

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

DCAP GROUP INC/  
Form 10QSB  
August 13, 2002

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2002  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
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Commission File Number: 0-1665  
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DCAP GROUP, INC.

-----  
(Exact name of small business issuer as specified in its charter)

Delaware 36-2476480  
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(State or other jurisdiction of (I.R.S Employer Identification No.)  
incorporation or organization)

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

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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 July 31, 2002

### INDEX

#### DCAP GROUP, INC. AND SUBSIDIARIES

#### PART I. FINANCIAL INFORMATION

##### Item 1. Financial Statements

Condensed Consolidated Balance Sheet - June 30, 2002 (Unaudited)

Condensed Consolidated Statements of Operations - Six months ended June 30, 2002 and 2001 (Unaudited)

Condensed Consolidated Statements of Operations - Three months ended June 30, 2002 and 2001 (Unaudited)

Condensed Consolidated Statements of Cash Flows - Six months ended June 30, 2002 and 2001 (Unaudited)

Notes to Condensed Consolidated Financial Statements - Six months ended June 30, 2002 and 2001 (Unaudited)

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

#### PART II. OTHER INFORMATION

##### Item 1. Legal Proceedings

##### Item 2. Changes in Securities

##### 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

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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, Dealers Choice Automotive Planning Inc., and affiliated companies, and the operations of our insurance-related subsidiaries.

3

## PART I. FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

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

June 30, 2002

#### ASSETS

##### CURRENT ASSETS:

Cash and cash equivalents	\$ 256,540
Due from franchises, net of allowance for doubtful accounts of \$53,000	204,998
Note receivable from former officer	40,085
Prepaid expenses and other current assets	50,017
	-----

Total current assets	551,640
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PROPERTY AND EQUIPMENT, net	323,489	-----
OTHER ASSETS:		
Goodwill	75,000	
Other intangibles, net	205,248	
Deposits and other assets	42,350	-----
Total other assets	322,598	-----
	\$ 1,197,727	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 684,797	
Current portion of long-term debt	24,049	
Current portion of capital lease obligations	73,322	
Deferred revenue	79,169	
Debentures payable	154,200	
Due to officer	33,333	-----
Total current liabilities	1,048,870	-----
LONG-TERM DEBT	171,470	-----
CAPITAL LEASE OBLIGATIONS	89,571	-----
DEFERRED REVENUE	27,341	-----
MINORITY INTEREST	10,859	-----
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	(9,124,818)	-----
Treasury Stock, at cost, 3,714,616 shares	778,271 (928,655)	-----
	(150,384)	-----
	\$ 1,197,727	=====

See notes to condensed consolidated financial statements.

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	Six months ended	
	June 30,	
	2002	2001
	-----	-----
Revenues:		
Commissions and fees	\$ 699,235	\$1,343,561
Rooms	417,685	498,608
Premium finance revenue	427,096	40,202
Other	6,904	17,497
	-----	-----
Total revenues	1,550,920	1,899,868
	-----	-----
Operating Expenses:		
General and administrative	1,240,503	2,047,805
Depreciation and amortization	67,458	171,906
Marketing	105,934	556,807
Property operation and maintenance	19,898	30,602
	-----	-----
Total operating expenses	1,433,793	2,807,120
	-----	-----
Operating Income (Loss):	117,127	(907,252)
Other (Expense) Income:		
Interest income	2,251	9,402
Interest expense	(28,900)	(30,642)
Gain on sale of store	-	56,043
	-----	-----
	(26,649)	34,803
	-----	-----
Income (loss) before income taxes and minority interest	90,478	(872,449)
Provision for income taxes	1,243	20,304
	-----	-----
Income (loss) before minority interest	89,235	(892,753)
Minority interest	1,936	(5,148)
	-----	-----
Net income (loss)	\$ 87,299	\$ (887,605)
	=====	=====
Net income (loss) per common share:		
Basic	\$ .01	\$ (.06)
	=====	=====
Diluted	\$ .01	\$ (.06)
	=====	=====
Weighted average number of shares outstanding:		
Basic	11,353,402	15,068,018
	=====	=====
Diluted	11,429,673	15,068,018
	=====	=====

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 June 30,	
	2002	2001
<b>Revenues:</b>		
Commissions and fees	\$ 335,871	\$ 465,087
Rooms	206,724	226,472
Premium finance revenue	256,270	32,059
Other	3,281	11,105
Total revenues	802,146	734,723
<b>Operating Expenses:</b>		
General and administrative	639,650	795,721
Depreciation and amortization	33,320	77,223
Marketing	45,333	116,945
Property operation and maintenance	10,073	14,224
Total operating expenses	728,376	1,004,113
Operating Income (Loss):	73,770	(269,390)
<b>Other (Expense) Income:</b>		
Interest income	1,153	659
Interest expense	(12,230)	(7,383)
	(11,077)	(6,724)
Income (loss) before income taxes and minority interest	62,693	(276,114)
(Benefit) provision for income taxes	(29)	2,383
	62,722	(278,497)
Income (loss) before minority interest	62,722	(278,497)
Minority interest	3,753	(3,836)
	58,969	(274,661)
Net income (loss)	\$ 58,969	\$ (274,661)
<b>Net income (loss) per common share:</b>		
Basic	\$ .01	\$ (.02)
Diluted	\$ .01	\$ (.02)
<b>Weighted average number of shares outstanding:</b>		
Basic	11,353,402	15,068,018
Diluted	11,505,944	15,068,018

See notes to condensed consolidated financial statements.

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

	Six months ended June 30,	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$87,299	\$(887,605)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	67,458	171,906
Forgiveness of note receivable	-	141,454
Provision for bad debts	1,219	1,800
Minority interest in net earnings (loss)	1,936	(5,148)
Gain on sale of store	-	(56,043)
Decrease (increase) in assets:		
Accounts receivable	19,722	104,169
Prepaid expenses and other current assets	(13,262)	(617)
Deposits and other	1,239	(25,707)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(44,317)	(309,448)
Deferred revenue	(20,619)	(124,565)
	-----	-----
Net cash provided by (used in) operating activities	100,675	(989,804)
	-----	-----
Cash flows from investing activities:		
(Increase) decrease in notes and other receivables, net	(990)	169,765
Acquisition of property and equipment	(9,332)	-
Proceeds from sale of store	-	104,976
Deposits on sale of stores	-	739,115
	-----	-----
Net cash (used in) provided by investing activities	(10,322)	1,013,856
	-----	-----
Cash flows from financing activities:		
Principal payment of long-term debt and capital lease obligations	(54,587)	(190,111)
	-----	-----
Net cash used in financing activities	(54,587)	(190,111)
	-----	-----
Net increase (decrease) in cash and cash equivalents	35,766	(166,059)
Cash and cash equivalents, beginning of period	220,774	759,309
	-----	-----
Cash and cash equivalents, end of period	\$256,540	\$593,250
	=====	=====

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (UNAUDITED)

1. The Condensed Consolidated Balance Sheet as of June 30, 2002, the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2002 and 2001 and the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 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 June 30, 2002, results of operations for the three and six months ended June 30, 2002 and 2001 and cash flows for the six months ended June 30, 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:  
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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 six months ended June 30, 2002.

d. Reclassifications

Certain reclassifications have been made to the consolidated financial



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statements for the three and six months ended June 30, 2001 to conform with the classifications used for the three and six months ended June 30, 2002.

8

3. The results of operations and cash flows for the three and six months ended June 30, 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:

Six Months Ended June 30, 2002	Insurance	Premium Finance	Hotel	Other(1)	Total
Revenues from external customers	\$ 699,235	\$427,096	\$424,589	-	\$1,550,920
Interest income	1,003	-	1,053	195	2,251
Interest expense	28,900	-	-	-	28,900
Depreciation and amortization	59,740	-	7,718	-	67,458
Segment (loss) profit	(41,120)	304,984	39,057	(215,622)	87,299
Segment assets	780,670	104,216	209,294	103,547	1,197,727

Six Months Ended June 30, 2001	Insurance	Premium Finance	Hotel	Other(1)	Total
Revenues from external customers	\$1,343,561	\$ 40,202	\$510,347	\$ 5,758	\$1,899,868
Interest income	-	-	-	9,402	9,402
Interest expense	30,642	-	-	-	30,642
Depreciation and amortization	165,379	-	6,527	-	171,906
Segment (loss) profit	(825,510)	37,863	82,807	(182,765)	(887,605)
Segment assets	2,320,384	37,824	299,786	294,854	2,952,848

(1) Column represents corporate-related items

9

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

SIX MONTHS ENDED JUNE 30, 2002 AND 2001

#### Results of Operations

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Our net income for the six months ended June 30, 2002 was \$87,299 as compared to a net loss of \$887,605 for the six months ended June 30, 2001.

During the six months ended June 30, 2002, revenues from our DCAP Insurance operations were \$699,235 as compared to \$1,343,561 during the six months ended June 30, 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.

Premium finance revenues increased \$386,894 during the six months ended June 30, 2002 as compared to the six months ended June 30, 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 \$80,000 between the six months ended June 30, 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 six months ended June 30, 2002 were \$807,302 less than for the comparable period in 2001. In addition, our marketing expenses for the six months of 2002 were \$450,873 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 \$104,448 between the six months ended June 30, 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 six months ended June 30, 2002, on a stand-alone basis, generated a net loss of \$41,120 as compared to a net loss of \$825,510 for the six months ended June 30, 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 six months ended June 30, 2002, on a stand-alone basis, generated a net profit of \$304,984, as compared to a net profit of \$37,863 during the comparable period in 2001. The operations of the hotel during the six months ended June 30, 2002, on a stand-alone basis, generated net income of \$39,057 as compared to a net income of \$82,807 for the six months ended June 30, 2001. Losses from corporate-related items not allocable to reportable segments were \$215,622 during the six months ended June 30, 2002 as compared to \$182,765 for the six months ended June 30, 2001.

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### Liquidity and Capital Resources

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As of June 30, 2002, we had \$256,540 in cash and cash equivalents and a working capital deficiency of \$497,230. 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 June 30, 2002 was insufficient to meet operating requirements. We believe that our continued efforts to expand our premium finance customer base of both DCAP and non- DCAP agencies, within and outside New York State, will help reduce our working capital deficiency and alleviate cash flow demands.

Management believes that the above efforts are reasonably capable of reducing our working capital deficiency and alleviating our cash flow demands during the 12 month period ending June 30, 2003. We can give no assurances that our efforts will be successful.

We have no current commitments for capital expenditures.

### Plan of Operation

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We are seeking to expand our insurance and premium finance operations through the acquisition of additional stores. We can give no assurance that our efforts will be successful.

11

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

None

### 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

In May 2002, our Board of Directors approved the grant of stock options, pursuant to our 1998 Stock Option Plan, for the purchase of 1,450,000 shares at an exercise price of \$.30 per share, including options to Barry Goldstein, our Chief Executive Officer, for the purchase of 1,000,000 shares and to each of Morton L. Certilman and Jay M. Haft, each a director, for the purchase of 125,000 shares.

### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

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(a) Exhibits

3(a) Certificate of Incorporation, as amended<sup>1</sup>

3(b) By-laws, as amended<sup>2</sup>

(b) Reports on Form 8-K

No Current Report on Form 8-K was filed by us during the quarter ended June 30, 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.

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: August 13, 2002

By: /s/ Barry Goldstein

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