

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

DCAP GROUP INC/
Form 10QSB
August 06, 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 June 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 (I.R.S Employer
Incorporation or Organization) 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 July 31, 2003.

Transitional Small Business Disclosure Format (check one):

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

Yes No X
----- -----

INDEX

DCAP GROUP, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheet - June 30, 2003 (Unaudited)

Condensed Consolidated Statements of Operations - Six months ended June 30, 2003 and 2002 (Unaudited)

Condensed Consolidated Statements of Operations - Three months ended June 30, 2003 and 2002 (Unaudited)

Condensed Consolidated Statements of Cash Flows - Six months ended June 30, 2003 and 2002 (Unaudited)

Notes to Condensed Consolidated Financial Statements - Six months ended June 30, 2003 and 2002 (Unaudited)

Item 2. Management's Discussion and Analysis or Plan of Operation

Item 3. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

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

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

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:

- o our ability to obtain the necessary level of financing to expand our premium finance operations
- o increases in interest rates which would adversely affect our premium finance margins
- o the decline in the number of insurance companies offering insurance products in our markets
- o the volatility of insurance premium pricing
- o government regulation
- o competition from larger, better financed and more established companies
- o the possibility of tort reform and a resultant decrease in the demand for insurance
- o the dependence on our executive management
- o 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)

June 30, 2003

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$1,081,820
Accounts receivable, net of allowance for doubtful accounts of \$43,000	1,083,750
Notes receivable	40,254
Prepaid expenses and other current assets	228,600

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

Total current assets	2,434,424

PROPERTY AND EQUIPMENT, net	342,378

OTHER ASSETS:	
Goodwill	1,111,551
Other intangibles, net	395,578
Deposits and other assets	32,704
Note receivable	52,523

Total other assets	1,592,356

	\$4,369,158
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$ 625,703
Current portion of long-term debt	7,646
Current portion of capital lease obligations	47,187
Deferred revenue	59,474
Debentures payable	154,200

Total current liabilities	894,210

LONG-TERM DEBT	525,000

CAPITAL LEASE OBLIGATIONS	20,152

DEFERRED REVENUE	21,460

MANDATORILY REDEEMABLE PREFERRED STOCK	904,000

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	(7,470,098)

Treasury Stock, at cost, 3,714,616	2,932,991
	(928,655)

	2,004,336

	\$4,369,158
	=====

See notes to condensed consolidated financial statements.

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

(UNAUDITED)

	Six months ended June 30,	
	2003	2002
Revenues:		
Commissions and fees	\$ 3,015,662	\$ 699,235
Premium finance revenue	697,272	427,096
Total revenues	3,712,934	1,126,331
Operating Expenses:		
Selling, general and administrative	2,943,162	988,288
Depreciation and amortization	74,918	59,740
Total operating expenses	3,018,080	1,048,028
Operating Income:	694,854	78,303
Other (Expense) Income:		
Interest income	4,803	1,198
Interest expense	(33,794)	(28,900)
Interest expense - mandatorily redeemable preferred stock	(7,792)	-
Gain on sale of stores	89,700	-
	52,917	(27,702)
Income before income taxes and minority interest	747,771	50,601
Provision for income taxes	5,664	423
Income before minority interest	742,107	50,178
Minority interest	-	1,936
Income from continuing operations	742,107	48,242
Discontinued operations:		
(Loss) income from discontinued operations	(46,096)	39,057
Net income	\$ 696,011	\$ 87,299
Net income per common share:		
Basic:		
Income from continuing operations	\$ 0.06	\$ 0.01
(Loss) income from discontinued operations	(0.00)	0.00
Net income	\$ 0.06	\$ 0.01
Diluted:		
Income from continuing operations	\$ 0.05	\$ 0.01
(Loss) income from discontinued operations	(0.00)	0.00
Net income	\$ 0.05	\$ 0.01

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

	=====	=====
Weighted average number of shares outstanding:		
Basic	12,353,402	11,353,402
	=====	=====
Diluted	13,079,072	11,429,673
	=====	=====

See notes to condensed consolidated financial statements.

5

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

	Three months ended June 30,	
	2003	2002
	-----	-----
Revenues:		
Commissions and fees	\$ 1,554,247	\$ 335,871
Premium finance revenue	349,795	256,270
	-----	-----
Total revenues	1,904,042	592,141
	-----	-----
Operating Expenses:		
Selling, general and administrative	1,535,865	501,239
Depreciation and amortization	38,599	29,461
	-----	-----
Total operating expenses	1,574,464	530,700
	-----	-----
Operating Income:	329,578	61,441
Other (Expense) Income:		
Interest income	3,455	590
Interest expense	(16,534)	(12,230)
Interest expense - mandatorily redeemable preferred stock	(7,792)	-
	-----	-----
	(20,871)	(11,640)
	-----	-----
Income before income taxes and minority interest	308,707	49,801
Provision for (benefit from) income taxes	809	(252)
	-----	-----
Income before minority interest	307,898	50,053
Minority interest	-	3,753
	-----	-----
Income from continuing operations	307,898	46,300
Discontinued operations:		
Income from discontinued operations	-	12,669
	-----	-----

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

Net income	\$ 307,898	\$ 58,969
	=====	=====
Net income per common share:		
Basic:		
Income from continuing operations	\$ 0.02	\$ 0.01
Income from discontinued operations	0.00	0.00
	-----	-----
Net income	\$ 0.02	\$ 0.01
	=====	=====
Diluted:		
Income from continuing operations	\$ 0.02	\$ 0.01
Income from discontinued operations	0.00	0.00
	-----	-----
Net income	\$ 0.02	\$ 0.01
	=====	=====
Weighted average number of shares outstanding:		
Basic	12,353,402	11,353,402
	=====	=====
Diluted	13,234,215	11,505,944
	=====	=====

See notes to condensed consolidated financial statements.

6

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

	Six months ended June 30,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net income	\$ 696,011	\$ 87,2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,918	67,4
Provision for bad debts	27,029	1,2
Gain on sale of stores	(89,700)	
Minority interest	-	1,9
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(375,923)	19,7
Prepaid expenses and other current assets	(44,945)	(13,2
Deposits and other assets	(1,954)	1,2
Decrease in liabilities:		
Accounts payable and accrued expenses	(60,091)	(44,3
Deferred revenue	(10,942)	(20,6
	-----	-----
Net cash provided by operating activities	214,403	100,6

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

Cash flows from investing activities:		
Decrease (increase) in notes receivables - net	35,966	(9,300)
Cost of acquisition of AIA Acquisition Corp.	(39,039)	
Receipts against notes receivable	2,786	
Proceeds from disposition of discontinued subsidiary	500,000	
Proceeds from sale of DCAP stores	141,383	
Purchase of property and equipment	(71,868)	(9,300)
	569,228	(10,300)
 Cash flows from financing activities:		
Principal payment of long-term debt and capital lease obligations	(309,214)	(54,500)
	(309,214)	(54,500)
 Net increase in cash and cash equivalents	474,417	35,700
Cash and cash equivalents, beginning of period	607,403	220,700
	\$ 1,081,820	\$ 256,500

See notes to condensed consolidated financial statements.

7

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

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

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

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 \$23,549 and -0- in such costs was incurred during the six months ended June 30, 2003 and 2002, respectively.

8

d. Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the six months ended June 30, 2002 to conform with the classifications used for the six months ended June 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

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

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:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues	\$2,024,900	\$888,561	\$4,125,978	\$1,737,885
Income from				
continuing operations	321,737	50,620	752,812	59,134
Income from continuing operations per share	0.03	0.01	0.06	0.01

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.

9

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. 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 six months ended June 30, 2003 and 2002.

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

Six Months Ended June 30, 2003	Insurance	Premium Finance	Other(1)	Total

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

Revenues from external customers	\$3,015,662	\$697,272	\$ -	\$3,712,934
Interest income	1,223	-	3,580	4,803
Interest expense	41,586	-	-	41,586
Depreciation and amortization	74,138	780	-	74,918
Segment profit (loss)	626,487	525,266	(409,646)	742,107
Segment assets	3,236,120	209,038	924,000	4,369,158

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

Six Months Ended June 30, 2002	Insurance	Premium Finance	Other(1)	Total
-----	-----	-----	-----	-----
Revenues from external customers	\$699,235	\$427,096	\$ -	\$1,126,331
Interest income	1,003	-	195	1,198
Interest expense	28,900	-	-	28,900
Depreciation and amortization	59,740	-	-	59,740
Segment (loss) profit	(41,120)	304,984	(215,622)	48,242
Segment assets	780,670	104,216	312,841	1,197,727

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

10

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 six months ended June 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:

	Six Months Ended June 30,	
	2003	2002
	----	----
Net income, as reported	\$696,011	\$87,299
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(30,000)	(48,000)
	-----	-----
Pro forma net income	\$666,011	\$39,299
	=====	=====
Net income per share:		

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

Basic -as reported	\$ 0.06	\$ 0.01
	-----	-----
Basic -pro forma	\$ 0.05	\$ 0.00
	-----	-----
Diluted- as reported	\$ 0.05	\$ 0.01
	-----	-----
Diluted- pro forma	\$ 0.05	\$ 0.00
	-----	-----

6. Sale of Stores

During the six months ended June 30, 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 and six months ended June 30, 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 and six months ended June 30, 2003.

11

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

SIX MONTHS ENDED JUNE 30, 2003 AND 2002

Results of Operations

Our net income from continuing operations for the six months ended June 30, 2003 was \$742,107 as compared to \$48,242 for the six months ended June 30, 2002.

During the six months ended June 30, 2003, revenues from our insurance related operations were \$3,015,662 as compared to \$699,235 for the six months ended June 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 \$270,176 during the six months ended June 30, 2003 as compared to the six months ended June 30, 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 by Flatiron Credit Company, Inc ("Flatiron"), the premium finance agency that was purchasing our premium finance receivables, that it would no longer do so after July 30, 2003. On July 14, 2003, 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.

During the second quarter of 2003, Flatiron required us to cease doing premium finance business with a group of insurance agencies that generated a

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

high percentage of bad debts. As a result, the number of contracts and the resulting revenue attendant to those contracts were not realized.

On July 14, 2003, we began utilizing the above mentioned credit facilities. We have 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 in connection with our Flatiron relationship), we are now recording income and expense over the life of each contract. As a result, although our revenue per contract will increase, since the revenue will be recognized over a longer period of time, in all likelihood there will be a short-term decline in our premium finance revenue.

Our selling, general and administrative expenses for the six months ended June 30, 2003 were \$1,954,874 more than for the six months ended June 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.

During the six months ended June 30, 2003, we issued redeemable Series A Preferred Stock in connection with the acquisition of the assets of AIA Acquisition Corp. and incurred interest expense of \$7,792. No Preferred Stock was outstanding during the six months ended June 30, 2002.

During the six months ended June 30, 2003, we sold two of our stores, resulting in a gain of \$89,700. No such sales occurred during the six months ended June 30, 2002.

12

Our insurance-related operations, on a stand-alone basis, generated a net profit of \$626,487 during the six months ended June 30, 2003 as compared to a loss of \$41,120 during the six months ended June 30, 2002. Our premium finance operations, on a stand-alone basis, generated a net profit of \$525,266 during the six months ended June 30, 2003 as compared to a net profit of \$304,984 during the six months ended June 30, 2002. Losses from corporate-related items not allocable to reportable segments were \$409,646 during the six months ended June 30, 2003 as compared to \$215,622 during the six months ended June 30, 2002.

In January 2003, we discontinued the operations of the International Airport Hotel in San Juan, Puerto Rico. During the six months ended June 30, 2003, this discontinued operation generated a net loss of \$46,096 as compared to a net profit of \$39,057 during the six months ended June 30, 2002.

Liquidity and Capital Resources

As of June 30, 2003, we had \$1,081,820 in cash and cash equivalents and working capital of \$1,540,214. 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 June 30, 2003 primarily due to (i) net cash of \$569,228 from investing activities for the six months ended June 30, 2003 based on proceeds of \$500,000 from the disposition of our Hotel segment and \$141,383 from the sale of stores and (ii) net cash of \$214,403 provided by operating activities for the six months ended June 30, 2003 based on our net income of \$696,011 and depreciation and amortization of \$74,918 for the period, offset by an increase in current assets of \$422,822, a decrease in current liabilities of \$71,033, and the gain on the sale of stores of \$89,700, offset by (iii) cash of \$309,214 used in financing activities for principal payments of long-term debt and capital lease

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

obligations.

In connection with our May 2003 acquisition of AIA Acquisition Corp., we issued Series A Preferred Stock valued at \$904,000. 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).

As indicated above, in July 2003, in order to finance our premium finance operations, we obtained a variable rate two-year line of credit of \$18,000,000 from M&T and \$3,500,000 from a private placement of subordinated debt and warrants. The subordinated debt is payable on January 10, 2006 and provides for interest at the rate of 12.625% per annum, payable semi-annually. We have the right to prepay the subordinated debt commencing on July 10, 2004.

Liquidity at June 30, 2003 was sufficient, in the opinion of management, to meet our cash requirements for the 12 month period ending June 30, 2004.

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 June 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 June 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

13

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On May 28, 2003, through an indirect wholly-owned subsidiary, we acquired substantially all of the assets of AIA Acquisition Corp. ("AIA"). The base purchase price of \$904,000 was payable by the delivery of 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 mandatorily redeemable on April 30, 2007 (or sooner under certain circumstances).

The above offering of shares 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) AIA represented that it was either an "accredited investor" or that it had such knowledge and experience in financial and business matters that it was capable of evaluating the merits and risks of an investment in the Series A Preferred Stock; (ii) it acquired the shares for its own

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

account; (iii) the certificate representing the shares bears a restrictive legend permitting transfer only upon the registration of the shares or pursuant to an exemption from such registration requirements; and (iv) we did not offer or sell the shares 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

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.

14

Section 302 of the Sarbanes Oxley Act of 2002

32 Certification 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

(b) Reports on Form 8-K

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

(i)	Date of Report:	April 29, 2003
	Item reported:	4
(ii)	Date of Report:	May 27, 2003
	Items reported:	7, 9
(iii)	Date of Report:	May 28, 2003
	Items reported:	2, 7
(iv)	Date of Report:	June 11, 2003
	Items reported:	5, 7

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: August 6, 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)