PRECISION AUTO CARE INC
Form 10-Q
May 14, 2001

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

FORM 10-Q

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

For the quarterly period ended March 31, 2001

OR

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

For the transition period from July 1, 2000 to March 31, 2001

Commission file number 1-14510

PRECISION AUTO CARE, INC.
(Exact name of registrant as specified in its charter)

Virginia	54-1847851
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

748 Miller Drive, S.E., Leesburg, Virginia 20175
(Address of principal executive offices)
(Zip Code)

703-777-9095
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date 8,081,808 shares of Common Stock as of April 30, 2001.

Precision Auto Care, Inc.
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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend" and "plan" as they relate to Precision Auto Care, Inc. or its management are intended to identify such forward-looking statements. All statements regarding Precision Auto Care, Inc. or Precision Auto Care, Inc.'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 Precision Auto Care, Inc. 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 in the Company's 10-K filing for the year ending June 30, 1999 under the caption "Business--Risk Factors," general economic and business and market conditions, changes in federal and state laws and increased competitive pressure in the automotive after-market services business.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GENERAL INFORMATION

Precision Auto Care, Inc. ("Precision Auto Care" or the "Company") is a provider of automotive maintenance services with franchised and Company-operated centers located in the United States and in certain international locations. The Company's services are provided to automobile owners and focus on those high frequency items required to properly maintain the vehicle on a periodic basis. The Company offers these services through three "Precision" brands that are intended to be complementary.

Precision Tune Auto Care provides automotive maintenance services that require relatively short service times including engine performance, oil change and lubrication and brake services. At March 31, 2001, these services were provided at 581 Precision Tune Auto Care centers owned and operated by franchisees.

Precision Auto Wash provides self-service and touch-less automatic car wash services. The advanced operating systems used at prototype Precision Auto Wash centers permit remote monitoring and administration of operations. The no-touch car wash technology employed in Precision Auto Wash centers also provides a high-quality wash with less risk of vehicle damage than traditional car wash systems. At March 31, 2001, there are 13 franchised car wash centers.

Precision Lube Express provides convenient fast oil change and lube services. Because Precision Lube Express centers consist of "above ground" configured modular buildings manufactured and sold by the Company, operations can commence more quickly and with less capital investment than is the case for many competitors. At March 31, 2001, there were 10 Precision Lube Express centers owned and operated by franchisees. As of that date, there were also 10 Lube Depot centers operated by franchisees, some of which are expected to become Precision Lube Express centers.

The Company supports its franchisees and Company-owned centers by distributing certain automotive and car washing parts and supplies, and manufacturing and distributing pre-fabricated modular buildings.

The Company, a Virginia corporation, was incorporated in April 1997, but through predecessors has been in the automotive maintenance services business for over twenty years. The first Precision Tune was established in 1976 to provide quick, convenient and inexpensive engine tune-ups. Franchising of Precision Tune centers began the next year. As changes in automotive technology reduced the need for traditional tune-ups, Precision Tune expanded its menu of offered automotive maintenance services to include oil changes, fuel injection service, air conditioning service, cooling system service, brake service and more diagnostic services. In September 1996, the Precision Tune brand name was changed to Precision Tune Auto Care to reflect the shift in emphasis.

The Company is the result of the November 1997 combination of WE JAC Corporation (the owner of Precision Tune Auto Care) and nine other automotive maintenance services companies in connection with the Company's initial public offering (the "IPO Combination"). In March 1998, the Company acquired the holder of the master franchise agreement for Precision Tune Auto Care in Mexico and Puerto Rico.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2001 (Unaudited)	June 200
ASSETS		
Current assets:		
Cash and cash equivalents	$ 746,383	$
Accounts receivable, net of allowances of $1,377,040 and $2,155,735, respectively	2,500,061	3,3
Inventory, net of allowance of $536,978	1,333,943	1,5
Notes receivable, net of allowances of 0 and $586,000, respectively	73,754	1
Other assets	195,139	1
Deferred income taxes	-	
Total current assets	4,849,280	5,2
Notes receivable, net of allowance	-	2
Property, plant and equipment, at cost	7,060,078	15,4
Less: Accumulated depreciation	(3,486,865)	(3,6
	3,573,213	11,8
Goodwill and other intangibles, net of accumulated Amortization of $15,183,573 and $14,971,394	25,063,877	28,9
Deposits and other	32,087	
Total assets	$ 33,518,457	$ 46,3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,176,876	$ 11,6
Mortgage notes payable	-	3
Subordinated debt	5,401,425	
Other notes payable	24,998	5
Deferred revenue	248,471	1,4
Total current liabilities	13,851,770	13,9
Notes payable- long term debt	10,689,066	
Bank facility	-	7,1
Subordinated debt	-	5,5
Mortgage notes payable	-	6,6
Other notes payable	635,571	4
Deferred revenue	222,575	1
Refundable deposits	4,000	
Other liabilities	-	1
Total liabilities	25,402,982	34,0

Stockholders' equity:		
Common stock, $.01 par; 19,000,000 shares authorized; 8,160,508 and 6,434,534 shares issued and outstanding	81,493	
Additional paid-in capital	47,924,136	46,5
Unearned restricted stock	(64,167)	(1
Retained deficit	(39,825,987)	(34,1
Total stockholders' equity	8,115,475	12,2
Total liabilities and stockholder's equity	$ 33,518,457	$ 46,3

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2001 (Unaudited)	2000 (Unaudited)
Revenues:		
Franchise development	$ 460,962	$ 142,693
Royalties	2,735,962	3,569,774
Manufacturing and distribution	2,184,660	2,182,687
Company centers	349,463	1,400,008
Other	54,263	92,070
Total revenues	5,785,310	7,387,232
Total direct cost	4,393,550	5,875,679
Contribution (exclusive of amortization shown separately below)	1,391,760	1,511,553
General and administrative expense	1,238,736	1,597,015
Depreciation expense	168,306	328,430
Amortization of franchise rights and goodwill	351,118	493,377
Impairment charges	350,000	-
Operating loss	(716,400)	(907,269)
Other income (expense):		
Interest expense	(561,103)	(640,177)
Interest income	27,825	16,371
Other income (expense)	(21,676)	190,179
Total other expense	(554,954)	(433,627)
Loss before income tax expense	(1,271,354)	(1,340,896)

(Benefit) provision for income taxes	-	(43,174)
Net loss before extraordinary item	$(1,271,354)	$(1,297,722)
Extraordinary gain from debt restructuring	406,660	-
Net loss	$ (864,694)	$(1,297,722)
Basic and diluted net loss per share before extraordinary item	$(0.16)	$(0.21)
Weighted average shares outstanding--Basic and Diluted	8,081,808	6,258,006
Extraordinary item	$0.05	-
Weighted average shares outstanding--Basic and Diluted	8,081,808	6,258,006
Basic and diluted net loss per share	$(0.11)	$(0.21)
Weighted average shares outstanding--Basic and Diluted	8,081,808	6,258,006

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended March 31,	
	2001 (Unaudited)	2000 (Unaudited)
Revenues:		
Franchise development	$ 725,788	$ 465,078
Royalties	9,209,563	11,352,800
Manufacturing and distribution	5,876,332	10,374,510
Company centers	1,549,380	3,879,027
Other	151,364	188,965
Total revenues	17,512,427	26,260,380
Total direct cost	14,777,211	21,004,861
Contribution (exclusive of amortization shown separately below)	2,735,216	5,255,519
General and administrative expense	4,228,477	4,894,978
Depreciation expense	730,682	1,015,694
Amortization of franchise rights and goodwill	1,290,683	1,486,017
Impairment charges	350,000	-
Operating loss	(3,864,626)	(2,141,170)
Other income (expense):		

Interest expense	(2,148,085)	(1,980,780)
Interest income	41,476	53,082
Other expense	(71,173)	(109,541)
Total other expense	(2,177,782)	(2,037,239)
Loss before income tax expense	(6,042,408)	(4,178,409)
Provision for income taxes	-	47,503
Net loss before extraordinary gain	$(6,042,408)	$(4,225,912)
Extraordinary gain from debt restructuring	406,660	-
Net loss	$(5,635,748)	$(4,225,912)
Basic and diluted net loss per share before extraordinary item	$(0.75)	$(0.69)
Extraordinary item	$0.05	-
Basic and diluted net loss per share	$(0.70)	$(0.69)
Weighted average shares outstanding--Basic and Diluted	8,081,808	6,192,920

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Operating activities:

Net loss..

Adjustments to reconcile net (loss) to net cash provided by operating activities:

Charge for impairment of fixed asset..

Charge for impairment of goodwill...

Depreciation and amortization...

Interest expense from amortization of debt discount ....

Services received in exchange for stock...

Interest paid with stock..

Stock issued for compensation...

Gain on restructuring of debt...

Extraordinary gain on sale of assets..

Changes in operating assets and liabilities:

Accounts and notes receivable...

Inventory...

Other Assets..

Accounts payable and accrued liabilities..

Deferred revenue..

Net cash (used in) provided by operating activities	
Investing activities:	
Purchases of property and equipment	
Sale of property and equipment	
Net cash provided by investing activities	
Financing activities:	
Proceeds from sale of common stock	
Repayments of bank facility	
Proceeds from note payable	
Repayment of mortgage notes and other notes payable	
Net cash used in financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of year	
Cash and cash equivalents at end of period	

See accompanying notes.

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

Note 1 - Interim Financial Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments consisting primarily of recurring accruals considered necessary for a fair presentation have been included. Operating results for such interim periods are not necessarily indicative of the results which may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes included in Precision Auto Care Inc.'s (the "Company") annual report on Form 10-K for the year ended June 30, 2000.

Unless the context requires otherwise, all references to the Company herein mean Precision Auto Care, Inc. and those entities owned or controlled by Precision Auto Care, Inc.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period financial information has been reclassified to conform with the current period presentation.

Note 2 - 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. SFAS No. 128 requires the presentation of basic EPS and diluted EPS. Basic EPS is calculated by dividing net income (loss) available to common shareholders by the weighted average number of shares outstanding during the period. Diluted EPS includes the potentially dilutive effect, if any, which would occur if outstanding options and warrants to purchase Common Stock were exercised. For the nine months ended March 31, 2001 and 2000, diluted EPS is equivalent to basic EPS as the inclusion of the effect of assumed exercises and conversions of outstanding options and warrants was anti-dilutive.

The following table sets forth the computation of basic and diluted net (loss) per share.

	Nine Mont
	2001
Earnings per share computation - basic and diluted	
Net loss before extraordinary item	$(6,042,4
Extraordinary item	406,6
Net loss	$(5,635,7
Weighted average shares outstanding	8,081,8
Earnings per share - basic and diluted	
Net loss before extraordinary item	$ (0.
Extraordinary item	$ 0.
Net loss	$ (0.

Note 3 - Inventory

The components of inventory are as follows:

	March 3 2001
Raw materials	$ 753,2
Work-in-process	220,6
Finished goods	896,9
Reserve for obsolete and unsaleable inventory	(536,9
	$ 1,333,9

Note 4 - Debt

On August 3, 2000, the Board of Directors accepted a proposal from Arthur C. Kellar, a member of the Company's Board of Directors and Desarollo Integrado, S.A. de C.V., of which a principal is Mauricio Zambrano, who is on the Company's Board of Directors, to refinance the Company's existing debt and provide the Company's ongoing working capital needs. The lenders committed to make available a credit facility of $11.25 million pursuant to certain terms and conditions.

On August 4, 2000, the Company issued subordinated debentures to Arthur C. Kellar and to Desarollo Integrado, S.A. de C.V. respectively pursuant to which they made a bridge loan to the Company in an aggregate principal amount of $2.5 million to fund the Company's payroll, payroll taxes, debt service obligations and other immediate needs. The entire principal amount earned interest at a rate of 12% per annum. The entire principal balance was deemed repaid on September 29, 2000.

On September 29, 2000 the Company's remaining debt to First Union was repaid with a facility provided by Precision Funding, LLC a company owned and controlled by Arthur C. Kellar and Desarollo Integrado, S.A. de C.V.

On October 2, 2000 the Company received $2.75 million from Precision Funding to use for working capital and to repay the balance of the FFCA mortgages of $991,000.

In connection with obtaining the above credit facility of $11.25 million, an origination fee was paid in the form of a warrant entitling the lenders to purchase 2,000,000 shares of common stock at an exercise price of $0.275 per share. A valuation was performed on the debt and the warrants issued in this transaction. The relative fair market value allocated to the warrants of approximately $651,000 has been recorded as paid in capital. The discount resulting from recording the value of the warrants as a reduction of the face amount of the debt is being amortized over the term of the debt agreement.

Note 5 - Contingencies

The Company is subject to a suit filed in the State of Florida by a former Precision Tune Auto Care franchisee. The franchisee is alleging breach of contract and personal slander. In March 2000, a judgment of approximately $850,000 plus attorneys' fees was entered against the Company. In connection with this matter, the Company is vigorously appealing the judgment. However, it is not possible to predict whether the appeal will be successful. If the appeal is not successful, payment of the judgment would have a material adverse impact on the liquidity of the Company.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion and analysis of the consolidated financial condition and results of operations of Precision Auto Care, Inc. (the "Company") should be read in conjunction with the Consolidated Financial Statements and Notes thereto. Historical results and percentage relationships set forth herein are not necessarily indicative of future operations.

Results of Operations

Comparison of the three months ended March 31, 2001 to the three months ended March 31, 2000

Summary (in thousands)

	2001	%	2000	%
Net revenue..................	5,785	100%	7,387	100%
Direct cost..................	4,394	76	5,875	80
General and administrative...	1,239	21	1,597	22
Operating (loss).............	(716)	(12)	(907)	(12)

Revenue. Revenue for the three months ending March 31, 2001 was $5.8 million, a decrease of approximately $1.5 million, or 22%, compared with revenue of $7.3 million for the corresponding period of the prior year. The decrease was primarily the result of decreases in retail sales from Company stores of $1 million and a reduction of royalty revenues of $800,000. The decrease in company store revenues is largely attributable to the disposition of company owned stores. Royalty revenues were down as a result of fewer franchise centers from the prior year. These decreases were partially offset by an increase in franchising development revenue of $300,000.

Direct Cost. Direct costs for the three months ending March 31, 2001 totaled $4.4 million, a decrease of $1.5 million or 25%, compared with $5.9 million for the quarter ending March 31, 2000. The decrease is attributable to cost decreases in company centers of $755,000 consistent with lower sales, royalty of $428,000, manufacturing and distribution of $150,000, and franchise development of $120,000.

General and Administrative Expense. General and administrative expense was $1.2 million for the three months ending March 31, 2001, a decrease of $358,000 or 22%, compared with $1.6 million for the quarter ending March 31, 2000, principally a result of cost reduction initiatives.

Impairment charges. Impairment charges were $350,000 for the three months ending March 31, 2001, an increase of $350,000 or 100%, compared with no charge for the quarter ending March 31, 2000, principally a result of reducing the carrying values of certain assets.

Operating (Loss). The Company recorded an operating loss for the three months ending March 31, 2001 of $716,000 which represents a decrease in operating loss of $191,000 or 21% compared with an operating loss of $907,000 for the corresponding period of the prior year.

Comparison of the nine months ended March 31, 2001 to the nine months ended March 31, 2000

Summary (in thousands)

	2001	%	2000	%
Net revenue..................	17,512	100%	26,260	100%
Direct cost..................	14,777	84	21,005	80
General and administrative...	4,228	24	4,895	19
Operating (loss).............	(3,864)	(22)	(2,141)	(8)

Revenue. Revenue for the nine months ending March 31, 2001 was $17.5 million, a decrease of approximately $8.7 million, or 33%, compared with revenue of $26.2 million for the corresponding period of the prior year. The decrease was primarily the result of decreases in manufacturing and distribution revenues of

$4.5 million, company center operations of $2.1 million, and a reduction of

franchise and royalty revenues of $2.1 million. The decrease in manufacturing is partially attributable to the disposition of certain manufacturing and distribution businesses. During fiscal year 2000 the Company disposed of an automotive parts and supply distribution business. This business accounted for a decrease in revenue of $2.0 million. The remaining $2.5 million decrease is due to slower sales of the company car wash, modular buildings, and dryer equipment. The decrease in company store revenues is largely attributable to the disposition of company owned stores. Royalty revenues were down as a result of fewer franchise centers from the prior year.

Direct Cost. Direct costs for the nine months ending March 31, 2001 totaled $14.8 million, a decrease of $6.2 million or 30%, compared with $21.0 million for the nine months ending March 31, 2000. The decrease is largely attributable to cost decreases in company centers and manufacturing and distribution of $1.9 million and $4.2 million, respectively.

General and Administrative Expense. General and administrative expense was $4.2 million for the nine months ending March 31, 2001, a decrease of $667,000 or 14%, compared with $4.9 million for the nine months ending March 31, 2000.

Impairment charges. Impairment charges were $350,000 for the three months ending March 31, 2001, an increase of $350,000 or 100%, compared with no charge for the quarter ending March 31, 2000, principally a result of reducing the carrying values of certain assets.

Operating (Loss). The Company recorded an operating loss for the nine months ending March 31, 2001 of $3.9 million which represents an increase in operating loss of $1.7 million or 81% compared with an operating loss of $2.1 million for the corresponding period of the prior year.

TABLE 1 - Components of Depreciation and Amortization Expense

The components of depreciation and amortization expense are summarized as follows:

Three months ended March 31,	2001	2000
Depreciation	$ 168,306	$ 328,430
Amortization	351,118	493,377
Total	$ 519,424	$ 821,807

Nine months ended March 31,	2001	2000
Depreciation	$ 730,682	$1,015,694
Amortization	1,290,683	1,486,017
Total	$2,021,365	$2,501,711

TABLE 2 - Components of Interest Expense

The components of interest expense are summarized as follows:

Three months ended March 31,	2001	2000
Interest incurred	$ 561,103	$ 640,177

Nine months ended March 31,	2001	2000
Interest incurred	$2,148,085	$1,980,780

Liquidity and Capital Resources

Sources and Uses of Cash

The following table sets forth selected information from the statement of cash flows of Precision Auto Care, Inc.

	Nine Months Ended March 31,	
	2001	2000
Net cash (used in) provided by operating activities.................................	$(5,001,666)	$ 1,194,101
Net cash provided by (used in) investing activities....	8,344,314	2,095,109
Net cash (used in) financing activities...	(2,609,635)	(3,055,893)
Change in cash and cash equivalents...................	$ 733,013	$ 233,317

Cash at March 31, 2001 was $746,383. This was an increase of $733,013 from $13,370 on June 30, 2000. During the period, cash used by operating activities was $5.0 million which is due to the net loss of $5.6 million, a decrease in accounts payable of $1.8 million, and a decrease in deferred revenue (a non-cash item) of $1.1 million. These were partially offset by a decrease in accounts receivable of $1.2 million and by non-cash expenses for depreciation and amortization, non-cash impairment charges, stock issued for compensation and interest expense of $2.0 million, $350,000, $67,000 and $90,000, respectively.

Cash provided by investing activities for the nine months ended March 31, 2001 was $8.3 million. The cash provided by investing activities was primarily the result of sales of car washes.

Cash used in financing activities for the nine months ended March 31, 2001 was $2.6 million. Cash provided by financing activities during the period included the sale of common stock of $750,000 and the issuance of a note payable for $11.3 million. The infusions of cash were offset by repayments of mortgages, the bank facility and other notes payable of $14.6 million.

Debt Transactions

As of June 30, 2000, the Company had borrowed approximately $7.1 million under its bank credit agreement, of which $3.1 million represented amounts extended under a portion of the bank credit facility that was dedicated to funding acquisitions and capital expenditures (the "Acquisition Line of Credit") and of which $4.0 million represented funds advanced under a general revolving credit portion of the credit facility (the "Line of Credit Loan").

At June 30, 2000 the Company had a bank credit agreement with First Union National Bank, under which the Bank has extended loans to the Company under both the Line of Credit Loan and Acquisitions Line of Credit. The agreement was originally executed on November 7, 1997 with Signet Bank (which was later acquired by First Union). As of September 29, 2000 both of these credit facilities have been repaid (see discussion below).

During fiscal year 2001, the Company received $11.25 million in financing from Precision Funding, L.L.C., a corporation owned by two members of the Company's Board of Directors. With that financing, the Company was able to liquidate its debt with First Union on September 29, 2000 in the amount of $5.8 million and the remainder of its mortgage debt with FFCA in the amount of $1.0 million on October 2, 2000. The remaining proceeds of the financing will be used for working capital requirements. The terms of the loan with Precision Funding, L.L.C. do not require the Company to pay any interest for the period of one year or any principal for the period of three years. In light of this financing arrangement, management does not anticipate requiring additional financing to continue the Company's operations for the next year.

Due to recurring operating losses since inception, the Company's cash flow has been constrained. As a result, the Company's ability to meet obligations to its suppliers in a timely manner has been adversely affected, which in turn has adversely affected revenues and profits of several of its businesses, particularly its distribution business in the U.S. However, with the refinancing, reductions in expenses, improved collections, improved inventory management, the Company expects to be able to meet all of its financial obligations and be able to focus on growing its franchising operation and making it profitable.

While Company management believes that this program will improve cash flow and the ability to meet vendor obligations in a timely manner, there can be no assurance that such program will be effective in meeting its objectives or that if such objectives are met, that the resulting improvements in cash flow will be sufficient to avoid the need for additional reductions in expenditures, sales of additional assets, or supplemental financing.

Seasonality and Quarterly Fluctuations

Seasonal changes may impact various sectors of the Company's business differently and, accordingly, the Company's operations may be affected by seasonal trends in certain periods. In particular, severe weather in winter months can adversely affect the Company because such weather makes it difficult for consumers in affected parts of the country to travel to Precision Auto Care, Precision Lube Express, and Precision Auto Wash centers. Severe winter weather and rainy conditions may also adversely impact the Company's sale and installation of car wash equipment. Conversely, the Precision Auto Wash business is favorably impacted by normal winter weather conditions as demand for the Company's car wash service increases substantially in winter months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

The Company refinanced its debt at a fixed interest rate of 12% and is not subject to changing interest rates.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to a suit filed in the State of Florida by a former Precision Tune Auto Care franchisee. The franchisee is alleging breach of contract and personal slander. In March 2000, a judgment of approximately $850,000 plus attorneys' fees was entered against the Company. In connection with this matter, the Company is vigorously appealing the judgment. However, it is not possible to predict whether the appeal will be successful. If the appeal is not successful, payment of the judgment would have a material adverse impact on the liquidity of the Company.

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

The Company has reserves in its accounts for litigation based on management's best judgment. Except as discussed above with respect to the Florida matter, management is of the opinion that the ultimate liability in respect of litigation is not likely to be of material importance to the Company's financial condition and results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On August 4, 2000 the Company issued 1,700,000 shares of common stock to Louis Brown for $750,000. The proceeds were used to fund the Company's working capital.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

The information concerning defaults and the subsequent cure thereof with respect to the Company's indebtedness contained in Note 3 to the Company's financial statements and appearing at "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" is incorporated herein by reference.

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Description
None.	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 15, 2000.

Precision Auto Care, Inc.

By: /s/ Louis M. Brown

Louis M. Brown
President and Chief Executive Officer
(Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Louis M. Brown --------------------- Louis M. Brown	President, Chief Executive Officer and Director (Principal Executive Officer)	May 14, 2001
/s/ Robert R. Falconi --------------------- Robert R. Falconi	Senior Vice President and Chief Financial Officer (Principal Financial Accounting Officer)	May 14, 2001