

PRECISION AUTO CARE, INC.

A Virginia Corporation

Quarterly Report

September 30, 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	September 30, 2009
(ii) Authorized	39,000,000
(iii) Issued and Outstanding	28,993,752
(iv) Freely tradable shares (public float)	6,680,805
(v) Number of shareholders of record	177
Class A Preferred Stock	
(i) Period End Date	September 30, 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

PRECISION AUTO CARE, INC.

**Consolidated Financial Statements
as of
September 30, 2009**

PRECISION AUTO CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, <u>2009</u> (unaudited)	June 30, <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,825,514	\$ 3,690,506
Restricted cash	115,000	115,000
Accounts receivable, net of allowance of \$88,460 and \$82,574, respectively	409,968	502,778
Notes receivable, net of allowance of \$297,324 and \$293,366, respectively	154,356	117,448
Deferred tax asset	732,850	745,548
Other assets	<u>536,179</u>	<u>464,078</u>
Total current assets	5,773,867	5,635,358
Property and equipment, net	1,281,551	1,225,029
Goodwill	9,630,560	9,622,060
Notes receivable, net of allowance of \$119,158 and \$127,191, respectively	72,179	84,707
Deferred tax asset	4,497,239	4,599,121
Deposits and other	<u>120,120</u>	<u>134,878</u>
Total assets	<u>\$ 21,375,516</u>	<u>\$ 21,301,153</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line-of-credit	\$ -	\$ -
Notes payable and capital lease obligation- current	143,139	155,464
Accounts payable and accrued liabilities	192,734	238,236
Taxes payable	673,217	668,168
Accrued commission payable	184,370	208,348
Accrued salaries and related expenses	427,562	336,759
Due to related party	138,571	155,043
Deferred revenue	<u>60,130</u>	<u>123,195</u>
Total current liabilities	1,819,723	1,885,213
Notes payable and capital lease obligation, net of current portion	<u>33,154</u>	<u>74,042</u>
Total liabilities	1,852,877	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	<u>(48,700,432)</u>	<u>(48,881,173)</u>
Total stockholders' equity	<u>19,406,327</u>	<u>19,225,586</u>
Total liabilities and stockholders' equity	<u>\$ 21,375,516</u>	<u>\$ 21,301,153</u>

See accompanying notes.

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

	Three Months Ended September 30,	
	2009 (unaudited)	2008 (unaudited)
Revenues:		
Franchise royalties	\$ 2,246,044	\$ 2,330,732
Franchise development	191,000	67,425
Company-operated retail stores	984,284	714,409
Other	<u>83,976</u>	<u>94,170</u>
Total revenues.....	3,505,304	3,206,736
Direct costs:		
Franchise support and other.....	1,417,033	1,754,966
Company-operated retail stores	<u>1,016,097</u>	<u>709,726</u>
Total direct costs.....	2,433,130	2,464,692
General and administrative expense	726,007	735,886
Depreciation and amortization expense.....	<u>54,641</u>	<u>35,976</u>
Operating income (loss).....	291,526	(29,818)
Interest expense	(535)	(868)
Interest income.....	8,287	26,647
Other income	<u>5,244</u>	<u>1,132</u>
Total other income	<u>12,996</u>	<u>26,911</u>
Income (loss) before income tax expense.....	304,522	(2,907)
Provision for income taxes	<u>123,199</u>	<u>2,256</u>
Net income (loss).....	181,323	(5,163)
Preferred stock dividends	<u>582</u>	<u>582</u>
Net income (loss) applicable to common shareholders	<u>\$ 180,741</u>	<u>\$ (5,745)</u>
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

	Three Months Ended September 30,	
	2009 (unaudited)	2008 (unaudited)
Operating activities:		
Net income (loss) applicable to common shareholders.....	\$ 180,741	\$ (5,745)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization.	54,641	35,976
Bad debt expense.....	2,000	-
Deferred taxes.	114,580	(1,016)
Changes in assets and liabilities:		
Accounts and notes receivable.	66,430	86,139
Prepaid expenses, deposits and other.	(68,302)	(93,893)
Accounts payable and accrued liabilities.	26,954	2,877
Due to related party.	(16,472)	(23,356)
Deferred revenue and other.	<u>(63,065)</u>	<u>18,115</u>
Net cash provided by operating activities.....	297,507	22,369
Investing activities:		
Purchases of property and equipment.	(100,204)	(49,963)
Purchase of company-operated stores.	<u>(8,500)</u>	<u>(359,597)</u>
Net cash used in investing activities.....	(108,704)	(409,560)
Financing activities:		
Payment of preferred stock dividends.....	(582)	(582)
Payment of capital lease obligation and notes payable.....	<u>(53,213)</u>	<u>(22,132)</u>
Net cash used in financing activities.....	<u>(53,795)</u>	<u>(22,714)</u>
Net change in cash and cash equivalents.....	135,008	(409,905)
Cash and cash equivalents at beginning of year.	<u>3,690,506</u>	<u>4,761,725</u>
Cash and cash equivalents at end of period.	<u>\$ 3,825,514</u>	<u>\$ 4,351,820</u>
Cash paid for the period for:		
Interest.....	<u>\$ 535</u>	<u>\$ 868</u>
Income taxes.	<u>\$ 635</u>	<u>\$ 885</u>

See accompanying notes.

PRECISION AUTO CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009

	<u>Common Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at June 30, 2009	28,993,752	\$ 289,938	\$67,816,821	\$(48,881,173)	\$ 19,225,586
Net income.....	—	—	—	180,741	180,741
Balance at September 30, 2009..	<u>28,993,752</u>	<u>\$ 289,938</u>	<u>\$67,816,821</u>	<u>\$(48,700,432)</u>	<u>\$ 19,406,327</u>

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

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.

Stock Option Plan

A summary of option activity under all plans as of September 30, 2009, and changes during the period then ended is presented below:

	Shares <u>Under Option</u>	Weighted- Average Exercise <u>Price</u>	Weighted-Average Remaining <u>Contractual Term</u>
June 30, 2009.....	1,456,700	0.48	2.86
Options granted	-	-	
Options exercised	-	-	
Options forfeited.....	-	-	
September 30, 2009.....	1,456,700	0.48	2.61

No options were granted in the three months ended September 30, 2009 and 2008, respectively. The exercise price of options outstanding at September 30, 2009 ranged from \$0.25 to \$1.25 per share.

The intrinsic value of in the money options at September 30, 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 September 30, 2009 and 2008 was 1,456,700 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 months ended September 30, 2009 and 2008, respectively, 1,456,700 and 1,895,320 shares attributable to outstanding stock options and warrants were not included in the computation of diluted income per share as they were anti-dilutive.

The following table sets forth the computation of basic and diluted net income per share.

	Three Months Ended	
	September 30, 2009	September 30, 2008
Numerator:		
Net income (loss)	\$ 181,323	\$ (5,163)
Preferred stock dividends	<u>(582)</u>	<u>(582)</u>
Net income (loss) applicable to common Shareholders	\$ 180,741	\$ (5,745)
Denominator:		
Denominator for basic EPS weighted-average-shares	28,993,752	28,993,752
Common stock equivalents- stock options and warrants.....	<u>-</u>	<u>-</u>
Denominator for diluted EPS weighted-average-shares	28,993,752	28,993,752
Basic earnings per share applicable to common shareholders.....	\$ 0.01	\$ (0.00)
Diluted earnings per share applicable to common shareholders.....	\$ 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 – Area Developer Agreement

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 during the three months ended September 30, 2008.

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.

Note 6 – Acquisitions

On July 8, 2008, the Company purchased an existing center in Hayes, VA. This center has been operated as a company-owned store.

Additionally, on September 2, 2008, the Company purchased an existing Precision Tune Auto Care center in Hanover, PA. This center has been operated as a company-owned store.

Note 7 - Recently Issued 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.

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 is a franchisor of automotive service centers located in the United States and in certain foreign countries. 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.

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. As of June 30, 2007, the Company decided to release its remaining \$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 three months ended September 30, 2009 to the three months ended September 30, 2008

Summary (in thousands)

	Three Months Ended September 30,			
	<u>2009</u>	<u>%</u>	<u>2008</u>	<u>%</u>
Automotive care franchising revenue	\$2,437	70	\$2,398	75
Company-operated store retail revenue	984	28	715	22
Other	<u>84</u>	<u>2</u>	<u>94</u>	<u>3</u>
Total revenues.....	<u>\$3,505</u>	100%	<u>\$3,207</u>	100%
Automotive care franchising direct cost	1,369	39	1,668	52
Company-operated store cost	1,016	29	710	22
Other	<u>48</u>	<u>1</u>	<u>87</u>	<u>3</u>
Total direct costs.....	<u>2,433</u>	69	<u>2,465</u>	77
General and administrative expense	726	21	736	23
Depreciation and amortization expense	55	2	36	1
Operating income (loss).....	291	8	(30)	(1)
Other	13	-	27	1
Earnings (loss) before taxes.....	304	8	(3)	-
Provision for income taxes	<u>123</u>	<u>3</u>	<u>2</u>	<u>-</u>
Net income (loss).....	<u>181</u>	<u>5</u>	<u>(5)</u>	<u>-</u>
Preferred stock dividends	1	-	1	-

Net income (loss) applicable to common shareholders \$ 180 5% \$ (6) -%

Revenue. Total revenue for the three months ended September 30, 2009 was \$3.5 million, an increase of approximately \$298,000 or 9%, compared with total revenue of \$3.2 million for the three months ended September 30, 2008.

Automotive care franchising revenue for the three months ended September 30, 2009 was \$2.4 million, which was consistent with the three months ended September 30, 2008.

Company-operated store retail revenue for the three months ended September 30, 2009 was \$984,000, an increase of approximately \$269,000 or 38%, compared to \$715,000 for the three months ended September 30, 2008. The increase in store retail revenue was primarily due to the Company operating eight automotive service centers during the three months ended September 30, 2009. The Company was operating seven automotive centers during the three months ended September 30, 2008.

The Company recognized revenue from foreign franchisee operations of \$60,000 and \$67,000 for the three months ended September 30, 2009 and 2008, respectively. The decrease in revenue from foreign franchisee operations was primarily due to the decrease in international royalties. The master franchisees in Portugal and Taiwan 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 payments received from the Republic of Georgia and Nigeria totaling \$45,000. The payments were made as non-refundable good faith payments with the intention of executing master franchise agreements for these areas.

Other revenue for the three months ended September 30, 2009 was \$84,000, a decrease of approximately \$10,000 or 11%, compared to \$94,000 for the three months ended September 30, 2008. The decrease in other revenue was primarily due to a decrease of approximately \$3,000 from support fees associated with the point of sale system as well as a decrease in training and rebate programs revenue of approximately \$7,000.

Direct Cost. Total direct cost for the three months ended September 30, 2009 totaled \$2.4 million, a decrease of \$32,000 or 1%, compared with \$2.5 million for the three months ended September 30, 2008.

Automotive care franchising direct cost for the three months ended September 30, 2009 totaled approximately \$1.4 million, a decrease of approximately \$299,000 or 18%, compared with automotive care franchising direct cost of \$1.7 million for the three months ended September 30, 2008. The decrease in franchising direct cost was due to the fact the Company repurchased and terminated the area developer agreement for the Austin, Texas market (see Item III – Note 5). There was no comparable expense for the three months ended September 30, 2009. Additionally, for the three months ending September 30, 2009, there was a decrease of approximately \$130,000 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.

Company-operated store retail cost for the three months ended September 30, 2009 was \$1.0 million, an increase of approximately \$306,000 or 43%, compared to \$710,000 for the three months ended September 30, 2008. The increase in store retail cost was primarily due to the Company operating eight automotive service centers during the three months ended September 30, 2009. The Company was operating seven automotive centers during the three months ended September 30, 2008. Additionally, the retail cost includes an internal cost allocation of approximately \$57,000 and \$42,000 for the three months ended September 30, 2009 and 2008, respectively.

Other direct cost for the three months ended September 30, 2009 totaled \$48,000, a decrease of \$39,000, or 45%, compared with \$87,000 for the three months ended September 30, 2008. The decrease in other direct cost was primarily due to a decrease in support costs associated with the point of sale system as well as a decrease in training and rebate programs expenses.

General and Administrative Expense. General and administrative expense was approximately \$726,000 for the three months ended September 30, 2009, a decrease of approximately \$10,000 or 1%, compared with approximately \$736,000 for the three months ended September 30, 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 three months ended September 30, 2009 of approximately \$291,000 compared with operating loss of \$30,000 for the three months ended September 30, 2008. The increase in operating income was mainly attributed to a decrease in expense related to repurchasing and terminating area developer agreements. The Company incurred an expense for repurchasing and terminating the area developer agreement for the Austin, Texas market for the three months ended September 30, 2008. There was no comparable expense for the three months ended September 30, 2009. Additionally, the Company had an increase in international development revenue for payments received from the Republic of Georgia and Nigeria totaling \$45,000. The payments were made as non-refundable good faith payments with the intention of executing master franchise agreements for these areas.

Other Income. The Company recorded other income of \$13,000 for the three months ended September 30, 2009, which represents a decrease of approximately \$14,000 or 52% compared with \$27,000 for the three months ended September 30, 2008. The 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 three months ended September 30, 2009 and 2008 was approximately 41% and 40%, respectively.

Net Income (Loss) Applicable to Common Shareholders and Earnings Per Share. The Company recorded Net Income Applicable to Common Shareholders of approximately \$180,000, or \$0.01 per share, for the three months ended September 30, 2009 compared to the Net Loss Applicable to Common Shareholders of \$6,000, or \$0.00 per share, for the three months ended September 30, 2008.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash at September 30, 2009 was \$3.8 million. During the period, cash provided by operations was approximately \$298,000.

Cash used in investing activities for the three months ended September 30, 2009 was approximately \$109,000. Cash used in investing activities during the three months ended September 30, 2009 consisted of the purchase of property and equipment of \$100,000 for use in the Company's franchise operations and approximately \$9,000 related to goodwill payments for a company-operated store.

Cash used in financing activities for the three months ended September 30, 2009 was \$54,000. 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 September 30, 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 Precision Tune Auto Care franchisee. Precision Tune Auto Care, Inc. (PTAC) does not believe it is a properly named party to this suit.

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). 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 a hearing on this motion was held on October 12, 2009. As of the date of this summary, there has been no ruling by the court on this motion.

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.

Threatened Claims

Eric Steel, Demand Letter, dated: March 18, 2009.

Mr. Eric Steel has retained counsel to pursue claims regarding an alleged vendor relationship with Precision Franchising LLC (PFL). At this time, no formal complaint has been filed, and PFL has communicated to Mr. Steel's counsel that it does not believe Mr. Steel's claims have any merit. PFL's last communication with Mr. Steel's counsel was April 1, 2009, and PFL has not received a reply. PFL believes this matter is resolved; however, it will take all necessary steps to defend any claims which might be brought.

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 the Company 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 the Company identifying three Precision Tune Auto Care Centers that allegedly arranged for the transportation of hazardous substances to the Double Eagle Site and offering the Company the chance to settle any liability relating to the Double Eagle Site for a lump sum payment of \$32,500.

The Company sent a letter to Union Pacific dated March 3, 2008 explaining that the Company is not a responsible party at the Double Eagle Site. The Company 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. The Company does not expect to incur any liability in this matter.

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, Filings.

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 6th of November, 2009.

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 6th of November, 2009.

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.]