DCAP GROUP INC/
Form 10QSB
November 14, 2001

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 September 30, 2001

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, New York	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 October 31, 2001

INDEX

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, the effect of the September 11th terrorist attacks and any future terrorist acts on the financial health of the insurance companies whose products we offer, 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, 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)

	September 30, 2001
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 371,884
Accounts receivable	259,888

Notes receivable	69,524
Prepaid expenses and other current assets	71,762
Total current assets	773,058
PROPERTY AND EQUIPMENT, net	748,220
OTHER ASSETS:	
Goodwill, net	774,294
Other intangibles	245,424
Deposits and other assets	66,643
Total other assets	1,086,361
	$ 2,607,639
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 1,249,151
Current portion of long-term debt	5,860
Current portion capital lease obligations	82,154
Deferred revenue	115,968
Deposits on sale of stores	739,115
Debentures payable	154,200
Total current liabilities	2,346,448
OTHER LIABILITIES:	
Long-term debt	193,790
Capital lease obligations	153,477
Deferred revenue	40,000
Total other liabilities	387,267
MINORITY INTEREST	29,678
STOCKHOLDERS' EQUITY:	
Common Stock, $.01 par value; authorized, 25,000,000 shares; issued, 15,068,018 shares	150,680
Capital in excess of par	9,752,409
Deficit	(9,130,189)
	772,900
Treasury Stock	(928,654)
Total Stockholders' Equity	(155,754)
	$ 2,607,639

See notes to condensed consolidated financial statements.

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

	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Revenues:		
Commissions and fees	$ 1,683,438	$ 5,714,330
Rooms	714,227	739,043
Premium finance revenue	125,325	-
Other	20,015	33,801
Total revenues	2,543,005	6,487,174
Costs and expenses:		
General and administrative	2,759,319	5,858,571
Departmental	212,124	218,026
Depreciation and amortization	222,878	618,044
Lease rentals	145,924	149,463
Property operation and maintenance	48,548	21,441
	3,388,793	6,865,545
Operating Loss:	(845,788)	(378,371)
Other Income (Expense):		
Interest income	14,743	39,819
Interest expense	(44,747)	(92,752)
Gain on sale of store	56,043	-
Loss on sale of ownership interest in joint venture	-	(75,822)
	26,039	(128,755)
Loss before income taxes and minority interest	(819,749)	(507,126)
Provision for income taxes	20,621	24,523
Loss before minority interest	(840,370)	(531,649)
Minority interest	7,254	6,000
Net loss	$ (847,624)	$ (537,649)
Net loss per common share:		
Basic	$ (.06)	$ (.04)
Diluted	$ (.06)	$ (.04)

Weighted average number of shares outstanding:

Basic	15,068,018	14,646,909
Diluted	15,068,018	14,646,909

See notes to condensed consolidated financial statements.

5

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

	Three months ended September 30, 2001	2000
Revenues:		
Commissions and fees	$ 339,877	$1,717,813
Rooms	215,619	220,816
Premium finance revenue	85,123	-
Other	2,518	5,392
Total revenues	643,137	1,944,021
Costs and expenses:		
General and administrative	396,894	1,973,312
Departmental	72,493	23,288
Depreciation and amortization	50,972	191,549
Lease rentals	43,368	44,523
Property operation and maintenance	17,946	5,016
	581,673	2,237,688
Operating Income (Loss):	61,464	(293,667)
Other (Expense) Income:		
Interest income	5,341	11,102
Interest expense	(14,105)	(27,993)
	(8,764)	(16,891)
Income (loss) before income taxes and minority interest	52,700	(310,558)
Provision for income taxes	317	14,973
Income (loss) before minority interest	52,383	(325,531)
Minority interest	12,402	(219)

Net Income (loss)	$ 39,981	$(325,312)
Net Income (loss) per common share:		
Basic	$ .00	$ (.02)
Diluted	$ .00	$ (.02)
Weighted average number of shares outstanding:		
Basic	15,068,018	15,068,018
Diluted	15,068,018	15,068,018

See notes to condensed consolidated financial statements.

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

	Nine months ended September 30 2001
Cash flows from operating activities:	
Net loss	$ (847,624)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:	
Depreciation and amortization	222,878
Loss on sale of ownership interests in joint ventures	-
Forgiveness of note receivable	141,454
Provision for bad debts	151,009
Minority interest in net earnings	7,254
Gain on sale of store	(56,043)
Decrease (increase) in assets:	
Accounts receivable	38,868
Prepaid expenses and other current assets	(14,771)
Deposits and other	6,918
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(601,577)
Deferred revenue	(197,120)
Net cash (used in) provided by operating activities	(1,148,754)
Cash flows from investing activities:	
Decrease (increase) in notes and other	

receivables, net	156,237
Acquisition of property and equipment	(25,577)
Proceeds from sale of store	104,976
Deposits on sale of stores	739,115
Net cash provided by (used in) investing activities	974,751
Cash flows from financing activities:	
Principal payment of long-term debt and capital lease obligations	(213,422)
Proceeds from long-term debt	-
Net cash used in financing activities	(213,422)
Net decrease in cash and cash equivalents	(387,425)
Cash and cash equivalents, beginning of period	759,309
Cash and cash equivalents, end of period	$ 371,884

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000 (UNAUDITED)

1. The Condensed Consolidated Balance Sheet as of September 30, 2001, the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2001 and 2000 and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2001 and 2000 have been prepared by us without audit. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2001, results of operations for the three and nine months ended September 30, 2001 and 2000 and cash flows for the nine months ended September 30, 2001 and 2000. This report should be read in conjunction with our Annual Report on Form 10-KSB for the year ended December 31, 2000.

2. Summary of Significant Accounting Policies:

   a. Principles of consolidation

   The accompanying consolidated financial statements include the accounts of all subsidiaries and 50%-owned 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 the 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 collection of loan installments by third party financing companies. We record this revenue upon the receipt of fees from the financing companies, as we do not have the ability to determine whether we have earned fees during the term of the financing agreement.

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 nine months ended September 30, 2001.

8

3. The results of operations and cash flows for the nine months ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year.

4. Segment and Related Information. We have two business units with separate management teams that provide different products and services.

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

Period Ended September 30, 2001	Insurance	Hotel	Other(1)	Total
Revenues from external customers	$1,808,763	$728,483	$ 5,759	$2,543,00
Interest income	2,501	2,183	10,059	14,74
Interest expense	44,747	-	-	44,74
Depreciation and amortization	212,554	10,324	-	222,87
Segment (loss) profit	(644,225)	95,757	(299,156)	(847,62
Segment assets	2,126,373	280,929	200,337	2,607,63
Expenditures for segment assets	1,619	21,878	2,080	25,57

Period Ended September 30, 2000	Insurance	Hotel	Other(1)	Total
Revenues from external customers	$5,714,330	$739,043	$ 33,801	$6,487,17
Interest income	3,928	-	35,891	39,81
Interest expense	92,752	-		92,75
Depreciation and amortization	587,550	30,494	-	618,04
Segment (loss) profit	(162,700)	109,869	(484,818)	(537,64
Segment assets	6,549,023	314,155	519,850	7,383,02
Expenditures for segment assets	75,261	-	-	75,26

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(1) Column represents corporate-related items.

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

Results of Operations

Our net loss for the nine months ended September 30, 2001 was $847,624 as compared to a net loss of $537,649 for the nine months ended September 30, 2000.

During the nine months ended September 30, 2001, revenues from our DCAP Insurance operations were $1,808,763 as compared to $5,714,330 during the nine months ended September 30, 2000. The decline in revenues from our insurance-related operations was generally due to competitive pressures in the industry and the sale (and, in general, conversion to franchise status) or closure of 12 DCAP offices. Effective March 28, 2001, we entered into agreements to sell eight of our remaining 11 wholly-owned and joint venture offices. Pursuant to our agreements with the purchasers of the stores, pending the closing, they are entitled to receive all profits from the operations of the stores and are responsible for all losses. We have therefore determined not to record any revenues or expenses with respect to these stores commencing with the effective date of the agreement. We intend to sell our remaining wholly-owned and joint venture offices in the foreseeable future. Therefore, we anticipate that revenues from our insurance-related operations will further decline during the remainder of 2001 and in 2002. However, as a result of our shift in 2000 to a franchise business model, monthly franchise fees are anticipated to increase substantially during the remainder of 2001. Since, in general, monthly franchise fees are not payable with regard to the initial 12 months of operations, and since many of the franchises sold in 2000 did not commence operations until the latter part of the year, the increase in monthly franchise fees is not expected to take place until the latter part of 2001. In addition, we generated premium finance revenue of $125,325 during the nine months ended September 30, 2001. We hope that this revenue source will also offset the decline in revenue from our cutback in operation of DCAP stores. Hotel revenues decreased approximately $11,000 between the nine months ended September 30, 2000 and 2001.

Our general and administrative expenses for the nine months ended September 30, 2001 were $3,099,252 less than for the comparable period in 2000 primarily due to the sale and closure of stores discussed above and a reduction in central office staff. In addition, our depreciation and amortization expenses decreased $395,166 between the nine months ended September 30, 2000 and 2001 primarily due to a write off of goodwill and other intangibles that occurred with respect to our 2000 fiscal year results and the sale or closure in 2000 of stores as discussed above.

Our DCAP Insurance operations during the nine months ended September 30, 2001, on a stand-alone basis, generated a net loss of $644,225 (after giving effect to a gain of $56,043 on the sale of our ownership interest in a DCAP store) as compared to a net loss of $162,700 for the nine months ended September 30, 2000. The net loss was incurred primarily due to the decline in revenues discussed above which was not offset by a comparable decline in operating expenses. The operations of the hotel during the nine months ended September 30, 2001, on a stand-alone basis, generated a net income of $95,757 as compared to a net income of $109,869 for the nine months ended September 30, 2000.

Liquidity and Capital Resources

As of September 30, 2001, we had $371,884 in cash and cash equivalents and a working capital deficiency of $1,573,390. As of December 31, 2000, we had $759,309 in cash and cash equivalents and a working capital deficiency of $161,156.

Cash and cash equivalents decreased between December 31, 2000 and September 30, 2001 due to the loss incurred during the period and the outlay of cash to satisfy accounts payable and accrued expense obligations of $601,577 and repay long-term debt and capital lease obligations of $213,422. These amounts were offset by the receipt of approximately $105,000 in cash in February 2001 from the sale of a DCAP store and approximately $739,000 in April 2001 pursuant to agreements to sell eight of our stores. Pending the closing of the sale of the eight stores, the $739,000 received has been recorded on the balance sheet as a current liability under the heading "Deposits on sale of stores". The closing of the store sales is scheduled to occur on November 27, 2001 following our annual meeting of stockholders at which we are seeking approval and ratification of the sale of assets that may constitute, under Delaware law, substantially all of our assets.

Our working capital deficiency increased by $1,412,234 between December 31, 2000 and September 30, 2001 primarily due to the loss incurred during the nine months ended September 30, 2001 and the cancellation of notes receivable in consideration of our reacquisition of common shares and the cancellation of an employment agreement, as discussed below. As indicated above, in the event of the sale of eight stores, a current liability labeled "Deposits on sale of stores" in the amount of $739,000 will be eliminated. There will be a concurrent reduction in "Goodwill" in such amount. As a result, our working capital deficiency will be reduced by $739,000.

Effective March 28, 2001, we repurchased a total of 3,714,616 of our common shares owned by Kevin Lang and Abraham Weinzimer, our then President and Executive Vice President, respectively, in consideration of the cancellation of indebtedness owed to us by them in the aggregate amount of $928,654.

Effective March 28, 2001, concurrently with the termination of the employment agreement of Morton L. Certilman, our then Chairman of the Board, we agreed to cancel indebtedness of approximately $141,000 owed to us by him.

Our liquidity at September 30, 2001 was insufficient to meet operating requirements. In order to reduce our working capital deficiency and alleviate cash flow demands, we have taken the following actions:

- We have continued efforts to expand franchise operations and decrease the number of wholly-owned and partially-owned stores (by the sale of stores and, in general, conversion to franchise status).

- We have continued efforts to expand premium finance operations which do not carry large overhead expenses.

- We have continued efforts to reduce overhead expenses. These efforts include the reduction of "central office" expenses due to the shift to a franchise-oriented strategy. In addition, effective March 28, 2001, the employment agreements for Kevin Lang, Abraham Weinzimer, Morton L. Certilman and Jay M. Haft, our then President, Executive Vice President, Chairman of the Board and Vice Chairman of the Board, respectively, were terminated. Pursuant to the agreements, Messrs. Lang, Weinzimer, Certilman and Haft had been entitled to receive aggregate annual compensation of approximately $647,000. Concurrently, our subsidiary, DCAP Management, entered into a six month employment agreement with Mr. Lang pursuant to which he was entitled to receive compensation at the rate of $125,000 per annum. This employment agreement expired in September 2001.

- We have continued to seek an infusion of capital.

Management believes that such actions, if successfully completed, are reasonably capable of removing the threat to the continuation of our business during the 12 month period ended September 30, 2002. We can give no assurances that our efforts will be successful.

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

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 amended2

(b) Reports on Form 8-K

No Current Report on Form 8-K was filed by us during the quarter ended September 30, 2001.

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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 amendment to the report to be signed on its behalf by the undersigned, thereunto duly authorized.

DCAP GROUP, INC.

Dated: November 14, 2001

By: /s/ Barry Goldstein

Barry Goldstein
President, Chairman of the Board,
Chief Executive Officer and
Chief Financial Officer