DCAP GROUP INC/
Form 10QSB
May 15, 2002

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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)	(Zip Code)

(516) 374-7600
(Registrant's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (X) Yes ( ) No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities

Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ( )Yes ( ) No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 11,353,402 shares as of April 30, 2002

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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 risks and uncertainties associated with undertaking different lines of business, the lack of experience in operating certain new business lines, 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 uncertainty of litigation with regard to our hotel lease, the dependence on our executive management, our ability to continue to obtain the necessary financing to operate our premium finance business, and our ability to raise additional capital which may be required in the near term. 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, DCAP Insurance Agencies, 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, 2002
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 240,118
Due from franchises, net of allowance for doubtful accounts of $53,000	183,690
Note receivable from former officer	39,590
Prepaid expenses and other current assets	25,045
Total current assets	448,443

PROPERTY AND EQUIPMENT, net	345,093
OTHER ASSETS:	
Goodwill	75,000
Other intangibles, net	220,911
Deposits and other assets	43,589
Total other assets	339,500
	$ 1,173,036
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 663,138
Current portion of long-term debt	21,097
Current portion capital lease obligations	79,973
Deferred revenue	74,883
Debentures payable	154,200
Due to officer	66,666
Total current liabilities	1,059,957
LONG-TERM DEBT	176,080
CAPITAL LEASE OBLIGATIONS	104,726
DEFERRED REVENUE	29,952
MINORITY INTEREST	7,105
STOCKHOLDERS' DEFICIT:	
Common Stock, $.01 par value; authorized 25,000,000 shares; issued 15,068,018 shares	150,680
Preferred Stock, $.01 par value; authorized 1,000,000 shares; 0 shares issued and outstanding	-
Capital in excess of par	9,752,409
Deficit	(9,183,786)
	719,303
Treasury Stock, at cost, 3,714,616 shares	(928,655)
	(209,352)
	$ 1,173,036

See notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2002	2001

Revenues:		
Commissions and fees	$ 363,364	$ 878,474
Rooms	210,961	272,136
Premium finance revenue	170,826	8,143
Other	3,623	6,392
Total revenues	748,774	1,165,145
Operating Expenses:		
General and administrative	600,853	1,252,084
Depreciation and amortization	34,138	94,683
Marketing	60,601	439,862
Property operation and maintenance	9,825	16,378
Total operating expenses	705,417	1,803,007
Operating Income (Loss):	43,357	(637,862)
Other (Expense) Income:		
Interest income	1,098	8,743
Interest expense	(16,670)	(23,259)
Gain on sale of store	-	56,043
	(15,572)	41,527
Income (loss) before income taxes and minority interest	27,785	(596,335)
Provision for income taxes	1,272	17,921
Income (loss) before minority interest	26,513	(614,256)
Minority interest	(1,817)	(1,312)
Net income (loss)	$ 28,330	$ (612,944)
Net income (loss) per common share:		
Basic	$ .00	$ (.04)
Diluted	$ .00	$ (.04)
Weighted average number of shares outstanding:		
Basic	11,353,402	15,068,018
Diluted	11,353,402	15,068,018

See notes to condensed consolidated financial statements.

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

(UNAUDITED)

	Three months ended March 31, 2002	2001
Cash flows from operating activities:		
Net income (loss)	$ 28,330	$(612,944)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	34,138	97,126
Forgiveness of note receivable	0	141,454
Provision for bad debts	867	600
Minority interest in net loss	(1,817)	(1,312)
Gain on sale of store	0	(56,043)
Decrease (increase) in assets:		
Accounts receivable	41,382	(98,331)
Prepaid expenses and other current assets	11,710	(3,499)
Deposits and other	0	34,250
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(69,923)	67,467
Deferred revenue	(22,294)	20,300
Net cash provided by (used in) operating activities	22,393	(410,932)
Cash flows from investing activities:		
(Increase) in notes and other receivables	(495)	(633)
Acquisition of property and equipment	(9,332)	0
Proceeds from sale of store	0	104,976
Net cash (used in) provided by investing activities	(9,827)	104,343
Cash flows from financing activities:		
Principal payment of long-term debt and capital lease obligations	(26,555)	(56,345)
Increase in due to officer	33,333	0
Net cash provided by (used in) financing activities	6,778	(56,345)
Net increase (decrease) increase in cash and cash equivalents	19,344	(362,934)
Cash and cash equivalents, beginning of period	220,774	759,309
Cash and cash equivalents, end of period	$240,118	$396,375

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2002 AND 2001 (UNAUDITED)

1. The Condensed Consolidated Balance Sheet as of March 31, 2002, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2002 and 2001 and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2002 and 2001 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, 2002, results of operations for the three months ended March 31, 2002 and 2001 and cash flows for the three months ended March 31, 2002 and 2001. This report should be read in conjunction with our Annual Report on Form 10-KSB for the year ended December 31, 2001.

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, on income tax preparation when services are completed, 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.

Revenues from room sales are recorded at the time services are performed.

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. No costs were incurred during the three months ended March 31, 2002.

d. Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the three months ended March 31, 2001 to conform with the classifications used for the three months ended March 31, 2002.

3. The results of operations and cash flows for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

4. Segment and Related Information. We have three reportable business segments: Insurance, Premium Finance and Hotel. 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. The Premium Finance segment offers property and casualty policyholders loans to finance the policy premiums. The Hotel segment operates the International Airport Hotel in San Juan, Puerto Rico. The Hotel caters generally to commercial and tourist travelers in transit.

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

Period Ended March 31, 2002	Insurance	Premium Finance	Hotel	Other(1)	Total
Revenues from external customers	$363,364	$170,826	$214,584	$ -	$ 748,774
Interest income	-	-	490	608	1,098
Interest expense	16,670	-	-	-	16,670
Depreciation and amortization	30,279	-	3,859	-	34,138
Segment (loss) profit	(19,466)	123,225	26,388	(101,817)	28,330
Segment assets	782,203	69,899	265,863	55,071	1,173,036

(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, 2001	Insurance	Premium Finance	Hotel	Other(1)	Total
Revenues from external customers	$ 878,474	$ 8,143	$278,528	$ -	$1,165,145
Interest income	-	-	-	8,743	8,743
Interest expense	23,259	-	-	-	23,259
Depreciation and amortization	91,477	-	3,206	-	94,683
Segment (loss) profit	(565,868)	7,823	53,787	(108,686)	(612,944)
Segment assets	2,474,251	32,488	322,512	308,927	3,138,178

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

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

THREE MONTHS ENDED MARCH 31, 2002 AND 2001

Results of Operations

Our net income for the three months ended March 31, 2002 was $ 28,330 as compared to a net loss of $612,944 for the three months ended March 31, 2001.

During the three months ended March 31, 2002, revenues from our DCAP Insurance operations were $363,364 as compared to $878,474 during the three months ended March 31, 2001. The decline in revenues from our insurance-related operations was generally due to the sale (and conversion to franchise status) of eight DCAP offices effective as of March 28, 2001. Since there have been no additional sales or closures of DCAP offices since that date, we do not anticipate that revenues from our insurance-related operations will substantially decline further over the balance of 2002. However, based on the conversion to franchise status for the eight DCAP offices sold in March 2001 and the commencement of their franchise fee obligation in April 2002, monthly franchise fees are anticipated to increase during 2002.

Premium finance revenues increased $162,683 during the quarter ended March 31, 2002 as compared to the quarter ended March 31, 2001. This increase was the result of (i) our renegotiation in June 2001 of our agreement regarding the sale of premium finance receivables that has given rise to increased revenues per transaction, (ii) an increase in the number of franchises utilizing our premium finance services, and (iii) an expansion of our premium finance marketing efforts to non- DCAP insurance agencies.

Hotel revenues decreased approximately $64,000 Hotel revenues decreased approximately $64,000 between the three months ended March 31, 2001 and 2002 primarily due to the decline in air traffic following the terrorist attack of September 11, 2001.

Our general and administrative expenses for the three months ended March 31, 2002 were $651,231 less than for the comparable quarter in 2001. In addition, our marketing expenses for the first quarter of 2002 were $379,261 less than for the comparable period in 2001. These decreases were primarily due to the sale of stores discussed above. Further, our depreciation and amortization expenses decreased $60,545 between the three months ended March 31, 2001 and 2002 primarily due to the sale of the stores, a write-off of goodwill as a result of the store sales, and a write off of fixed assets during the fourth quarter of 2001.

Our DCAP Insurance operations during the three months ended March 31, 2002, on a stand-alone basis, generated a net loss of $19,466 as compared to a net loss of $565,868 for the three months ended March 31, 2001 (after giving effect to a gain of $56,043 on the sale of our ownership interest in a DCAP store). Our premium finance operations during the three months ended March 31, 2002, on a stand-alone basis, generated a net profit of $123,225, as compared to a net profit of $7,823 during the comparable period in 2001. The operations of the hotel during the three months ended March 31, 2002, on a stand-alone basis, generated net income of $26,388 as compared to a net income of $53,787 for the three months ended March 31, 2001. Losses from corporate-related items not allocable to reportable segments were $101,817 during the three months ended March 31, 2002 as compared to $108,686 for the three months ended March 31, 2001.

Liquidity and Capital Resources

As of March 31, 2002, we had $240,118 in cash and cash equivalents and a working capital deficiency of $611,514. As of December 31, 2001, we had $220,774 in cash and cash equivalents and a working capital deficiency of $598,263.

Our liquidity at March 31, 2002 was insufficient to meet operating requirements. We believe that the following will help reduce our working capital deficiency and alleviate cash flow demands:

- o We have continued efforts to expand our premium finance customer base of both DCAP and non-DCAP agencies, within and outside New York State.

- o Monthly franchise fees generally are not payable with regard to the initial 12 months of operations. Since many of the franchises sold by us in 2000 and 2001 did not have franchise fee obligations until the latter part of 2001 or in 2002, we are now first experiencing an increase in monthly franchise fees.

Management believes that such items, should they develop as contemplated, are reasonably capable of reducing our working capital deficiency and alleviating our cash flow demands during the 12 month period ending March 31, 2003. We can give no assurances that our efforts will be successful.

We have no current commitments for capital expenditures.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 2. CHANGES IN SECURITES 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(2)

(b) Reports on Form 8-K

No Current Report on Form 8-K was filed by us during the quarter ended March 31, 2002.

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(1) Denotes document filed as exhibits to our Annual Reports on Form 10-KSB for the years ended December 31, 1993 and 1998 and incorporated herein by reference.

(2) Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended March 31, 2001 and incorporated herein by reference.

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 15, 2002

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)