PRECISION AUTO CARE, INC.

A Virginia Corporation

Quarterly Report

December 31, 2009

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

A) **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.

B) **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 II **Shares Outstanding.**

A) **The number of shares or total amount of the securities outstanding for each class of securities outstanding.**

Common Stock	
(i) Period End Date	December 31, 2009
(ii) Authorized	39,000,000
(iii) Issued and Outstanding	28,993,752
(iv) Freely tradable shares (public float)	6,682,390
(v) Number of shareholders of record	176
Class A Preferred Stock	
(i) Period End Date	December 31, 2009
(ii) Authorized	1,000,000
(iii) Issued and Outstanding	11,227
(iv) Freely tradable shares (public float)	-
(v) Number of shareholders of record	2

Item III Interim Financial Statements.

PRECISION AUTO CARE, INC.

Consolidated Financial Statements
as of
December 31, 2009

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2009 (unaudited)	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,808,359	$ 3,690,506
Restricted cash	115,000	115,000
Accounts receivable, net of allowance of $72,360 and $82,574, respectively	381,355	502,778
Notes receivable, net of allowance of $301,817 and $293,366, respectively	144,888	117,448
Deferred tax asset	719,311	745,548
Other assets	543,971	464,078
Total current assets	5,712,884	5,635,358
Property and equipment, net	1,358,424	1,225,029
Goodwill	9,750,161	9,622,060
Notes receivable, net of allowance of $130,627 and $127,191, respectively	107,189	84,707
Deferred tax asset	4,413,527	4,599,121
Deposits and other	120,156	134,878
Total assets	$ 21,462,341	$ 21,301,153
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line-of-credit	$ -	$ -
Notes payable and capital lease obligation- current	125,317	155,464
Accounts payable and accrued liabilities	315,524	238,236
Taxes payable	681,581	668,168
Accrued commission payable	175,360	208,348
Accrued salaries and related expenses	337,687	336,759
Due to related party	130,695	155,043
Deferred revenue	12,935	123,195
Total current liabilities	1,779,099	1,885,213
Notes payable and capital lease obligation, net of current portion	9,375	74,042
Total liabilities	1,788,474	1,959,255
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	67,816,821
Accumulated deficit	(48,549,204)	(48,881,173)
Total stockholders' equity	19,557,555	19,225,586
Total liabilities and stockholders' equity	$ 21,462,341	$ 21,301,153

See accompanying notes.

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

	Three Months Ended December 31,	
	2009 (unaudited)	2008 (unaudited)
Revenues:		
Franchise royalties	$ 2,117,698	$ 2,205,769
Franchise development	74,000	32,229
Company-operated retail stores	1,036,343	744,478
Other	98,935	72,475
Total revenues	3,326,976	3,054,951
Direct costs:		
Franchise support	1,285,884	1,579,208
Company-operated retail stores	1,027,509	787,763
Total direct costs	2,313,393	2,366,971
General and administrative expense	707,162	723,264
Depreciation and amortization expense	60,620	38,043
Operating income (loss)	245,801	(73,327)
Interest expense	(397)	(807)
Interest income	7,635	25,825
Other income	3,373	1,199
Total other income	10,611	26,217
Income (loss) before income tax expense	256,412	(47,110)
Provision (benefit) for income taxes	104,602	(17,933)
Net income (loss)	151,810	(29,177)
Preferred stock dividends	582	582
Net income (loss) applicable to common shareholders	$ 151,228	$ (29,759)
Net income (loss) per common share- Basic	$ 0.01	$ (0.00)
Net income (loss) per common share- Diluted	$ 0.01	$ (0.00)
Weighted average common shares outstanding- Basic	28,993,752	28,993,752
Weighted average common shares outstanding- Diluted	28,993,752	28,993,752

See accompanying notes.

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

	Six Months Ended December 31,	
	2009 (unaudited)	2008 (unaudited)
Revenues:		
Franchise royalties	$ 4,363,742	$ 4,536,501
Franchise development	265,000	99,654
Company-operated retail stores	2,020,627	1,458,887
Other	182,909	166,645
Total revenues	6,832,278	6,261,687
Direct costs:		
Franchise support	2,702,918	3,334,174
Company-operated retail stores	2,043,605	1,497,489
Total direct costs	4,746,523	4,831,663
General and administrative expense	1,433,167	1,459,152
Depreciation and amortization expense	115,262	74,018
Operating income (loss)	537,326	(103,146)
Interest expense	(932)	(1,674)
Interest income	15,922	52,471
Other income	8,617	2,331
Total other income	23,607	53,128
Income (loss) before income tax expense	560,933	(50,018)
Provision (benefit) for income taxes	227,801	(15,677)
Net income (loss)	333,132	(34,341)
Preferred stock dividends	1,163	1,163
Net income (loss) applicable to common shareholders	$ 331,969	$ (35,504)
Net income (loss) per common share- Basic	$ 0.01	$ (0.00)
Net income (loss) per common share- Diluted	$ 0.01	$ (0.00)
Weighted average common shares outstanding- Basic	28,993,752	28,993,752
Weighted average common shares outstanding- Diluted	28,993,752	28,993,752

See accompanying notes.

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

	Six Months Ended December 31,	
	2009 (unaudited)	2008 (unaudited)
Operating activities:		
Net income (loss) applicable to common shareholders	$ 331,969	$ (35,504)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.	115,262	74,019
Bad debt expense	2,792	9,175
Deferred taxes.	211,831	(18,002)
Changes in assets and liabilities:		
Accounts and notes receivable.	68,709	41,015
Prepaid expenses, deposits and other.	(87,089)	(95,653)
Accounts payable and accrued liabilities	59,804	(63,527)
Due to related party	(24,348)	(29,568)
Deferred revenue and other	(110,260)	(21,250)
Net cash provided by (used in) operating activities	568,670	(139,295)
Investing activities:		
Purchases of property and equipment.	(196,739)	(52,811)
Purchase of company-operated stores.	(158,101)	(523,597)
Net cash used in investing activities	(354,840)	(576,408)
Financing activities:		
Payment of preferred stock dividends	(1,163)	(1,163)
Repayment of notes payable	(94,814)	(44,346)
Net cash used in financing activities	(95,977)	(45,509)
Net change in cash and cash equivalents	117,853	(761,212)
Cash and cash equivalents at beginning of year.	3,690,506	4,761,725
Cash and cash equivalents at end of period.	$ 3,808,359	$ 4,000,513
Cash paid for the period for:		
Interest.	$ 932	$ 1,674
Income taxes.	$ 2,685	$ 6,285
Supplemental schedule of non cash investing and finance activities:		
Company-operated stores acquired under notes payable and release of notes receivable.	$ -	$ 51,000

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at June 30, 2009	28,993,752	$ 289,938	$67,816,821	$(48,881,173)	$ 19,225,586
Net income.....	—	—	—	331,969	331,969
Balance at December 31, 2009 ..	28,993,752	$ 289,938	$67,816,821	$(48,549,204)	$ 19,557,555

See accompanying notes.

Note 1 – Interim Financial Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments consisting primarily of recurring accruals considered necessary for a fair presentation have been included. Operating results for such interim periods are not necessarily indicative of the results, which may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and footnotes included in the annual report posted by Precision Auto Care, Inc. (the "Company") at www.PinkSheets.com, Filings for the year ended June 30, 2009.

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

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

Note 2 – Accounting Policy

Goodwill and Intangible Assets

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 2009 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 2009 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 stores purchased through fiscal year 2009. Similar to the franchising operations, the fair value of the company-owned stores 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 $9.6 million carrying value of goodwill was not impaired. There was additional goodwill of approximately $90,000 associated with the purchase of two centers during the first six months of fiscal year 2010 that was not included in the annual impairment testing. However, there were no substantial changes in the operations of the automotive service centers that would indicate impairment.

Stock Option Plan

A summary of option activity under all plans as of December 31, 2009, and changes during the period then ended is presented below:

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
June 30, 2009	1,456,700	0.48	2.86
Options granted	-	-	
Options exercised	-	-	
Options forfeited	2,500	0.44	
December 31, 2009	1,454,200	0.48	2.35

No options were granted in the six months ended December 31, 2009 and 2008, respectively. The exercise price of options outstanding at December 31, 2009 ranged from $0.25 to $1.25 per share.

The intrinsic value of in the money options at December 31, 2009 and 2008 was $0.

Note 3 – 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 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 December 31, 2009 and 2008 was 1,454,200 and 1,895,320, 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 the three and six months ended December 31, 2009 and 2008, respectively, 1,454,200 and 1,895,320 shares attributable to outstanding stock options and warrants were excluded from the calculation of diluted income as they were anti-dilutive.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Numerator:				
Net income (loss)	$ 151,810	$ (29,177)	$ 333,132	$ (34,341)
Preferred stock dividends	(582)	(582)	(1,163)	(1,163)
Net income(loss) applicable to common shareholders	$ 151,228	$ (29,759)	$ 331,969	$ (35,504)
Denominator:				
Denominator for basic EPS weighted-average-shares	28,993,752	28,993,752	28,993,752	28,993,752
Common stock equivalents- stock options and warrants	-	-	-	-
Denominator for diluted EPS weighted-average-shares	28,993,752	28,993,752	28,993,752	28,993,752
Basic earnings per share applicable to common shareholders	$ 0.01	$ (0.00)	$ 0.01	$ (0.00)
Diluted earnings per share applicable to common shareholders	$ 0.01	$ (0.00)	$ 0.01	$ (0.00)

Note 4 – Contingencies

The Company is subject to litigation that could have a material adverse impact on its liquidity (see Item V. Legal Proceedings).

Note 5 – Acquisitions

On October 5, 2009, the Company purchased an existing Precision Tune Auto Care center in Severna Park, MD. This center has been operated as a company-owned store.

On November 2, 2009, the Company purchased an existing Precision Tune Auto Care center in Frederick, MD. This center has been operated as a company-owned store.

On December 28, 2009, the Company purchased an existing Precision Tune Auto Care center in Baltimore, MD. The purchase had an effective date of January 1, 2010, thus the purchase was recorded as a prepaid on the balance sheet at December 31, 2009. This center will be operated as a company-owned store.

Additionally, on December 17, 2008, the Company purchased an existing center in Gaithersburg, MD. This center has been operated as a company-owned store.

Note 6 – Impact of New Accounting Standards

Recently Adopted Accounting Pronouncements

On July 1, 2009, we adopted the provisions of the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – replacement of FASB Statement No. 162.” SFAS 168 establishes the FASB Accounting Standards Codification which will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the

FASB to be applied by nongovernmental entities. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, we adopted authoritative guidance issued by the FASB on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. We have applied this guidance to business combinations completed since July 1, 2009.

On July 1, 2009, we adopted the authoritative guidance issued by the FASB that changes the accounting and reporting for non-controlling interests. Non-controlling interests are to 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 are to be accounted for as equity transactions. In addition, net income attributable to a non-controlling interest is to be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, is to be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, we adopted the authoritative guidance on fair value measurement for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not have a material impact on our financial statements.

Recent Accounting Guidance Not Yet Adopted

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance will become effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning July 1, 2011. Other than requiring additional disclosures, adoption of this new guidance will not have a material impact on our financial statements.

ITEM IV Management's discussion and analysis or plan of operation.

A) & B) Plan of Operation and Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis or plan of operation of Precision Auto Care, Inc. (the "Company") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto included in "Item III. – Interim Financial Statements" of this quarterly report and the audited consolidated financial statements and notes thereto and the section titled "Item XVII - Management's Discussion and Analysis" in the Company's annual report for the fiscal year ended June 30, 2009 posted by the Company at www.PinkSheets.com, Filings on September 18, 2009. Historical results and percentage relationships set forth herein are not necessarily indicative of future operations.

The Company's subsidiary, Precision Franchising LLC (PFL), a Virginia limited liability company and subsidiary of the Company is a franchisor of automotive service centers located in the United States and in certain foreign countries. In addition, the Company's subsidiary, PTAC Operating Centers, Inc. (PTACOC), a Virginia corporation and also a subsidiary of the Company, operates eleven company-owned centers in Virginia (3), Maryland (4), Michigan (2), Ohio (1) and Pennsylvania (1). Through its franchised centers, services are provided to automobile owners and focus on those high-frequency items required on a periodic basis to maintain the vehicle properly.

Critical Accounting Policies

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

Revenue Recognition

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.

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 2009 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 2009 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 stores purchased through fiscal year 2009. Similar to the franchising operations, the fair value of the company-owned stores 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 $9.6 million carrying value of goodwill was not impaired. There was additional goodwill of approximately $90,000 associated with the purchase of two centers during the first six months of fiscal year 2010 that was not included in the annual impairment testing. However, there were no substantial changes in the operations of the automotive service centers that would indicate impairment.

Income Taxes

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

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

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

Results of Operations

Comparison of the three months ended December 31, 2009 to the three months ended December 31, 2008

Summary (in thousands)

Three Months Ended December 31,

	2009	%	2008	%
Automotive care franchising revenue	$2,192	66	$2,239	73
Company-operated store retail revenue	1,036	31	744	25
Other	99	3	72	2
Total revenues	$3,327	100%	$3,055	100%
Automotive care franchising direct cost	1,222	37	1,514	49
Company-operated store cost	1,027	31	788	26
Other	64	2	65	2
Total direct costs	2,313	70	2,367	77
General and administrative expense	707	21	723	24
Depreciation and amortization expense	61	2	38	1
Operating income (loss)	246	7	(73)	(2)
Other	10	-	26	1
Earnings (loss) before taxes	256	7	(47)	(1)
Provision (benefit) for income taxes	104	3	(18)	-
Net income (loss)	152	4	(29)	(1)
Preferred stock dividends	1	-	1	-
Net income (loss) applicable to common shareholders	$ 151	4%	$ (30)	(1)%

Revenue. Total revenue for the three months ended December 31, 2009 was approximately $3.3 million, an increase of approximately $272,000, or 9%, compared with total revenue of approximately $3.0 million for the three months ended December 31, 2008.

Automotive care franchising revenue for the three months ended December 31, 2009 was approximately $2.2 million, which was consistent with the three months ended December 31, 2008.

Company-operated store retail revenue for the three months ended December 31, 2009 was $1.0 million, an increase of approximately $292,000, or 39%, compared to $744,000 for the three months ended December 31, 2008. The increase in the retail revenue was due to the additional number of company-operated stores. There were eleven company-operated stores generating revenue during the three months ended December 31, 2009 compared to only eight company-operated stores during the three months ended December 31, 2008. Additionally, the same store sales increased by $38,000 or 5.2% for the eight company-operated stores during the three months ended December 31, 2009.

The Company recognized revenue from foreign franchisee operations of $28,000 and $78,000 for the three months ended December 31, 2009 and 2008, respectively. The decrease in revenue from foreign franchisee operations was primarily due to the decrease in royalties from the master franchisees in Portugal and Taiwan. Both have been impacted by the negative economic conditions and have deferred paying their monthly royalties until their respective cash flows improve. This decrease was offset by an increase in international development revenue for a payment received from the Republic of Georgia totaling $25,000.

Other revenue for the three months ended December 31, 2009 was $99,000, an increase of approximately $27,000, or 38%, compared to $72,000 for the three months ended December 31, 2008. The increase in other revenue was due to an increase in revenue from rebate and training programs of $29,000 and was offset by a decrease of $2,000 from support fees associated with the point of sale system.

Direct Cost. Total direct cost for the three months ended December 31, 2009 totaled $2.3 million, a decrease of $54,000 or 2%, compared with $2.4 million for the three months ended December 31, 2008.

Automotive care franchising direct cost for the three months ended December 31, 2009 totaled $1.2 million, a decrease of $292,000 or 19%, compared to $1.5 million for the three months ended December 31, 2008. The decrease in franchising direct cost was mainly attributed to a decrease in expense related to the convention held in Las Vegas, Nevada during the three months ended December 31, 2008. The Company incurred an expense of approximately $194,000 for the convention. There was no comparable convention expense in the three months ended December 31, 2009. Additionally, for the three months ending December 31, 2009, there was a decrease of approximately $98,000 in royalty commissions. Franchising costs have decreased as the Company now supports many of the franchisees directly instead of relying on area developers. The Company has been able to perform this support function more cost efficiently.

Company-operated store retail cost, which included an internal cost allocation of approximately $48,000,for the three months ended December 31, 2009 was $1.0 million, an increase of approximately $239,000, or 30%, compared to $788,000 for the three months ended December 31, 2008, which included an internal cost allocation of approximately $42,000. The increase in the retail cost was due to the additional number of company-operated stores. There were eleven company-operated stores operating during the three months ended December 31, 2009 compared to only eight company-operated stores during the three months ended December 31, 2008.

Other direct cost for the three months ended December 31, 2009 totaled $64,000, a decrease of $1,000 or 2%, compared with $65,000 for the three months ended December 31, 2008.

General and Administrative Expense. General and administrative expense was $707,000 for the three months ended December 31, 2009, a decrease of $16,000 or 2%, compared with $723,000 for the three months ended December 31, 2008. The decrease was primarily due to the efforts of management's on-going cost reduction initiatives in general and administrative expense.

Operating Income (Loss). The Company recorded an operating income for the three months ended December 31, 2009 of approximately $246,000 compared with an operating loss of approximately $73,000 for the three months ended December 31, 2008. The increase in operating income was mainly attributed to a decrease in expense related to convention expense. The Company incurred an expense of approximately $194,000 for a convention in Las Vegas, Nevada for the three months ended December 31, 2008. There was no comparable expense for the three months ended December 31, 2009. Additionally, the Company had a decrease of $98,000 in royalty commissions for the three months ended December 31, 2009 because the company supports more franchisees directly as opposed to using as many area developers for this function. .

Other Income. The Company recorded other income of $10,000 for the three months ended December 31, 2009, which represents a decrease of approximately $16,000 or 62%, compared to $26,000 for the three months ended December 31, 2008. The decrease was primarily due to a significant decrease in the interest rate on the certificates of deposit thus decreasing interest income.

Income Taxes. The Company's effective tax rate for the three months ended December 31, 2009 and 2008 was approximately 41.1% and 40%, respectively.

Net Income (Loss) Applicable to Common Shareholders and Earnings Per Share. The Company recorded Net Income Applicable to Common Shareholders of $151,000, or $0.01 per share, for the three months ended December 31, 2009 compared to Net Loss Applicable to Common Shareholders of $30,000, or $0.00 per share, for the three months ended December 31, 2008.

Results of Operations

Comparison of the six months ended December 31, 2009 to the six months ended December 31, 2008

Summary (in thousands)

	Six Months Ended December 31,			
	2009	%	2008	%
Automotive care franchising revenue	$4,628	68	$4,636	74
Company-operated store retail revenue	2,021	30	1,458	23
Other	183	2	167	3
Total revenues	$6,832	100%	$6,261	100%
Automotive care franchising direct cost	2,590	38	3,182	51
Company-operated store cost	2,044	30	1,497	24
Other	113	1	152	2
Total direct costs	4,747	69	4,831	77
General and administrative expense	1,433	21	1,459	23
Depreciation and amortization expense	115	2	74	1
Operating income (loss)	537	8	(103)	(1)
Other	24	-	53	1
Earnings (loss) earnings before taxes	561	8	(50)	-
Provision (benefit) for income taxes	228	3	(16)	-
Net income (loss)	333	5	(34)	-
Preferred stock dividends	1	-	1	-
Net income (loss) applicable to common shareholders	$332	5%	$(35)	-%

Revenue. Total revenue for the six months ended December 31, 2009 was approximately $6.8 million, an increase of approximately $571,000, or 9%, compared with total revenue of approximately $6.3 million for the six months ended December 31, 2008.

Automotive care franchising revenue for the six months ended December 31, 2009 was approximately $4.6 million, which was consistent with the six months ended December 31, 2008.

Company-operated store retail revenue for the six months ended December 31, 2009 was $2.0 million, an increase of approximately $563,000, or 39%, compared to $1.5 million for the six months ended December 31, 2008. The increase in the retail revenue was due to the additional number of company-operated stores. There were eleven company-operated stores generating revenue during the six months ended December 31, 2009 compared to only eight company-operated stores during the six months ended December 31, 2008. Additionally, the same store sales increased by $25,000 or 1.7% for the eight company-operated stores during the six months ended December 31, 2009.

The Company recognized revenue from foreign franchisee operations of $88,000 and $145,000 for the six months ended December 31, 2009 and 2008, respectively. The decrease in revenue from foreign franchisee operations was primarily due to the decrease in international royalties from the master franchisees in Portugal and Taiwan. Both have been impacted by the negative economic conditions and have deferred paying their monthly royalties until their respective cash flows improve.

Other revenue for the six months ended December 31, 2009 was $183,000, an increase of approximately $16,000, or 10%, compared to $167,000 for the six months ended December 31, 2008. The increase in other revenue was due to an increase in revenue from rebate and training programs of $22,000 and was offset by a decrease of $6,000 from support fees associated with the point of sale system.

Direct Cost. Total direct cost for the six months ended December 31, 2009 totaled approximately $4.7 million, a decrease of $84,000 or 2%, compared with approximately $4.8 million for the six months ended December 31, 2008.

Automotive care franchising direct cost for the six months ended December 31, 2009 totaled $2.6 million, a decrease of $592,000 or 19%, compared to $3.2 million for the six months ended December 31, 2008. The decrease in franchising direct cost was primarily due to a decrease of approximately $244,000 in royalty commissions. Franchising costs have decreased as the Company now supports many of the franchisees directly instead of relying on area developers. The Company has been able to perform this support function more cost efficiently. Additionally, as discussed above, the decrease in franchising direct cost was attributed to a decrease in expense related to the convention held in Las Vegas, Nevada during the six months ended December 31, 2008. The Company incurred an expense of approximately $194,000 for the convention. There was no comparable convention expense in the six months ended December 31, 2009. Also, the Company repurchased and terminated the area developer agreement for the Austin, Texas market during the six months ended December 31, 2008 for an amount in excess of $150,000. There was no comparable expense for the six months ended December 31, 2009.

Company-operated store retail cost, which included an internal cost allocation of approximately $104,000, for the six months ended December 31, 2009, was $2.0 million, an increase of approximately $547,000, or 37%, compared to $1.5 million for the six months ended December 31, 2008, which included an internal cost allocation of approximately $85,000. The increase in the retail cost was due to the additional number of company-operated stores. There were eleven company-operated stores operating during the six months ended December 31, 2009 compared to only eight company-operated stores during the six months ended December 31, 2008.

Other direct cost for the six months ended December 31, 2009 totaled $113,000, a decrease of $39,000 or 26%, compared with $152,000 for the six months ended December 31, 2008. The decrease was attributed to the decrease in support cost of $62,000 associated with the point of sale system. The decrease was offset by an increase in expense associated with the rebate and training programs of $23,000.

General and Administrative Expense. General and administrative expense was approximately $1.4 million for the six months ended December 31, 2009, a decrease of $26,000 or 2%, compared with approximately $1.5 million for the six months ended December 31, 2008. The decrease was primarily due to the efforts of management's on-going cost reduction initiatives in general and administrative expense.

Operating Income (Loss). The Company recorded operating income for the six months ended December 31, 2009 of approximately $537,000 compared with an operating loss of $103,000 for the six months ended December 31, 2008. As discussed previously, there were multiple variables that attributed to the increase in operating income. There was a decrease of approximately $244,000 in royalty commissions. Franchising costs have decreased as the Company now supports many of the franchisees directly instead of relying on area developers. The Company has been able to do this more cost efficiently and has also found that direct support has been more effective. Additionally, the decrease in franchising direct cost was attributed to a decrease in expense related to the convention held in Las Vegas, Nevada during the six months ended December 31, 2008. The Company incurred an expense of approximately $194,000 for the convention. There was no comparable convention expense in the six months ended December 31, 2009. Also, the Company repurchased and terminated the area developer agreement for the Austin, Texas market during the six months ended December 31, 2008 for an amount in excess of $150,000. There was no comparable expense for the six months ended December 31, 2009.

Other Income. The Company recorded other income of $24,000 for the six months ended December 31, 2009, which represents a decrease of approximately $29,000 or 55%, compared to $53,000 for the six months ended December 31, 2008. The decrease was primarily due to a significant decrease in the interest rate on the certificates of deposit thus decreasing interest income.

Income Taxes. The Company's effective tax rate for the six months ended December 31, 2009 was approximately 41%, which was consistent with the six months ended December 31, 2008.

Net Income (Loss) Applicable to Common Shareholders and Earnings Per Share. The Company recorded Net Income Applicable to Common Shareholders of $332,000, or $0.01 per share, for the six months ended December 31, 2009 compared to Net Loss Applicable to Common Shareholders of $35,000, or $0.00 per share, for the six months ended December 31, 2008.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash at December 31, 2009 was $3.8 million. During the period, cash provided by operations was approximately $569,000.

Cash used in investing activities for the six months ended December 31, 2009 was approximately $355,000. Cash used in investing activities during the six months ended December 31, 2009 consisted of the purchase of property and equipment of $197,000 for use in the Company's franchise operations, $119,000 for the purchase of two company-operated stores and approximately $39,000 related to goodwill payments for company-operated stores.

Cash used in financing activities for the six months ended December 31, 2009 was $96,000. Cash used in financing activities during the period 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 2010. At December 31, 2009, the entire line of credit was available.

Seasonality and Quarterly Fluctuations

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

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.

ITEM V Legal proceedings.

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

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

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

Active Claims

Rukiya Eaddy v. Heather Enterprises, Inc. dba Precision Tune Auto Care, Mary McCracken, and Precision Tune Auto Care Incorporated, dba Precision Franchising LLC, State Court of Fulton County, State of Georgia, Civil Action File No. 2007-EV-003229E, Filed: July 25, 2008.

This case stems from an assault and battery between the plaintiff, Rukiya Eaddy (Eaddy) and Mary McCracken (McCracken), the sole shareholder of Heather Enterprises, Inc. (HEI), a former Precision Tune Auto Care franchisee.

On July 24, 2006 Eaddy noticed steam coming from under the hood of her vehicle and called the Precision Tune Auto Care center (the "Center") owned and operated by HEI. Eaddy alleges one of the employees of the Center quoted a price to Eaddy which was less than the amount she was asked to pay when she came to retrieve her vehicle on July 25, 2006. Eaddy further alleges that McCracken assaulted and battered her and used racial slurs when she questioned the increased cost of the repairs. Eaddy is seeking compensatory and punitive damages as well as reimbursement for the cost of the above referenced action and reasonable attorneys' fees.

PTAC does not expect to incur any liability in this case due to the fact that neither PTAC nor its affiliates had any control over the premises or the employees of the Center. In addition, HEI and McCracken have a duty to indemnify PTAC and its affiliates, including Precision Franchising LLC (PFL). The HEI's insurance carrier has agreed to provide a defense. In addition, PFL's insurance carrier has retained independent counsel in this matter to represent the interests of PTAC and PFL.

PFL filed a motion to dismiss, and hearing on this motion was held on October 12, 2009. On November 20, 2009, the court denied PFL's motion to dismiss but granted to PFL a protective order regarding discovery of confidential and proprietary materials. Discovery is ongoing 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 the Company's acquisition of Miracle Partners, Inc. in 1997 for all amounts covered by the judgment.

Actions Commenced to Enforce Franchise Agreements

Precision Franchising LLC v. Nolen et al., US District Court for the Eastern District of Virginia, Civil Docket Number 1:09-cv-00108-TSE-TCB, Filed December 14, 2009.

This case stems from a breach of contract by defendants, and defendant's failure to make payments pursuant to a promissory note.

Defendants agreed to pay Precision Franchising LLC (PFL) operating and advertising fees pursuant a Precision Tune Auto Care Franchise Agreement (the "Franchise Agreement") between the parties. In addition, defendants signed a promissory note in PFL's favor. Defendants have failed to make periodic payments required by the Franchise Agreement and have violated covenants of the Franchise Agreement prohibiting the operation of a competing business. In addition, defendants have failed to make scheduled payments under the promissory note.

Defendants' answer was due January 8, 2010. As of the date of this summary, they have failed to file an answer, and PFL is in the process of preparing a motion for default judgment.

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

Item VI Defaults upon senior securities.

NONE

Item VII **Other information.**

NONE

Item VIII **Exhibits.**

A) **Material Contracts.**

NOT APPLICABLE

B) **Articles of Incorporation and Bylaws.**

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

Item IX Certifications.

CHIEF EXECUTIVE OFFICER CERTIFICATION:

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

1. I have reviewed this quarterly report of Precision Auto Care, Inc.,

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

IN WITNESS WHEREOF, the undersigned has executed this Certification as of this 8th of February, 2010.

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

CHIEF FINANCIAL OFFICER CERTIFICATION:

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

1. I have reviewed this quarterly report of Precision Auto Care, Inc.,

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

IN WITNESS WHEREOF, the undersigned has executed this Certification as of this 8th of February, 2010.

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.]