DCAP GROUP INC/
Form 10QSB
November 13, 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 September 30, 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 October 31, 2003.

Transitional Small Business Disclosure Format (check one):

Yes ______ No X _______

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DCAP GROUP, INC. AND SUBSIDIARIES

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 expand our premium finance operations
- increases in interest rates which would adversely affect our premium finance margins
- 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 Quarterly 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)

	September 30, 2003
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,137,699
Accounts receivable, net of allowance for doubtful	

accounts of $58,190	1,174,360
Finance contracts receivable, net of deferred interest of $1,226,706 and allowance for doubtful accounts of $85,495	11,819,646
Prepaid expenses and other current assets	315,044
Deferred tax asset	200,000
Total current assets	14,646,749
PROPERTY AND EQUIPMENT, net	367,706
OTHER ASSETS:	
Goodwill	1,104,551
Other intangibles, net	369,519
Deposits and other assets	357,079
Total other assets	1,831,149
	$16,845,604
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 776,901
Premiums payable	5,830,101
Current portion of long-term debt	125,000
Current portion of capital lease obligations	47,187
Revolving loan	2,617,461
Deferred revenue	45,259
Debentures payable	154,200
Total current liabilities	9,596,109
LONG-TERM DEBT	3,860,000
CAPITAL LEASE OBLIGATIONS	8,047
DEFERRED REVENUE	21,321
MANDATORILY REDEEMABLE PREFERRED STOCK	904,000
STOCKHOLDERS' EQUITY:	
Common Stock, $.01 par value; authorized 40,000,000 shares; issued 16,068,018	160,680
Preferred Stock, $.01 par value; authorized 1,000,000 shares; 0 shares issued and outstanding	-
Capital in excess of par	10,389,409
Deficit	(7,165,307)
	3,384,782
Treasury Stock, at cost, 3,714,616	(928,655)
	2,456,127
	$16,845,604

See notes to condensed consolidated financial statements.

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

	Nine months ended September 30, 2003	Nine months ended September 30, 2002
Revenues:		
Commissions and fees	$ 4,600,853	$ 1,276,675
Premium finance revenue	1,074,406	855,668
Total revenues	5,675,259	2,132,343
Operating Expenses:		
Selling, general and administrative	4,675,907	1,690,345
Depreciation and amortization	165,189	95,803
Total operating expenses	4,841,096	1,786,148
Operating Income	834,163	346,195
Other (Expense) Income:		
Interest income	7,597	1,822
Interest expense	(137,613)	(44,193)
Interest expense - mandatorily redeemable preferred stock	(18,833)	-
Gain on sale of stores	89,700	-
Gain on sale of book of business	88,962	-
	29,813	(42,371)
Income before income taxes and minority interest	863,976	303,824
(Benefit) provision for income taxes	(182,922)	8,283
Income before minority interest	1,046,898	295,541
Minority interest	-	1,936
Income from continuing operations	1,046,898	293,605
Discontinued operations:		
(Loss) income from discontinued operations	(46,096)	49,438
Net income	$ 1,000,802	$ 343,043
Net income per common share:		
Basic:		
Income from continuing operations	$ 0.08	$ 0.03
(Loss) income from discontinued operations	(0.00)	0.00

Net income	$ 0.08	$ 0.03
Diluted:		
Income from continuing operations	$ 0.07	$ 0.03
(Loss) income from discontinued operations	(0.00)	0.00
Net income	$ 0.07	$ 0.03
Weighted average number of shares outstanding:		
Basic	12,353,402	11,474,281
Diluted	13,405,441	11,656,367

See notes to condensed consolidated financial statements.

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

	Three months ended September 30,	
	2003	2002
Revenues:		
Commissions and fees	$ 1,585,191	$ 577,440
Premium finance revenue	377,134	428,572
Total revenues	1,962,325	1,006,012
Operating Expenses:		
Selling, general and administrative	1,732,745	702,057
Depreciation and amortization	90,271	36,063
Total operating expenses	1,823,016	738,120
Operating Income	139,309	267,892
Other (Expense) Income:		
Interest income	2,794	624
Interest expense	(103,819)	(15,293)
Interest expense - mandatorily redeemable preferred stock	(11,041)	-
Gain on sale of book of business	88,962	-
	(23,104)	(14,669)
Income before income taxes and minority interest	116,205	253,223
(Benefit) provision for income taxes	(188,586)	7,860

Income from continuing operations	304,791	245,363
Discontinued operations:		
Income from discontinued operations	-	10,381
Net income	$ 304,791	$ 255,744
Net income per common share:		
Basic:		
Income from continuing operations	$ 0.02	$ 0.02
Income from discontinued operations	0.00	0.00
Net income	$ 0.02	$ 0.02
Diluted:		
Income from continuing operations	$ 0.02	$ 0.02
Income from discontinued operations	0.00	0.00
Net income	$ 0.02	$ 0.02
Weighted average number of shares outstanding:		
Basic	12,353,402	11,712,098
Diluted	14,058,179	12,105,812

See notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net income	$ 1,000,802	$ 343,
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	165,189	107,
Provision for bad debts	42,098	8,
Gain on sale of stores	(89,700)	
Gain on sale of book of business	(88,962)	
Deferred income tax benefit	(200,000)	
Minority interest	-	1,
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Finance contracts receivable	(11,819,646)	

Accounts receivable	(478,848)	(67,
Prepaid expenses and other current assets	(222,475)	7,
Deposits and other assets	(82,745)	(5,
Increase (decrease) in liabilities:		
Premiums payable	5,830,101	
Accounts payable and accrued expenses	91,107	(80,
Deferred revenue	(25,296)	(23,
Net cash (used in) provided by operating activities	(5,878,375)	292,
Cash flows from investing activities:		
Decrease in notes receivable - net	19,441	4,
Acquisition costs on purchase of AIA stores	(39,039)	
Proceeds from disposition of discontinued subsidiary	500,000	
Proceeds on sale of DCAP stores	141,383	
Proceeds on sale of book of business	112,925	
Purchase of property and equipment	(74,535)	(10,
Acquisition of Barry Scott Companies	-	(325,
Acquisition of minority interest	-	(40,
Proceeds from sale of property and equipment	-	36,
Net cash provided by (used in) investing activities	660,175	(333,
Cash flows from financing activities:		
Principal payment of long-term debt and capital lease obligations	(368,965)	(84,
Proceeds from long-term debt	3,500,000	
Proceeds from revolving loan	3,387,479	
Payments on revolving loan	(770,018)	
Proceeds from private placement	-	500,
Decrease in due to officer	-	(33,
Net cash provided by financing activities	5,748,496	381,
Net increase in cash and cash equivalents	530,296	339,
Cash and cash equivalents, beginning of period	607,403	220,
Cash and cash equivalents, end of period	$1,137,699	$ 560,

See notes to condensed consolidated financial statements.

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DCAP GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002 (UNAUDITED)

1. The Condensed Consolidated Balance Sheet as of September 30, 2003, the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2003 and 2002 and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 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 September 30, 2003, results of operations for the

three and nine months ended September 30, 2003 and 2002 and cash flows for the nine months ended September 30, 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 nine months ended September 30, 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.

Prior to July 14, 2003, premium financing fee revenue was earned based upon the origination of premium finance contracts sold by agreement to third parties. The contract fee gave consideration to an estimate as to the collectability of the loan amount. Periodically, actual results were compared to estimates previously recorded, and adjusted accordingly.

On July 14, 2003, we changed our business model with respect to our premium finance operations from selling finance contracts to third parties to internally financing those contracts. To accomplish this, we obtained a credit facility and commenced recording interest and fee-based revenue over the life of each loan (generally 10 or 11 months) and expenses of operating a finance company, such as servicing, bad debts and interest expense. Thus, rather than recording a one-time fee per contract (as we did prior to July 14, 2003), we are now recording income and expense over the life of each contact, as well as receivables and payables relating to the operations of a premium finance company. We are using the interest method to recognize interest income over the life of each loan in accordance with Statement of Financial Accounting Standard No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

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 $40,500 and -0- in such costs was incurred during the nine months ended September 30, 2003 and 2002, respectively.

d. Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the nine months ended September 30, 2002 to conform with the classifications used for the nine months ended September 30, 2003.

3. Acquisition of AIA Acquisition Corp.

On May 28, 2003, we acquired, effective May 1, 2003, substantially all of the assets of AIA Acquisition Corp. ("AIA"), an insurance brokerage firm with six offices located in Eastern Pennsylvania for a base purchase price of $904,000. The base purchase price was payable with 904 shares of our Series A Preferred Stock. The Series A Preferred Stock carries a 5% dividend, is convertible into our Common Stock at a conversion price of $.50 per share and is redeemable on April 30, 2007 (or sooner under certain circumstances). Additional cash consideration based upon the EBITDA of the combined operations of AIA and our wholly-owned subsidiary, Barry Scott Companies, Inc., during the five year period ending April 30, 2008 may be payable. The additional consideration cannot exceed an aggregate of $335,000. The AIA insurance agencies derive substantially all of their income from commissions and fees associated with the sale of automobile insurance. The acquisition allows for the expansion of our geographical footprint outside New York State and allows for us to capitalize on operational and administrative efficiencies.

On May 28, 2003, we entered into a two year employment contract with a former employee of AIA.

The goodwill amount recorded at May 1, 2003 is comprised of the following: (i) the excess of the purchase price over the tangible net assets and identified intangibles acquired; and (ii) the estimated direct transaction costs associated with the acquisition.

Our condensed consolidated statements of operations include the revenues and expenses of AIA from May 1, 2003.

The following pro forma results were developed assuming the acquisition of AIA had occurred on January 1, 2002:

	Nine months ended September 30, 2003	Nine months ended September 30, 2002
Revenues	$6,088,303	$3,110,159
Income from continuing operations	1,058,119	364,962
Income from continuing operations per share	0.09	0.03

The above unaudited pro forma condensed financial information is presented for illustrative purposes only and is not necessarily indicative of the condensed consolidated results of operations that actually would have been realized had we and AIA been a combined company during the specified periods.

4. 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.

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 nine months ended September 30, 2003 and 2002.

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

Nine Months Ended September 30, 2003	Insurance	Premium Finance	Other(1)	Total
Revenues from external customers	$4,600,853	$ 1,074,406	-	$ 5,675,259
Interest income	1,223	-	6,374	7,597
Interest expense	63,795	92,651	-	156,446
Depreciation and amortization	118,848	46,341	-	165,189
Segment profit (loss)	795,501	604,361	(352,964)	1,046,898
Segment assets	3,046,295	12,598,948	1,200,361	16,845,604

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

Nine Months Ended September 30, 2002	Insurance	Premium Finance	Other(1)	Total
Revenues from external customers	$1,276,675	$855,668	-	$2,132,343
Interest income	1,534	-	288	1,822
Interest expense	44,193	-	-	44,193
Depreciation and amortization	95,803	-	-	95,803
Segment (loss) profit	(29,814)	669,741	(346,322)	293,605
Segment assets	2,000,784	250,464	366,029	2,617,277

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

5. Stock Options

We have elected the disclosure only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 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 nine months ended September 30, 2003 and 2002 consistent with the provisions of SFAS 123, our net income and net income per share would have been adjusted as follows:

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Net income, as reported	$1,000,802	$343,043
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	59,000	352,000
Pro forma net income (loss)	$ 941,802	$ (8,957)
Net income (loss) per share:		
Basic -as reported	$ 0.08	$ 0.03
Basic -pro forma	$ 0.08	$ (0.00)
Diluted- as reported	$ 0.07	$ 0.03
Diluted- pro forma	$ 0.07	$ (0.00)

6. Sale of Stores and Book of Business

During the nine months ended September 30, 2003, we sold two of our retail offices (part of our Insurance segment) and the book of business relating to one store for cash consideration aggregating approximately $254,000 and a note receivable of approximately $97,000. These sales resulted in a gain of approximately $178,000. The assets included accounts receivable of approximately $97,000, goodwill with a carrying amount of $57,000, and fixed assets with a carrying amount of approximately $10,000. In addition, concurrently with the sale of the two retail stores, the purchasers entered into franchise agreements with us.

7. Income Taxes

Our tax benefit for the three and nine months ended September 30, 2003 reflects the anticipated utilization of net operating loss carryforwards that had previously been fully reserved. We also reversed approximately 50% of the valuation allowance relating to the net operating loss carryforward not subject to Internal Revenue Code Section 382.

8. Credit Facilities:

In July, 2003, in connection with our premium finance operations, we obtained an $18,000,000 revolving line of credit from Manufacturers and Traders Trust Co. ("M&T") that is due in July, 2005. Interest on this line is payable at the rate of prime plus 1.5%. Concurrently, we obtained a $3,500,000 secured subordinated loan, that is repayable in January, 2006 and carries interest at the rate of 12-5/8% per annum. In connection with the

$3,500,000 debt financing, we issued warrants for the purchase of 525,000 shares of our Common Stock at an exercise price of $1.25 per share. The warrants expire on January 10, 2006. The fair value of the warrants has been capitalized as loan origination costs, and is being charged to operations over the life of the loan.

The loan agreement with M&T required Barry Goldstein, our Chairman and CEO, to personally guaranty the repayment of $2,500,000 of the loans made by M&T. In consideration of this guaranty, we agreed to pay to Mr. Goldstein $50,000 per annum while the guaranty is outstanding.

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

NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

Results of Operations

Our net income for the nine months ended September 30, 2003 was $1,000,802 as compared to $343,043 for the nine months ended September 30, 2002.

During the nine months ended September 30, 2003, revenues from our insurance-related operations were $4,600,853 as compared to $1,276,675 for the nine months ended September 30, 2002. The increase in revenues was generally due to revenues from the Barry Scott Companies, Inc., which we acquired on August 30, 2002, and AIA Acquisition Corp. whose assets we acquired effective May 1, 2003.

Premium finance revenues increased $218,738 during the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002 as indicated by the following table:

	2003	2002
Revenue from sale of receivables	$ 683,497	$855,668
Interest and late fee revenue	390,909	0

Total	$1,074,406	$855,668

This increase was primarily the result of higher average premiums being financed during the first two quarters of 2003. On July 14, 2003, we changed our business model with respect to our premium finance operations from selling finance contracts to third parties to internally financing those contracts. To accomplish this, we obtained an $18,000,000 two-year line of credit from Manufacturers and Traders Trust Company ("M&T") to finance our premium finance operations. Concurrently, we obtained $3,500,000 in funding from a private placement of subordinated debt and warrants to support our premium finance operations. On July 14, 2003, we began utilizing these credit facilities and commenced recording interest and fee-based revenue over the life of each loan (generally 10 or 11 months) and expenses of operating a finance company, such as servicing, bad debts and interest expense. Thus, rather than recording a one-time fee per contract (as we did prior to July 14, 2003), we are now recording income and expense over the life of each contract. This resulted in a reduction in premium finance revenue in the third quarter of 2003 as compared to the third quarter of 2002 and the second quarter of 2003 and partially offset the increases from the initial two quarters of 2003. It will take approximately four months of operations under the new method to realize the same income as the previous method.

Our selling, general and administrative expenses for the nine months ended September 30, 2003 were $2,985,562 more than for the nine months ended September 30, 2002. This increase was primarily due to the expenses of the Barry Scott Companies acquired on August 30, 2002 and AIA Acquisition Corp. whose assets were acquired effective May 1, 2003.

Our depreciation and amortization expense and our interest expense for the nine months ended September 30, 2003 were $69,386 and $93,420 more, respectively, than for the nine months ended September 30, 2002. The increases were primarily the result of our recording amortization of costs associated with obtaining the financing discussed above as well as the interest expense incurred thereon.

During the nine months ended September 30, 2003, we issued redeemable Preferred Stock in connection with the acquisition of the assets of AIA Acquisition Corp. and incurred interest expense of $18,833. No Preferred Stock was outstanding during the nine months ended September 30, 2002.

During the nine months ended September 30, 2003, we sold two of our stores and the book of business relating to one store, resulting in a gain of $178,662. No such sales occurred during the nine months ended September 30, 2002.

Our tax benefit for the nine months ended September 30, 2003 was $182,922 as opposed to a tax provision of $8,283 for the nine months ended September 30, 2002. The difference represents the reversal of approximately 50% of the valuation allowance relating to certain net operating loss carryforwards previously reserved.

Our insurance-related operations, on a stand-alone basis, generated a net profit of $795,501 during the nine months ended September 30, 2003 as compared to a loss of $29,814 during the nine months ended September 30, 2002. Our premium finance operations, on a stand-alone basis, generated a net profit of $604,361 during the nine months ended September 30, 2003 as compared to a net profit of $669,741 during the nine months ended September 30, 2002. Losses from corporate-related items not allocable to reportable segments were $352,964 during the nine months ended September 30, 2003 as compared to $346,322 during the nine months ended September 30, 2002.

In January 2003, we discontinued the operations of the International Airport Hotel in San Juan, Puerto Rico. During the nine months ended September 30, 2003, this discontinued operation generated a net loss of $46,096 as compared to a net profit of $49,438 during the nine months ended September 30, 2002.

Liquidity and Capital Resources

As of September 30, 2003, we had $1,137,699 in cash and cash equivalents and working capital of $5,050,640. As of December 31, 2002, we had $607,403 in cash and cash equivalents and working capital of $904,232.

During the nine months ended September 30, 2003, our cash and cash equivalents increased by $530,296. This was due to the following:

- We received loan proceeds of $6,887,479, and made payments due on these obligations and capital lease payments aggregating $1,138,983, resulting in a net increase of $5,748,496 from our financing activities.
- We disposed of our Hotel segment for $500,000, as well as certain other assets, resulting in an increase in cash from investing activities of $660,175.
- We used net cash of $5,878,375 in our operating activities. This was primarily due to an increase in our finance contracts receivable of $11,819,646, offset by an increase in premiums payable of $5,830,101 and our net income for the period of $1,000,802.

Item 3. CONTROLS AND PROCEDURES

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 were effective as of September 30, 2003 in alerting him in a timely manner to material information required to be included in our SEC reports. In addition, no change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On July 10, 2003, we borrowed an aggregate of $3,500,000 from lenders (collectively, the "Lenders") in a private offering of secured subordinated debt. In connection with the borrowing, we issued warrants to the Lenders for the purchase of an aggregate of 525,000 shares of our Common Stock (collectively, the "Warrants"). The Warrants are exercisable through January 10, 2006 at an exercise price of $1.25 per share.

The above offering of Warrants was exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) thereof as a transaction not involving any public offering. We reached this determination based on the following: (i) each of the Lenders represented that it was an "accredited investor"; (ii) each represented that it acquired the Warrants for its own account; (iii) the certificate representing the Warrants bears a restrictive legend permitting transfer only upon the registration of the Warrants or pursuant to an exemption from such registration requirements; and (iv) we did not offer or sell the Warrants by any form of general solicitation or general advertising.

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 amended1

3(b) By-laws, as amended1

31 Rule 13a-14(a)/15d-14(a) Certification as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002

32 Certification of the 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.

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(b) Reports on Form 8-K

Four Current Reports on Form 8-K were filed by us during the quarter ended September 30, 2003 as follows:

(i)	Date of Report:	July 7, 2003
	Items reported:	5 and 7
(ii)	Date of Report:	July 14, 2003
	Items reported:	5 and 7
(iii)	Date of Report:	May 28, 2003 (Amendment)
	Item reported:	7
(iv)	Date of Report:	August 7, 2003
	Items reported:	7 and 12

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: November 12, 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)