, an Alexandria, Virginia law firm that performs legal services for the Company related to intellectual property protection. Fees paid in the amount of approximately $30,000 and $49,000 to the firm by the Company in the fiscal years ended June 30, 2008 and 2007, respectively, did not exceed five percent of the firm's gross revenues.

Note 12—Stockholders' Equity

Voting Rights and Outstanding Shares

Each share of non-voting preferred stock is entitled to receive, when and as declared by the Board of Directors, cumulative preferential cash dividends at the rate of 2% of the liquidation preference of the Series A redeemable preferred stock, $10.36 per share, per annum payable quarterly in arrears in cash on the last day, or the next succeeding business day, of January, April, July, and October in each year, beginning January 31, 2003. Accrued dividends were approximately $233 at June 30, 2008 and 2007, respectively.

Note 12—Stockholders' Equity (Continued)

Each share of common stock is entitled to one vote for each matter submitted to the shareholders for approval.

Common Stock Option Plan

In 1999, the Company's Board of Directors and the Company's stockholders approved the 1999 Employee Stock Option Plan (the "Option Plan") and, as amended, reserved 2,600,000 shares of common stock for issuance under the Plan. Options available for future grants under this plan were 307,000 at June 30, 2008.

Options reserved for issuance under predecessor plans consist of 400,000 related to the 1997 Employee Stock Option Plan, 175,000 related to the 1996 Employee Stock Option Plan, and 75,000 related to the 1998 Director's Stock Option Plan. Options available for future grant at June 30, 2008, under these plans were 327,500, 175,000 and 75,000, respectively. The Compensation Committee of the Company's Board of Directors determines the recipients of the award to be granted, exercise price, vesting period, term and number of shares underlying the options.

The following is a summary of the Company's stock option activity under all plans:

	Shares Under Option	Weighted-Average Exercise Price
June 30, 2006	1,601,700	0.89
Options granted	—	—
Options exercised	—	—
Options forfeited	—	—
June 30, 2007	1,601,700	0.89
Options granted	—	—
Options exercised	—	—
Options forfeited	50,000	—
June 30, 2008	1,551,700	0.60

At June 30, 2008 and 2007, options for approximately 1,552,000 and 1,477,000 shares, respectively, were exercisable. No options were granted in fiscal year 2008 and 2007, respectively. The weighted average remaining contractual term of the options was 3.66 years as of June 30, 2008. The exercise price of options outstanding at June 30, 2008 ranged from $0.25 to $3.63 per share.

Outside Director's Stock Plan

In 2000, the Company's Board of Directors and the Company's stockholders approved the 2000 Outside Directors' Stock Plan and reserved 50,000 shares for issuance under the Plan. Shares available for future grants at June 30, 2008, under this plan were 37,000.

Warrants

In 1998, a subordinated debenture was executed with an LLC composed of certain members of the Company's board of directors (Board LLC). Terms of the agreement included issuance of warrants to purchase 400,000 shares of the Company's common stock with an exercise price of $0.44 per share. The number of shares outstanding related to warrants at June 30, 2008 and 2007 was 343,620.

Note 13—Employees' Savings Plan

The Company maintains a 401(k) plan under which the Company may contribute up to 25% of an employee's first 6% of compensation deferred under the plan. Employees become eligible after attaining the age of 21 and completing three months of employment with the Company. The employees may elect to contribute all of their annual compensation subject to limitations set forth in the Internal Revenue Code. Employees' contributions vest immediately. The employee matching contribution is discretionary and vests 20% after one year and in increments of 20% each additional year. The employee matching contributions for each of the years ended June 30, 2008 and 2007 were $30,000 and $27,000, respectively.

Note 14—Contingencies

The Company is subject to litigation that could have a material adverse impact on its liquidity (see Item V.—Section A. Business Development).

Note 15—Subsequent Events

On July 8, 2008, the Company purchased an existing center in Hayes, VA. This center will be operated as a company-owned store. The Company purchased the assets for $175,000 with up to an additional $85,000 available to the seller if certain sales objectives are met. Per the purchase agreement, an additional $15,000 will be paid at the end of each quarter during the first fifteen months after the execution of agreement if the center reaches net sales of $180,000 for the quarter. Additionally, if the store generates net sales in excess of $120,000 during the first two months immediately following the initial fifteen month period, an additional amount up to $10,000 will be paid. The goodwill is deductible for tax purposes. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition:

Current assets	$ 8,000
Furniture & Fixtures	10,000
Equipment	53,000
Intangible asset	30,000
Goodwill	74,000 - 159,000
Total assets acquired	$170,000 - 260,000

On August 20, 2008, the Company and the area developer for the Austin, Texas market mutually agreed to terminate the area developer agreement for the Austin, Texas market for an amount in excess of $150,000. The Company bought back the area rights and the amount was expensed as a direct franchise support cost for the year ended June 30, 2009.

With no area developer for this market, the Company will support the franchisees and develop new stores in that market and will keep 100 percent of the royalty stream instead of splitting those monies with an area developer.

On September 2, 2008, the Company purchased an existing Precision Tune Auto Care center in Hanover, PA. This center will be operated as a company-owned store. The Company purchased the assets for $80,000 with up to an additional $8,000 available to the seller if certain sales objectives are

Note 15—Subsequent Events (Continued)

met. Per the purchase agreement, an additional $4,000 will be paid at the end of the first twelve months if the center exceeds net sales of $285,000 for the year. If the store generates net sales in excess of $300,000 during the first twelve months immediately following the purchase, an additional amount of $8,000 will be paid. One payment in the amount of either $4,000 or $8,000 will be made depending on the results of the center. The goodwill is deductible for tax purposes. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition:

Equipment	$ 40,000
Goodwill	40,000 - 48,000
Total assets acquired	$80,000 - 88,000

Item XVI Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

The company has provided the following financial statements for the most recent fiscal year. These are the June 30, 2007 financial statements, and are published as "SEC Filings—10KSB".

Item XVII Management's Discussion and Analysis.

A. *Plan of Operation*

i. **a discussion of how long the issuer can satisfy its cash requirements and whether it will have to raise additional funds in the next twelve months;**
Management believes that the Company's current cash balance, cash generated from operations, and the available $250,000 credit line will be sufficient to meet the Company's working capital needs, capital expenditures, and contractual obligations for fiscal year 2008. At June 30, 2008 the entire line of credit was available.

ii. **a summary of any product research and development that the issuer will perform for the term of the plan;**
NOT APPLICABLE

iii. **any expected purchases or sale of plant and significant equipment; and**
NOT APPLICABLE

iv. **any expected significant changes in the number of employees.**
NOT APPLICABLE

B. ***Management Discussion and Analysis of Financial Condition and Results of Operations.***

1. **For the fiscal years ended June 30, 2008 and 2007.**

Introduction

The following discussion should be read in conjunction with the consolidated Financial Statements of the Company and related notes thereto included elsewhere herein.

Overview

Precision Auto Care is a global franchisor of auto care centers. Company revenues are derived from four primary areas: franchise development, royalties, company-operated retail stores and product sales. Franchise development revenues include sales of franchises and master licenses. Royalty revenues are derived from royalty fees paid by individual franchisees to the Company based on qualified retail sales by 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. Product revenues are derived from the sale of automotive related supplies and equipment to individual franchisees.

Direct costs consist of fees paid to area developers for the sale of new franchises and for supporting franchisees on an ongoing basis, other costs associated with directly supporting the franchise system, and the cost of automotive related supplies. General and administrative expenses include all legal, accounting, general overhead, information technology and corporate staff expenses. Other income and expense items include interest income and expense which are included within the non-operating income/expense category on the Statement of Operations.

The Company's core auto care and franchising business continues to benefit from an improved focus on unit economics, offering certain product services to the franchisees such as equipment and

other marketing related materials as well as in the field training programs. Additionally, the Company is seeking growth through acquisitions.

Critical Accounting Policies

The following is a summary of the Company's critical accounting policies. For a full description of these and other accounting policies, see Note 2 of the Notes to the Consolidated Financial Statements. 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

The Company enters into domestic Area Development agreements and international Master License agreements which grant the area developer and master licensor, respectively, the right to sell, on the Company's behalf, Precision Tune Auto Care franchises within a specific geographic region. Revenue from the sale of Area Development agreements and international Master License agreements is recognized as all material services or conditions related to the agreements are satisfied.

Revenue from the sale of a franchise is recognized when all material services and conditions have been satisfied, generally at the opening of the franchised center.

The Company's royalty revenue is recognized in the period earned and to the extent no known issues involving collection exist. In the case when 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.

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 and Intangible Assets

Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Intangible Assets", requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. The Company engaged a valuation specialist in fiscal year 2007 to assist management with its test for impairment. The fair value of franchising operations was estimated utilizing a discounted cash flow approach that estimates revenue, driven by assumed market growth rates and appropriate discount rates. These estimates are consistent with the plans and estimates management uses to manage the underlying business. The Company carried forward the valuation from fiscal year 2007 for the current year analysis since the fair value of the franchising operations exceeded its carrying value by a substantial margin and the fact that there have been no events and circumstances that have had a material impact on the franchising operations since the most recent fair value determination. Additionally, the Company reviewed the fair value of the company-owned store purchased in fiscal year 2007. Similar to the franchising operations, the fair value of the company-owned store was estimated utilizing a discounted cash flow approach that estimates revenue, driven by assumed market growth rates and appropriate discount rates. Impairment testing is performed in the first quarter of each fiscal year. Based upon the above analysis, management has concluded that the $8.9 million carrying value of

goodwill was not impaired. There was additional goodwill of $335,000 associated with the purchase of two operating automotive service centers during fiscal year 2008, which was not included in the annual impairment test. However, there were no substantial changes in the operations of the automotive service centers that would indicate impairment.

Deferred Tax Valuation Allowance

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. As of June 30, 2007, the Company decided to release its $2.9 million valuation allowance as it has determined that it is more likely than not that the assets will be realized in future years.

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 year ended June 30, 2008 to the year ended June 30, 2007

Summary (in thousands)

	Twelve Months Ended June 30,			
	2008	%	2007	%
Automotive care franchising revenue	$10,640	83	$10,620	88
Automotive care development revenue	201	2	667	6
Company-operated store retail revenue	1,490	12	415	3
Other	385	3	369	3
Total revenues	$12,716	100%	$12,071	100%
Automotive care franchising direct cost	6,460	51	6,785	56
Automotive care development direct cost	309	2	595	5
Company-operated store cost	1,517	12	483	4
Other	356	3	344	3
Total direct costs	8,642	68	8,207	68
General and administrative expense	3,132	24	3,106	26
Depreciation and amortization expense	95	1	59	—
Operating income	847	7	699	6
Other income	166	1	197	1
Earnings before taxes	1,013	8	896	7
Provision (benefit) for income taxes	411	3	(2,513)	21
Net income	602	5	3,409	28
Preferred stock dividends	2	—	2	—
Net income applicable to common shareholders	$ 600	5%	$ 3,407	28%

Revenue. Total revenue for the year ended June 30, 2008 was $12.7 million, an increase of approximately $645,000, or 5%, compared with total revenue of $12.1 million for the year ended June 30, 2007.

Automotive care franchising revenue for the year ended June 30, 2008 totaled $10.6 million, which was comparable to the year ended June 30, 2007.

Automotive care development revenue for the year ended June 30, 2008 was $201,000, a decrease of approximately $466,000, or 70%, compared with automotive care revenue of $667,000 for the year ended June 30, 2007. The decrease was primarily due to the revenue recognized in the year ended June 30, 2007. The Company recognized area rights revenue in the amount of $335,000, which was primarily due to the $225,000 of revenue recognized from the installment payments from Precision-Sociedade Gestora de Franchising S.A. de C.V. for the area rights to Spain and $110,000 of revenue was recognized from the signing of the master franchise agreements for Qatar, Kuwait, Bahrain and five provinces in the People's Republic of China. There was no comparable revenue in 2008. Additionally, there was a decrease in transfer revenue in the amount of approximately $75,000 and a decrease in franchise sales revenue in the amount of $31,000.

Company-operated store retail revenue for the year ended June 30, 2008 was $1.5 million, an increase of approximately $1.1 million, or 259%, compared to $415,000 for the year ended June 30, 2007. The increase in store retail revenue was primarily due to the Company purchasing four additional automotive service centers during the year ended June 30, 2008. The Company was operating one

automotive center during the year ended June 30, 2007 (see Note 6 of the Consolidated Financial Statements).

The Company recognized revenue from foreign franchisee operations for the year ended June 30, 2008 was $338,000, a decrease of approximately $221,000, or 40%, compared to $559,000 for the year ended June 30, 200. During the year ended June 30, 2007, the Company recognized area rights revenue in the amount of $335,000, which was primarily due to the $225,000 of revenue recognized from the installment payments from Precision-Sociedade Gestora de Franchising S.A. de C.V. for the area rights to Spain and $110,000 of revenue was recognized from the signing of the master franchise agreements for Qatar, Kuwait, Bahrain and five provinces in the People's Republic of China. There was no comparable development revenue from foreign franchisee operations in 2008. The decrease in development revenue was offset by an increase in foreign royalties of $119,000.

Other revenue for the year ended June 30, 2008 was $385,000, an increase of approximately $16,000, or 4%, compared to $369,000 for the year ended June 30, 2007. The increase in other revenue was primarily due to an increase of approximately $18,000 from support fees associated with the point of sale system offset by a decrease in training and rebate programs revenue of approximately $2,000.

Direct Cost. Total direct cost for the year ended June 30, 2008 totaled $8.6 million, an increase of approximately $435,000 or 5%, compared with $8.2 million for the year ended June 30, 2007.

Automotive care franchising direct cost for the year ended June 30, 2008 totaled $6.5 million, a decrease of $325,000 or 5%, compared with $6.8 million for the year ended June 30, 2007. The decrease in franchising direct cost was primarily due to a decrease of approximately $155,000 in royalty commissions. The Company purchased back various markets and was able to keep 100 percent of the royalty stream instead of splitting those monies with an area developer. Additionally, the decrease was attributable to the incurred expenses of approximately $170,000 for the convention held in Orlando, Florida during fiscal year 2007. There was no comparable expense in fiscal year 2008.

Automotive care development direct cost for the year ended June 30, 2008 totaled $309,000, a decrease of $286,000 or 48%, compared with $595,000 for the year ended June 30, 2007. In fiscal year 2007, the Company bought back the area developer rights to the Dallas, Texas and southern Florida markets in excess of $250,000.

Company-operated store retail cost for the year ended June 30, 2008 was $1.5 million, an increase of approximately $1.0 million, or 214%, compared to $483,000 for the year ended June 30, 2007. The increase in store retail cost was primarily due to the Company purchasing four additional automotive service centers during the year ended June 30, 2008. The Company was operating one automotive center during the year ended June 30, 2007 (see Note 6 of the Consolidated Financial Statements). The retail cost includes an internal direct cost allocation of approximately $94,000 and $33,000 for the years ended June 30, 2008 and 2007, respectively.

Other direct cost for the year ended June 30, 2008 totaled $356,000, an increase of $12,000 or 3%, compared with $344,000 for the year ended June 30, 2007. The increase in other direct cost was primarily due to an increase in support costs associated with the point of sale system offset by a decrease in training and rebate programs expenses.

General and Administrative Expense. General and administrative expense for the year ended June 30, 2008 totaled $3.1 million, which was comparable to the year ended June 30, 2007.

Operating Income. The Company recorded operating income for the year ended June 30, 2008 of approximately $847,000, an increase of $148,000, or 21%, compared with an operating income of $699,000 million for the year ended June 30, 2007.

Other Income. The Company recorded other income of $166,000 for the year ended June 30, 2008, a decrease of approximately $31,000 or 16% compared to $197,000 in other income for the year ended June 30, 2007. This decrease was primarily due to a decrease in the interest rates on the certificates of deposit thus decreasing interest income.

Income Taxes. The Company's effective tax rate for the year ended June 30, 2008 and 2007 was approximately 40% and −280%, respectively. The significant fluctuation in the effective tax rate was due to management releasing the remainder of the tax valuation allowance of $2.9 million as of June 30, 2007. This adjustment was based upon management's assessment of the recoverability of deferred taxes which included its recent history of generating pre-tax income and projections of future earnings.

Net Income Applicable to Common Shareholders and Earnings Per Share. The Company recorded Net Income Applicable to Common Shareholders of $600,000, or $0.02 per share, for the year ended June 30, 2008 compared to $3,407,000 or $0.12 per share, for the year ended June 30, 2007.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash at June 30, 2008 was $4.8 million. During the period, cash provided by operations was $901,000.

Cash used in investing activities for the twelve months ended June 30, 2008 was $906,000. Cash used in investing activities consisted of the purchase of property and equipment of $136,000 for use in the Company's franchise operations and $770,000 for the purchase of company-operated stores.

Cash used in financing activities for the twelve months ended June 30, 2008 was $92,000. Cash used in financing activities consisted primarily of the payments of dividends, notes payable and a capital lease obligation.

Management believes that the Company's current cash balance, cash generated from operations, and the available $250,000 credit line will be sufficient to meet the Company's working capital needs, capital expenditures, and contractual obligations for fiscal year 2009. At June 30, 2008, the entire line of credit was available.

C) Off-Balance Sheet Arrangements.

The Company does not have any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition.

Part E Exhibits

Item XVIII Material Contracts.

NOT APPLICABLE

Item XIX Articles of Incorporation and Bylaws.

These have been posted by the Company at *www.PinkSheets.com*, Reports.

Item XX Issuer's Certifications.

CHIEF EXECUTIVE OFFICER CERTIFICATION:

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

1. I have reviewed this initial disclosure statement 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 17th of September, 2008.

Certified By: /s/ Robert R. Falconi

Robert R. Falconi
Chief Financial Officer

CHIEF FINANCIAL OFFICER CERTIFICATION:

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

1. I have reviewed this initial disclosure statement 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 17th of September, 2008.

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 Pink Sheets or its staff upon request.]

Part F Miscellaneous

Item XXI Purchase of Equity Securities by the Issuer and Affiliated Purchasers.

The Company has no existing plans to repurchase any of the equity securities of the Company.