DCAP GROUP INC/
Form 10QSB
May 20, 2003

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

FORM 10-QSB

(Mark One)
[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2003

[ ] Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from ______________________ to ______________________

Commission File Number: 0-1665

DCAP GROUP, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware	36-2476480
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S Employer Identification No.)

1158 Broadway, Hewlett, NY 11557
(Address of Principal Executive Offices)

(516) 374-7600
(Issuer's Telephone Number, Including Area Code)

____
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.
Yes ______ No _______

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 12,353,402 shares as of April 30, 2003.

Transitional Small Business Disclosure Format (check one):
Yes ______ No X _______

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Forward-Looking Statements

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the following:

- our ability to obtain the necessary level of financing to maintain and grow our premium finance operation
- the decline in the number of insurance companies offering insurance products in our markets
- the volatility of insurance premium pricing
- government regulation
- competition from larger, better financed and more established companies
- the possibility of tort reform and a resultant decrease in the demand for insurance
- the dependence on our executive management
- our ability to raise additional capital which may be required.

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publically update or revise any forward-looking statements, whether from new information, future events or otherwise.

Explanatory Note

Throughout this Quarterly Report, the words "DCAP Group," "we," "our," and "us" refer to DCAP Group, Inc. and the operations of DCAP Group, Inc. as a whole. References to "DCAP Insurance" and the "DCAP Companies" in this Annual Report mean our wholly-owned subsidiary, Dealers Choice Automotive Planning, Inc., and affiliated companies, and the operations of our insurance-related subsidiaries.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

DCAP GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	March 31, 2003
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$1,206,394

Accounts receivable, net of allowance for doubtful accounts of $43,000	763,475
Notes receivable	54,571
Prepaid expenses and other current assets	146,312
Total current assets	$2,170,752
PROPERTY AND EQUIPMENT, net	212,128
OTHER ASSETS:	
Goodwill	569,382
Other intangibles, net	268,513
Deposits and other assets	26,929
Note receivable	55,309
Total other assets	920,133
	$3,303,013
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 576,859
Current portion of long-term debt	13,986
Current portion of capital lease obligations	47,847
Deferred revenue	66,417
Debentures payable	154,200
Total current liabilities	859,309
LONG-TERM DEBT	691,662
CAPITAL LEASE OBLIGATIONS	31,013
DEFERRED REVENUE	24,591
STOCKHOLDERS' EQUITY:	
Common Stock, $.01 par value; authorized 25,000,000 shares; issued 16,068,018 shares	160,680
Preferred Stock, $.01 par value; authorized 1,000,000 shares; 0 shares issued and outstanding	-
Capital in excess of par	10,242,409
Deficit	(7,777,996)
	2,625,093
Treasury Stock, at cost, 3,714,616	(928,655)
	1,696,438
	$3,303,013

See notes to condensed consolidated financial statements.

DCAP GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31, 2003	Three months ended March 31, 2002
Revenues:		
Commissions and fees	$ 1,461,415	$ 363,364
Premium finance revenue	347,477	170,826
Total revenues	1,808,892	534,190
Operating Expenses:		
Selling, general and administrative	1,407,299	487,049
Depreciation and amortization	36,317	30,279
Total operating expenses	1,443,616	517,328
Operating Income:	365,276	16,862
Other (Expense) Income:		
Interest income	1,348	608
Interest expense	(17,260)	(16,670)
Gain on sale of stores	89,700	-
	73,788	(16,062)
Income before income taxes and minority interest	439,064	800
Provision for income taxes	4,855	675
Income before minority interest	434,209	125
Minority interest	-	(1,817)
Income from continuing operations	434,209	1,942
Discontinued operations:		
(Loss) income from discontinued operations	(46,096)	26,388
Net income	$ 388,113	$ 28,330
Net income per common share:		
Basic and diluted:		
Income from continuing operations	$ 0.03	$ 0.00
(Loss) income from discontinued operations	(0.00)	0.00
Net income	$ 0.03	$ 0.00
Weighted average number of shares outstanding:		

Basic	12,353,402	11,353,402
Diluted	12,923,929	11,353,402

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31,	
	2003	2002
Cash flows from operating activities:		
Net income	$ 388,113	$ 28,330
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	36,317	34,138
Provision for bad debts	5,886	867
Gain on sale of stores	(89,700)	-
Minority interest	-	(1,817)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(186,155)	41,382
Prepaid expenses and other current assets	30,923	11,710
Deposits and other assets	(3,979)	-
Decrease in liabilities:		
Accounts payable and accrued expenses	(197,020)	(69,923)
Deferred revenue	(868)	(22,294)
Net cash (used in) provided by operating activities	(16,483)	22,393
Cash flows from investing activities:		
Decrease (increase) in notes and other receivables - net	21,649	(495)
Proceeds from disposition of discontinued subsidiary	500,000	-
Proceeds from sale of DCAP stores	141,383	-
Purchase of property and equipment	(10,952)	(9,332)
Net cash provided by (used in) investing activities	652,080	(9,827)
Cash flows from financing activities:		
Principal payment of long-term debt and capital lease obligations	(36,606)	(26,555)
Increase in due to officer	-	33,333
Net cash (used in) provided by financing activities	(36,606)	6,778

Net increase in cash and cash equivalents	598,991	19,344
Cash and cash equivalents, beginning of period	607,403	220,774
Cash and cash equivalents, end of period	$1,206,394	$240,118

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2003 AND 2002 (UNAUDITED)

1. The Condensed Consolidated Balance Sheet as of March 31, 2003, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2003 and 2002 and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2003 and 2002 have been prepared by us without audit. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly in all material respects our financial position as of March 31, 2003, results of operations for the three months ended March 31, 2003 and 2002 and cash flows for the three months ended March 31, 2003 and 2002. This report should be read in conjunction with our Annual Report on Form 10-KSB for the year ended December 31, 2002.

   The results of operations and cash flows for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year.

2. Summary of Significant Accounting Policies:

   a. Principles of consolidation

   The accompanying consolidated financial statements include the accounts of all subsidiaries and joint ventures in which we have a majority voting interest or voting control. All significant intercompany accounts and transactions have been eliminated.

   b. Revenue recognition

   We recognize commission revenue from insurance policies at the beginning of the contract period (except for those commissions payable annually, which we recognize on a ratable basis) and on automobile club dues equally over the contract period. Franchise fee revenue is recognized when substantially all of our contractual requirements under the franchise agreement are completed. Refunds of commissions on the cancellation of insurance policies are reflected at the time of cancellation.

   Premium financing fee revenue is earned based upon the origination of premium finance contracts sold by agreement to third parties. The contract fee gives consideration to an estimate as to the collectability of the loan amount. Periodically, actual results are compared to estimates previously recorded, and adjusted accordingly.

c. Website Development Costs

Technology and content costs are generally expensed as incurred, except for certain costs relating to the development of internal-use software, including those relating to operating our website, that are capitalized and depreciated over two years. A total of $9,800 and -0- in such costs was incurred during the three months ended March 31, 2003 and 2002, respectively.

d. Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the three months ended March 31, 2002 to conform with the classifications used for the three

months ended March 31, 2003.

3. Business Segments:

We currently have two reportable business segments: Insurance and Premium Finance. The Insurance segment sells retail auto, motorcycle, boat, life, business, and homeowner's insurance and franchises. In addition, this segment offers tax preparation services and automobile club services for roadside emergencies. Insurance revenues are derived from activities within the United States, and all long-lived assets are located within the United States. The Premium Finance segment offers property and casualty policyholders loans to finance the policy premiums. Such loans are sold to a third party upon origination.

In December 2002, we disposed of our Hotel segment as part of a settlement agreement. Accordingly, the segment information shown in the following table excludes the activity of this segment for the three months ended March 31, 2003 and 2002.

Summarized financial information concerning our reportable segments is shown in the following tables:

Period Ended March 31, 2003	Insurance	Premium Finance	Other(1)	Total
Revenues from external customers	$1,461,415	$347,477	$ -	$1,808,892
Interest income	841	-	507	1,348
Interest expense	17,260	-	-	17,260
Depreciation and amortization	35,927	390	-	36,317
Segment profit (loss)	362,421	267,075	(195,287)	434,209
Segment assets	2,161,844	194,864	1,006,305	3,303,013

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(1) Column represents corporate-related items and, as it relates to

segment profit (loss), income, expense and assets not allocated to reportable segments.

Period Ended March 31, 2002	Insurance	Premium Finance	Other(1)	Total
Revenues from external customers	$363,364	$170,826	$ -	$ 534,190
Interest income	-	-	608	608
Interest expense	16,670	-	-	16,670
Depreciation and amortization	30,279	-	-	30,279
Segment profit (loss)	(19,466)	123,225	(101,817)	1,942
Segment assets	782,203	69,899	320,934	1,173,036

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(1) Column represents corporate-related items and, as it relates to segment profit (loss), income, expense and assets not allocated to reportable segments.

4. Stock Options

We have elected the disclosure only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("FASB 123") in accounting for our employee stock options. Accordingly, no compensation expense has been recognized. Had we recorded compensation expense for the stock options based on the fair value at the grant date for awards in the three months ended March 31, 2003 and 2002 consistent with the provisions of SFAS 123, our net income and net income per share would have been adjusted as follows:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net income, as reported	$388,113	$28,330
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(15,000)	(24,000)
Pro forma net income	$373,113	$ 4,330
Net income per share:		
Basic and Diluted-as reported	$ 0.03	$ 0.00
Basic and Diluted-pro forma	$ 0.03	$ 0.00

6. Sale of Stores

During the three months ended March 31, 2003, we sold two of our retail offices (part of our Insurance segment) for cash consideration aggregating $141,383 and a note receivable of approximately $97,000. The sale of the two offices resulted in a gain of $89,700. The assets of these stores included accounts receivable of approximately $85,000, goodwill with a carrying amount of $50,000, and fixed assets with a carrying amount of approximately $10,000. In addition, concurrently with the sale, the purchasers entered into franchise agreements with us.

7. Income Taxes

Our tax provision for the three months ended March 31, 2003 reflects the anticipated utilization of net operating loss carryforwards that had previously been fully reserved. As a result we recognized a tax benefit during the three months ended March 31, 2003.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

THREE MONTHS ENDED MARCH 31, 2003 AND 2002

Results of Operations

Our income from continuing operations for the three months ended March 31, 2003 was $434,209 as compared to $1,942 for the three months ended March 31, 2002.

During the three months ended March 31, 2003, revenues from our insurance related operations were $1,461,415 as compared to $363,364 for the three months ended March 31, 2002. The increase in revenues was generally due to revenues from the Barry Scott operation, which we acquired on August 30, 2002.

Premium finance revenues increased $176,651 during the three months ended March 31, 2003 as compared to the three months ended March 31, 2002. This increase was the result of higher average premiums being financed and an expansion of our premium finance marketing efforts to non-DCAP insurance agencies. In March 2003, we were informed that the premium finance agency that currently purchases our premium finance receivables would no longer do so after July 30, 2003. We are seeking an alternative financing arrangement. On April 22, 2003, we tendered a good faith deposit to a commercial bank based on a non-binding letter of intent from such bank providing for the establishment of a revolving line of credit. There can be no assurance that a commitment letter will be received from such bank. Failure to receive such commitment will require the bank to refund a majority of the good faith deposit.

Our selling general and administrative expenses for the three months ended March 31, 2003 were $920,250 more than for the three months ended March 31, 2002. This increase was primarily due to the expenses of the Barry Scott operation which was acquired on August 30, 2002.

During the three months ended March 31, 2003, we sold two of our stores, resulting in a gain of $89,700. No such sales occurred during the three months ended March 31, 2002.

Our insurance-related operations on a stand-alone basis, generated a net profit of $362,421 during the three months ended March 31, 2003 as compared to a loss of $19,466 during the three months ended March 31, 2002. Our premium finance operations, on a stand-alone basis, generated a net profit of $267,075 during the three months ended March 31, 2003, as compared to a net profit of $123,225 during the three months ended March 31, 2002. Losses from corporate-related items not allocable to reportable segments were $195,287 during the three months ended March 31, 2003 as compared to $101,817 during the three months ended March 31, 2002.

In January 2003, we ceased operation of the International Airport Hotel in San Juan, Puerto Rico. As such, the operating results of the hotel are being presented as discontinued operations. During the three months ended March 31, 2003, this discontinued operation generated a net loss of $46,096 as compared to a net profit of $26,388 during the three months ended March 31, 2002.

Liquidity and Capital Resources

As of March 31, 2003, we had $1,206,394 in cash and cash equivalents and working capital of $1,311,443. As of December 31, 2002, we had $607,403 in cash and cash equivalents and

working capital of $904,232.

Cash and cash equivalents increased between December 31, 2002 and March 31, 2003 primarily due to net cash of $652,080 from investing activities for the three months ended March 31, 2003 based on proceeds of $500,000 from the disposition of our Hotel segment and $141,383 from the sale of stores, offset by (i) net cash of $16,483 used in operating activities based primarily on our net income of $388,113, offset by a net increase in current assets of $159,211, a decrease in current liabilities of $197,888, and the gain on the sale of stores of $89,700, and (ii) net cash of $36,606 used in financing activities for principal payments of long-term debt and capital lease obligations.

We have no current commitments for capital expenditures.

Item 3. CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this report, our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting him in a timely manner to material information required to be included in our SEC reports. In addition, our Chief Executive Officer and Chief Financial Officer reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of our last evaluation.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In January, 2003, our subsidiary, Aard-Vark Agency, Ltd., commenced an action in the Supreme Court of the State of New York, Queens County, against Barnett Prager, Anita Prager and All About Security, Inc. for breach of employment agreement and misappropriation of trade secrets and confidential information, among other claims. In May 2003, the defendants asserted counterclaims seeking $2,000,000 in compensatory damages, plus punitive damages, based upon the October 1998 sale by the defendants of the stock of Aard-Vark to Barry Scott Acquisition Corp. (which we acquired in August 2002). We believe that the counterclaims are wholly meritless in that, among other defenses, they are brought against the improper party and are barred by previous judicial decisions on the matter. In any event, pursuant to our August 2002 acquisition agreement with regard to Barry Scott, Progressive Agency Holdings Corp., the seller of Barry Scott to us, has agreed to defend and indemnify us with regard to this matter.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

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

3(a) Certificate of Incorporation, as amended(1)

3(b) By-laws, as amended(1)

99 Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C . Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended September 30, 2002 and incorporated herein by reference.

(b) Reports on Form 8-K

Two Current Reports on Form 8-K were filed by us during the quarter ended March 31, 2003 as follows:

(i) Date of Report: January 29, 2003
Item reported: 2

(ii) Date of Report: March 14, 2003
Item reported: 5

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DCAP GROUP, INC.

Dated: May 20, 2003

By: /s/ Barry Goldstein
Barry Goldstein
President, Chairman of the Board,
Chief Executive Officer, Chief
Financial Officer and Treasurer
(Principal Executive, Financial and
Accounting Officer)

Certification

I, Barry Goldstein, Chief Executive Officer and Chief Financial Officer of DCAP Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of DCAP Group, Inc.;

2. Based on my knowledge, this quarterly report 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the

registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 20, 2003

/s/ Barry Goldstein

Barry Goldstein
Chief Executive Officer and
Chief Financial Officer