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DCAP GROUP INC/
Form 10KSB
March 11, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2003

TRANSITION REPORT UNDER 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.

(Name of small business issuer 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)

Issuer's telephone number (516) 374-7600

Securities registered under Section 12(b) of the Exchange Act:

Title of each class
none

Name of each exchange on which registered

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.01 par value

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. Yes X No .
-- --

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.()

State issuer's revenues for its most recent fiscal year: \$8,685,751

State the aggregate market value of the voting stock held by non-affiliates

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computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days: \$8,166,976 as of February 29, 2004.

(ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Check whether the issuer has filed all documents and reports 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 REGISTRANTS)

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 February 29, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

None

Transitional Small Business Disclosure Format: Yes No X
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PART I

Forward-Looking Statements

This Annual 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 Annual 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 discussed in Item 6 of this Annual Report under "Factors That May Affect Future Results and Financial Condition". 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 publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

ITEM 1. DESCRIPTION OF BUSINESS

(a) Business Development

General

We operate two lines of business:

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- o franchising, ownership and operation of storefront insurance agencies under the DCAP, Barry Scott and Atlantic Insurance brand names
- o premium financing of insurance policies for our DCAP, Barry Scott and Atlantic Insurance clients as well as clients of non-affiliated entities

Our business strategy anticipates the utilization and expansion of our distribution network and delivery of insurance-related services through this network. Pursuant to this strategy, we have

- o granted franchises for the use of the DCAP trade name
- o sold our interest in a number of storefronts but retained them as DCAP franchises
- o as discussed below, purchased Barry Scott Companies, Inc., which has 19 store locations, and the assets of AIA Acquisition Corp., which has five store locations that operate under the Atlantic Insurance brand name
- o changed our business model with respect to our premium finance operations from selling finance contracts to third parties to internally financing those contracts

Developments During 2003

The following material events occurred during 2003:

- o Effective May 1, 2003, we acquired substantially all of the assets of AIA Acquisition Corp., an insurance brokerage firm with five offices located in eastern Pennsylvania that operate under the Atlantic Insurance brand. 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. See Item 13 of this Annual Report.
- o In July 2003, in connection with the change in our premium finance operations business model, as discussed above, we obtained an \$18,000,000 revolving line of credit from Manufacturers and Traders Trust Co. that is due in July 2005. Interest on this loan is payable at the rate of prime plus 1.5%. Concurrently, we obtained a \$3,500,000 secured subordinated loan, that is repayable in January 2006 and carries interest at the rate of 12-5/8% per annum. In connection with the \$3,500,000 debt

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financing, we issued warrants for the purchase of 525,000 common shares at an exercise price of \$1.25 per share. The warrants expire on January 10, 2006.

Developments During 2002

The following material events occurred during 2002:

- o On August 30, 2002, we purchased Barry Scott Companies, Inc. from a subsidiary of the insurance carrier, The Progressive Corporation. Through the acquisition, we added 20 new locations, 18 of which are located north of Westchester County, New York and outside the DCAP

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footprint. In 2003, one of the acquired stores was damaged by fire and not reopened.

The purchase price was \$850,000, of which \$325,000 was paid at closing. The balance of the purchase price is payable as follows: (i) \$125,000 on August 30, 2004, (ii) \$125,000 on August 30, 2005, and (iii) \$275,000 on August 30, 2006 (of which \$40,000 was prepaid in 2003). As security for the payment of the installments and other obligations under the acquisition agreement, a security interest was granted to Progressive in the shares of stock acquired and in the assets of Barry Scott and its subsidiaries.

- o In August 2002, we raised gross proceeds of \$500,000 through a private placement of our common shares.
- o During 2002, we determined that our operation of the former International Airport Hotel in San Juan, Puerto Rico was a non-core business and that we should settle the ongoing litigation with the Ports Authority of Puerto Rico, the owner of the hotel, concerning the term of the lease granted to our wholly-owned subsidiary, IAH, Inc. Accordingly, in December 2002, IAH reached a verbal understanding with the Ports Authority and, on January 29, 2003, IAH finalized a settlement agreement with the Ports Authority. Pursuant to the agreement, in consideration for IAH's agreement to release all rights with respect to the lease and to vacate the premises, in January 2003, the Ports Authority paid to IAH the sum of \$500,000.

Developments During 2001

The following material events occurred during 2001:

- o Barry B. Goldstein was elected our President, Chairman of the Board and Chief Executive Officer. See Item 9 of this Annual Report.
- o We entered into agreements with Kevin Lang, Abraham Weinzimer and Morton L. Certilman, each then one of our executive officers, to sell them a total of eight of our DCAP stores for an aggregate cash consideration of \$767,000.

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- o We repurchased an aggregate of 3,714,616 common shares from Messrs. Lang and Weinzimer in consideration of the cancellation of indebtedness owed to us by them in the aggregate amount of \$928,654.
- o We terminated our employment agreements with Messrs. Lang, Weinzimer and Certilman, as well as with Jay M. Haft who was then our Vice Chairman; our wholly-owned subsidiary, DCAP Management Corp., which operates our franchise business, entered into a six month employment agreement with Mr. Lang pursuant to which he served as its President; and each of Messrs. Lang, Weinzimer, Certilman and Haft resigned his position as an officer of DCAP Group. Each of Messrs. Lang and Weinzimer also resigned his position as a director of DCAP Group.

(b) Business of Issuer

General

Our storefront locations serve as insurance agents or brokers and place

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various types of insurance on behalf of customers. We focus on automobile, motorcycle and homeowners insurance and our customer base is primarily individuals rather than businesses.

There are 69 store locations owned or franchised by us of which 63 are located in New York State. In the New York metropolitan area, there are 44 DCAP franchises, one joint venture DCAP store and one Barry Scott location. There are also 18 Barry Scott locations outside the New York metropolitan area, primarily in central New York State and five Atlantic Insurance locations in eastern Pennsylvania. All of the Barry Scott and Atlantic Insurance locations are wholly-owned by us.

The stores receive commissions from insurance companies for their services. We receive fees from the franchised locations in connection with their use of the DCAP name. Neither we nor the stores serve as an insurance company and therefore do not assume underwriting risks.

Through our wholly-owned subsidiary, Payments Inc., we provide insurance premium financing services to our DCAP, Barry Scott and Atlantic Insurance locations as well as non-affiliated insurance agencies. Payments Inc. is licensed by the New York State Department of Banking as an insurance premium finance agency and has been granted permission to conduct business in Pennsylvania and New Jersey.

We also offer automobile club services for roadside emergencies. Income tax preparation services are also offered in connection with the operation of the DCAP stores.

We were incorporated in 1961 and changed our name from EXTECH Corporation to DCAP Group, Inc. in 1999.

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Our executive offices are located at 1158 Broadway, Hewlett, New York 11557; our telephone number is (516) 374-7600 and our fax number is (516) 295-7216.

Insurance Agencies

Insurance Brokerage

Our storefront agencies deal primarily with the insurance needs of individuals. In the states in which we operate, all automobile owners must secure liability insurance coverage. We provide various choices to the insured depending on market conditions.

In New York and New Jersey, insurance carriers have suffered from a continued lack of profitability. Many carriers have withdrawn and others have either suspended their operations or cut back severely. Thus, we are limited in many cases and can only offer "assigned risk" coverage provided by each state's automobile insurance plan.

During the fiscal year ended December 31, 2003, approximately 90% of our insurance revenues were derived from commissions and other fees received in connection with the selling of automobile and other property and casualty insurance policies.

In addition to automobile insurance, we offer:

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- o property and casualty insurance for motorcycles, boats and livery/taxis
- o life insurance
- o business insurance
- o homeowner's insurance
- o excess coverage

We have obtained the right to receive calls placed to "1-800-INSURANCE" in the states of New York, New Jersey and Pennsylvania (except for one area code in Pennsylvania) as a way to increase our insurance brokerage business.

Franchises

An important part of our strategy has been to increase our name recognition. We decided that granting others DCAP franchises is an important step in achieving this goal.

Franchises currently pay us an initial franchise fee of \$25,000 to offer insurance products under the DCAP name. Additional fees are payable if the franchisee desires to obtain training and software in connection with income tax preparation services. Franchisees are obligated to also pay us monthly fees during the term of the franchise agreement, generally commencing after a twelve month period from the date on which the storefront opens for business. Monthly fees payable by franchisees constituted approximately 7% of our insurance revenues during the year ended December 31, 2003.

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Automobile Club

As a complement to our automobile insurance operations, we offer automobile club services for roadside emergencies. We offer memberships for such services, and we make arrangements with towing dispatch companies to fulfill service call requirements.

During fiscal 2003, fees received in connection with automobile club services constituted approximately 3% of our insurance revenues.

Income Tax Return Preparation

A number of our franchise locations provide income tax return preparation services. The tax return preparation service allows us to offer an additional service to the walk-in customers who comprise the bulk of our customer base, as well as to existing customers. We have also obtained the right to receive calls placed to "1-800-INCOME TAX" as a way to increase our tax preparation business.

During fiscal 2003, fees received in connection with income tax return preparation were nominal.

Structure and Operations

As stated above, we currently have 69 offices, of which 44 are franchises, 24 are wholly-owned, and one is a joint venture. Our franchises and joint venture office consist of both "conversion" and "startup" operations. In a conversion operation, an existing insurance brokerage with an established business becomes a DCAP office. In a startup operation, an entrepreneur begins operations as a DCAP office. Our wholly-owned and joint venture offices are managed by our employees; each franchise is managed by or under the supervision of the franchisee.

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In order to promote consistency and efficiency, and as a service to our franchisees, we offer training to office managers. Our training program covers:

- o marketing, sales and underwriting
- o office and logistics
- o computer information
- o our proprietary database software, DCAP Management System

We provide the administrative services and functions of a "central office" to our wholly-owned and joint venture offices. The services provided to these storefront offices are:

- o sales training
- o bookkeeping and accounting
- o processing services

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Franchisees operate without the assistance of our "central office" services.

We also provide support services to stores such as:

- o assistance with regard to the hiring of employees
- o assistance with regard to the writing of local advertising
- o advice regarding potential carriers for certain customers

We also manage the cooperative advertising program in which all of our offices participate.

In addition to the above services, we provide to all of our offices a direct business relationship with nationally-known and local insurance carriers that may otherwise be beyond the reach of small, privately-owned retail insurance operations.

Premium Financing

Customers who purchase insurance policies are often unable to pay the premium in a lump sum and, therefore, require extended payment terms. Premium finance involves making a loan to the customer that is backed by the unearned portion of the insurance premiums being financed. Our wholly-owned subsidiary, Payments Inc., is licensed by the New York State Banking Department as a premium finance agency and has been granted permission to conduct business in Pennsylvania and New Jersey.

In a typical premium finance arrangement, we lend the amount of the premium (minus the customer's down payment) to the customer and pay it to the insurance company on behalf of the customer. The customer makes periodic payments to us over the term of the finance agreement (generally nine to ten months). We strive to design our payment plans so that the balance of the principal of the loan is at all times less than the amount of the unearned portion of the insurance premiums being financed, which backs the loan. We also seek to mitigate risk by acting on a timely basis to request cancellation of the policy if the policyholder defaults on his or her obligation to repay the premium finance loan.

If the policy is cancelled before its term expires, the policyholder has a right to receive a return of the unearned premium. Under our premium finance agreement, the policyholder assigns this right to us to secure his or her obligations under the loan. If the policyholder fails to make a payment, we have the right to request that the insurance company cancel the policy and pay to us

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the amount of any unearned premium on the policy. If the amount of unearned premium exceeds the balance due on the loan plus any interest and applicable fees owed by the policyholder to us, then we return the excess amount to the policyholder in accordance with applicable law.

The regulatory framework under which our premium finance procedures are established is generally set forth in the premium finance statutes of the states in which we operate. Among other

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restrictions, the interest rate we may charge our customers for financing their premiums is limited by these state statutes. See "Government Regulation."

Reference is made to Items 1(a) and 6 of this Annual Report for a discussion of the line of credit and subordinated debt that we utilize in connection with our premium finance operations.

Strategy

In order to achieve our goal of utilizing and expanding our distribution network and delivering insurance-related services through this network, we currently have the following four-pronged business strategy:

- o promote franchise sales by providing proprietary products and services that may not be available elsewhere
- o acquire storefront agencies in the Northeast in order to expand our geographical footprint
- o increase the size of our premium finance business, both within and outside the DCAP storefronts, including the introduction of our business in other states
- o seek to expand our operations by acquiring businesses or other assets which we believe will complement or enhance our business

In seeking to promote franchise sales, we pursue increased name recognition through the establishment of additional DCAP storefront sites (both conversion and start-up types) and increased marketing activities. In addition, our cooperative advertising program will continue to use the aggregated buying power of the DCAP, Barry Scott and Atlantic Insurance offices to advertise in various editions of telephone directories and in other media.

We utilize toll-free telephone numbers to increase business. Telephone calls received are routed to the DCAP, Barry Scott or Atlantic Insurance office nearest the call (based on the zip code of the caller) for handling. We are promoting "1-800-INSURANCE" in our current markets and intend to utilize such numbers in the future as our market expands.

During 2004, we will continue to seek to acquire additional locations in order to further capitalize on existing proprietary services, relationships with carriers and the increased premium finance activity.

As indicated above, one of our strategies involves the growth of our premium finance business. As the number of insurance companies participating voluntarily in the non-standard automobile market has significantly decreased, there has been an offsetting increase in the size of the involuntary market. Thus, there are many more automobile policies written through the "assigned risk" New York Automobile Insurance Plan than in the recent past. This plan

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provides for limited finance options, and the insurance premiums have increased dramatically in recent years. Thus,

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unless the insured can pay the premium in full at the time of the application for insurance, or can provide a large down payment and be capable of paying the balance over a short period of time, there is a need for premium financing. We offer the insured a reduced downpayment, and the ability to spread the balance over a ten-month period. We are licensed to provide premium finance services in New York, New Jersey and Pennsylvania.

Our final strategy involves the expansion of our operations into complementary areas. We continually explore such opportunities as a means to enhance our business.

Competition

We compete with numerous insurance agents and brokers in our market. The amount of capital required to commence operations is generally small and the only material barrier to entry is the ability to obtain the required licenses and appointments as a broker or agent for insurance carriers. Since the great majority of the automobile policies issued in our market emanate from the "assigned risk" New York State Automobile Insurance Plan which provides for fixed premiums for a given geographical area, there is little price competition between us and other agents and brokers. As the number of voluntary carriers has declined, the differentiation between us and our competition has narrowed.

In recent years, extensive competition has come from direct sales entities, such as GEICO Insurance, who have concentrated their advertising efforts on television and radio. In addition, the Internet sales effort of some of our competitors has shown promise; however, the market share attributable to the Internet is not currently significant. Further, recent legislation that allows banks to offer insurance to their customers has taken market share from the storefront insurance operators.

Our premium finance operation competes with many other companies that have been in business longer than we have, and have long term relationships with their insurance agency clients.

Government Regulation

Our premium finance subsidiary, Payments Inc., is regulated by governmental agencies in states in which it conducts business. The regulations, which generally are designed to protect the interests of policyholders who elect to finance their insurance premiums, vary by jurisdiction, but usually, among other matters, involve:

- o regulating the interest rates, fees and service charges we may charge our customers
- o imposing minimum capital requirements for our premium finance subsidiary or requiring surety bonds in addition to or as an alternative to such capital requirements
- o governing the form and content of our financing agreements
- o prescribing minimum notice and cure periods before we may cancel a customer's policy for non-payment under the terms of the financing agreement

- o prescribing timing and notice procedures for collecting unearned premium from the insurance company, applying the unearned premium to our customer's premium finance account, and, if applicable, returning any refund due to our customer
- o requiring our premium finance company to qualify for and obtain a license and to renew the license each year
- o conducting periodic financial and market conduct examinations and investigations of our premium finance company and its operations
- o requiring prior notice to the regulating agency of any change of control of our premium finance company

Employees

We employ approximately 72 persons. We believe that our relationship with our employees is good.

ITEM 2. DESCRIPTION OF PROPERTY

Our principal executive offices are located at 1158 Broadway, Hewlett, New York, our central processing offices are located at 1762 Central Avenue, Albany, New York and the administrative offices of Payments Inc. are located at 1154 Broadway, Hewlett, New York.

Our 19 Barry Scott offices are located in upstate New York (with the exception of one located in the New York metropolitan area). Our five Atlantic Insurance offices are located in eastern Pennsylvania. We also have one joint venture DCAP store that is located in Greenbrook, New Jersey.

Our 25 wholly-owned or joint venture storefront locations and our executive and other offices are operated pursuant to lease agreements that expire from time to time through 2011. The current yearly aggregate base rental for the offices is approximately \$309,000.

ITEM 3. LEGAL PROCEEDINGS

As described in Item 1(a) of this Annual Report, in August 2002, we acquired Barry Scott Companies, Inc. from a subsidiary of The Progressive Corporation. In 1998, Barry Scott Companies, Inc. had acquired all of the outstanding stock of Aard-Vark Agency, Ltd. Accordingly, we acquired Aard-Vark as part of our acquisition of Barry Scott Companies, Inc. On January 21, 2003, Aard-Vark commenced an action against Barnett Prager, Anita Prager and All About Security, Inc. in Supreme Court of the State of New York, Queens County. Aard-Vark alleges claims based on breach of an employment agreement. In response, on April 28, 2003, the defendants served counterclaims against Aard-Vark in which they allege breach of contract, breach of implied covenant of good faith and fair dealing, misrepresentation and breach of fiduciary duty. The defendants seek

damages of up to \$2,000,000 for each of several claims against Aard-Vark. Pursuant to the terms of the agreement whereby we acquired Barry Scott

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Companies, Inc., Progressive agreed to indemnify and defend us from any claims or liabilities arising in connection with the transaction by which Aard-Vark was acquired by Barry Scott Companies, Inc. Progressive has assigned counsel to defend the counterclaims against Aard-Vark.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our Annual Meeting of Stockholders was held on October 30, 2003. The following is a description of the matters voted upon at the meeting and a listing of the votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to each matter, including a separate tabulation with respect to each nominee for director.

1. Election of Board of Directors.

	Number of Shares	
	For	Withheld
	---	-----
Barry B. Goldstein	8,530,156	6,321
Morton L. Certilman	8,530,571	5,906
Jay M. Haft	8,530,671	5,806
Robert Wallach	8,530,131	6,346

2. Approval of a proposal to authorize our Board of Directors to effect a reverse split (between 1 for 3 and 1 for 10) if determined necessary in its sole discretion.

For	7,684,429
Against	198,679
Abstain	653,369
Broker Non-Vote	-

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Our common shares are quoted on the OTC Bulletin Board under the symbol "DCAP."

Set forth below are the high and low bid prices for our common shares for the periods indicated, as reported on the Bulletin Board. The prices set forth are prices between broker-dealers and do not include retail mark-ups or mark-downs or any commissions to the broker-dealer. The prices may not necessarily reflect actual transactions.

High	Low
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2003 Calendar Year

First Quarter	\$.51	\$.25
Second Quarter	.65	.32
Third Quarter	1.21	.53
Fourth Quarter	1.02	.81

2002 Calendar Year

First Quarter	\$.28	\$.22
Second Quarter	.30	.23
Third Quarter	.43	.28
Fourth Quarter	.52	.25

(b) Holders

As of March 4, 2004, there were approximately 1,586 record holders of our common shares.

(c) Dividends

Holders of our common shares are entitled to dividends when, as and if declared by our Board of Directors out of funds legally available. There are also outstanding 904 Series A preferred shares. These shares are entitled to cumulative aggregate dividends, effective as of May 1, 2003, of \$45,200 per annum (5% of their liquidation preference of \$904,000). No dividends may be paid on our common shares unless an equivalent pro rata payment is made to the holders of the Series A preferred shares on the accumulated and unpaid dividends payable to such holders at such time.

We have not declared or paid any dividends in the past and do not currently anticipate declaring or paying any dividends in the foreseeable future. We intend to retain earnings, if any, to

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finance the development and expansion of our business. Future dividend policy will be subject to the discretion of our Board of Directors and will be contingent upon future earnings, if any, our financial condition, capital requirements, general business conditions, and other factors. Therefore, we can give no assurance that any dividends of any kind will ever be paid to holders of our common shares.

(d) Recent Sales of Unregistered Securities

Not applicable.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

We operate 25 storefronts, including 19 Barry Scott locations acquired

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through our August 2002 acquisition of Barry Scott Companies, Inc., and five Atlantic Insurance locations acquired through our May 2003 acquisition of substantially all the assets of AIA Acquisition Corp. We also have 44 franchised DCAP locations.

Our insurance storefronts serve as insurance agents or brokers and place various types of insurance on behalf of customers. We focus on automobile, motorcycle and homeowner's insurance and our customer base is primarily individuals rather than businesses.

The stores receive commissions from insurance companies for their services. We receive fees from the franchised locations in connection with their use of the DCAP name. Neither we nor the stores serve as an insurance company and therefore do not assume underwriting risks. The stores also offer automobile club services for roadside assistance and income tax preparation services.

Payments Inc., our wholly-owned subsidiary, is an insurance premium finance agency that offers premium financing to clients of DCAP, Barry Scott and Atlantic Insurance offices, as well as non-affiliated insurance agencies. We currently operate within the states of New York, Pennsylvania and New Jersey.

Critical Accounting Policies

Our consolidated financial statements include accounts of DCAP Group, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our consolidated financial statements and related notes. In preparing these financial statements, our management has utilized information available including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates inherent in these financial statements might not materialize. However, application of the critical

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accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses.

Commission and fee income

We recognize commission revenue from insurance policies at the beginning of the contract period, except for commissions that are receivable annually, for which we recognize the commission revenue ratably. Refunds of commissions on the cancellation of insurance policies are reflected at the time of cancellation.

Franchise fee revenue is recognized when substantially all of our contractual requirements under the franchise agreement are completed.

Fees for income tax preparation are recognized when the services are completed. Automobile club dues are recognized equally over the contract period.

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Finance income, fees and receivables

Finance income consists of interest, service fees and delinquency fees. Finance income, other than delinquency fees, is recognized using the interest method or similar methods that produce a level yield over the life of each loan (generally nine to ten months). Delinquency fees are earned when collected. Upon cancellation of the underlying insurance policies, any uncollected earned interest or fees are charged off.

Allowance for finance receivable losses

Losses on finance receivables include an estimate of future credit losses on premium finance accounts. Credit losses on premium finance accounts occur when the unearned premiums received from the insurer upon cancellation of a financed policy are inadequate to pay the balance of the premium finance account. The majority of these shortfalls result in the write-off of unrealized interest. We review historical trends of such losses relative to finance receivable balances to develop estimates of future losses. However, actual write-offs may differ materially from the write-off estimates that we used.

Goodwill and intangible assets

The carrying value of goodwill was initially reviewed for impairment as of January 1, 2002, and is reviewed annually or whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. If the fair value of the operations to which goodwill relates is less than the carrying amount of those operations, including unamortized goodwill, the carrying amount of goodwill is reduced accordingly with a charge to expense. Based on our most recent analysis, we believe that no impairment of goodwill exists at December 31, 2003.

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Stock-based compensation

We apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, to account for stock-based employee compensation plans and report pro forma disclosures in our Form 10-KSB filings by estimating the fair value of options issued and the related expense in accordance with SFAS No. 123. Under this method, compensation cost is recognized for awards of common shares or stock options to our directors, officers and employees only if the quoted market price of the stock at the grant date (or other measurement date, if later) is greater than the amount the grantee must pay to acquire the stock.

Results of Operations

Our net income from continuing operations for the year ended December 31, 2003 was \$1,335,899 as compared to \$698,475 for the year ended December 31, 2002.

During the year ended December 31, 2003, revenues from our insurance-related operations were \$6,354,920 as compared to \$2,473,921 for the year ended December 31, 2002. The increase in revenues was generally due to revenues from the operation of the Barry Scott stores, which were acquired on August 30, 2002, and the Atlantic Insurance stores, which were acquired

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effective May 1, 2003.

Premium finance revenues increased \$1,021,023 during the year ended December 31, 2003 as compared to the year ended December 31, 2002 as indicated by the following table:

	2003 ----	2002 ----
Revenue from sale of receivables	\$ 626,552	\$1,309,808
Interest and late fee revenue	1,704,279	0
	-----	-----
	\$ 2,330,831	\$1,309,808

During 2002 and the initial two quarters of 2003, we recognized premium finance revenue from the sale of the premium finance receivables to a third party and recorded a one-time fee per contract. On July 14, 2003, we obtained an \$18,000,000 two-year line of credit from Manufacturers and Traders Trust Co. 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. We then began utilizing these credit facilities and commenced recording interest and fee based revenue over the life of each loan 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, we are recording income and expense over the life of each contract.

Effective November 2003, we began providing premium finance services to our Barry Scott locations (following the expiration of a requirement that the locations use another provider), and

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effective March 2004, we will begin providing premium finance services to our Atlantic Insurance offices. These new sources of premium finance revenue should have a positive effect on our premium finance operations in 2004.

Our general and administrative expenses for the year ended December 31, 2003 were \$3,936,950 more than for the year ended December 31, 2002. This increase was primarily due to the expenses of the Barry Scott stores acquired on August 30, 2002 and the Atlantic Insurance stores acquired effective May 1, 2003.

Our depreciation and amortization expense for the year ended December 31, 2003 was \$146,904 more than for the year ended December 31, 2002. This increase was primarily the result of our recording amortization of costs associated with obtaining the financing discussed above.

As a result of the change in our premium finance business model in July 2003 as discussed above, we incurred premium finance interest expense in 2003 while none was incurred in 2002.

During the year ended December 31, 2003, we issued redeemable preferred shares in connection with the acquisition of the assets of AIA Acquisition Corp. and incurred interest expense of \$30,133. No preferred shares were outstanding during the year ended December 31, 2002.

During the year ended December 31, 2003, we sold two of our stores and the book of business relating to one store, resulting in a gain of \$178,662. No such sales occurred during the year ended December 31, 2002.

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Our insurance-related operations, on a stand-alone basis, generated a net profit of \$1,298,868 during the year ended December 31, 2003 as compared to a net profit of \$125,108 during the year ended December 31, 2002. The increased net profit was due to the operation of the Barry Scott and Atlantic Insurance stores. Our premium finance operations, on a stand-alone basis, generated a net profit of \$839,311 during the year ended December 31, 2003 as compared to a net profit of \$1,035,789 during the year ended December 31, 2002. The decreased net profit was the result of the change in business model discussed above and resulting longer period to recognize revenue. The net loss from corporate-related items not allocable to reportable segments was \$802,280 during the year ended December 31, 2003 as compared to \$462,422 during the year ended December 31, 2002 primarily due to increased executive compensation and professional fees.

In January 2003, our subsidiary, IAH, Inc., discontinued the operations of the International Airport Hotel in San Juan, Puerto Rico. During the year ended December 31, 2003, this discontinued operation generated a net loss of \$46,096 as compared to a net profit of \$34,612 during the year ended December 31, 2002. In December 2002, IAH reached a verbal understanding with the Ports Authority of Puerto Rico, the owner of the hotel, pursuant to which IAH agreed to release all rights with respect to the hotel and vacate the premises. In consideration for IAH's agreement, in January 2003, the Ports Authority paid to IAH \$500,000. The gain of \$312,920 on the disposition of this discontinued subsidiary for the year ended December 31, 2002 is comprised of the \$500,000

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payment received, offset by assets written off, accrued close down expenses and a fee paid to one of our directors for his services in obtaining the settlement agreement.

Liquidity and Capital Resources

As of December 31, 2003, we had \$1,349,304 in cash and cash equivalents and working capital of \$5,168,694. 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 by \$741,901 between December 31, 2002 and December 31, 2003 primarily due to the following:

- o Net cash provided by operating activities during the year ended December 31, 2003 was \$7,077,764 primarily due to the following: (i) our net income for the year of \$1,289,803, plus an increase in premiums payable of \$6,530,219 (based upon the change in our premium finance business model as discussed above), plus an increase in accounts payable and accrued expenses of \$530,298, offset by (ii) an increase in accounts receivable of \$1,095,662.
- o We used \$18,534,164 in investing activities during the fiscal year ended December 31, 2003 primarily due to the following: (i) an increase in our net finance contracts receivable of \$19,084,161 (based upon the change in our premium finance business model as discussed above), offset by (ii) proceeds of \$500,000 from the disposition of our interest in the International Airport Hotel in San Juan, Puerto Rico.
- o Net cash provided by financing activities during the year ended December 31, 2003 was \$12,198,301 primarily due to the following: (i)

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proceeds of \$17,769,118 from our revolving loan from Manufacturers and Traders Trust Co. for premium finance purposes, plus proceeds of \$3,500,000 from long-term debt that was obtained concurrently to support our premium finance operations, offset by (ii) payments of \$8,801,036 on the revolving loan.

Our premium finance operations are financed pursuant to an \$18,000,000 revolving line of credit from Manufacturers and Traders Trust Co. The line of credit bears interest at the rate of prime plus 1.5%, matures on July 31, 2005 and is secured by substantially all of our assets. We can borrow against the line to the extent of 80% of eligible premium finance receivables. As of December 31, 2003, \$8,968,082 was outstanding under the loan.

Concurrently with the obtaining of the line of credit, we obtained a \$3,500,000 secured subordinated loan to support our premium finance operations. The loan is repayable in January 2006 and carries interest at the rate of 12-5/8% per annum.

We have no current commitments for capital expenditures. However, we may, from time to time, consider acquisitions of complementary businesses, products or technologies.

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Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonable likely to have a current or future effect on our financial conditions, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Factors That May Affect Future Results and Financial Condition

Based upon the following factors, as well as other factors affecting our operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. In addition, such factors, among others, may affect the accuracy of certain forward-looking statements contained in this Annual Report.

Because our core product is personal automobile insurance, our business may be adversely affected by negative developments in the conditions in this industry.

Approximately 66% of our revenues for 2003 were commissions and fees from the sale of personal automobile and other property and casualty insurance policies. As a result of our concentration in this line of business, negative developments in the economic, competitive or regulatory conditions affecting the personal automobile insurance industry could have a material adverse effect on our results of operations and financial condition.

Because substantially all of our insurance-related operations are located in New York and Pennsylvania, our business may be adversely affected by conditions in these states.

Substantially all of our insurance-related operations are located in the states of New York and Pennsylvania. Our revenues and profitability are affected by the prevailing regulatory, economic, demographic, competitive and other conditions in these states. Changes in any of these conditions could make it more costly or difficult for us to conduct our business. Adverse regulatory

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developments in New York or Pennsylvania, which could include fundamental changes to the design or implementation of the automobile insurance regulatory framework, could have a material adverse effect on our results of operations and financial condition.

Our business is highly competitive, which may make it difficult for us to market our core products effectively and profitably.

The personal automobile insurance business is highly competitive. We compete with numerous other insurance agents and brokers in our market. The amount of capital required to commence operations as a broker or agent is generally small and the only material barrier to entry is the ability to obtain the required licenses and appointments as a broker or agent for insurance carriers. We also compete with insurers, such as GEICO Insurance, that sell insurance policies directly to their customers.

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Some of our competitors, including those who provide premium finance services, have substantially greater financial and other resources than we have, and they may offer a broader range of products or offer competing products or services at lower prices. Our results of operations and financial condition could be materially and adversely affected by a loss of business to competitors offering similar insurance products or services at lower prices or having other competitive advantages.

Our inability to refinance our current line of credit or obtain additional required financing would have an adverse effect on our premium finance revenue.

The working capital needs of our premium finance subsidiary, Payments Inc., are substantially dependent on its line of credit agreement with Manufacturers and Traders Trust Co. that expires in July 2005. That agreement includes covenants requiring us to pass specified financial tests and to refrain from certain kinds of actions. In addition, the \$3,500,000 of subordinated debt that supports our premium finance operations is due in January 2006. In the event we fail to meet our covenants or are unable to extend, refinance, replace or increase our bank line of credit and subordinated debt on economically feasible terms, our income and the marketability of our premium finance services would be adversely affected.

If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered.

Our future success will depend, in part, upon the efforts of Barry Goldstein, our Chief Executive Officer. The loss of Mr. Goldstein or other key personnel could prevent us from fully implementing our business strategies and could materially and adversely affect our business, financial condition and results of operations. In addition, an event of default under our line of credit agreement will be triggered if Mr. Goldstein is no longer serving as our chief executive and chief operating officer. We have an employment agreement with Mr. Goldstein that expires on April 1, 2005. As we continue to grow, we will need to recruit and retain additional qualified management personnel, but we may not be able to do so. Our ability to recruit and retain such personnel will depend upon a number of factors, such as our results of operations and prospects and the level of competition then prevailing in the market for qualified personnel.

The volatility of premium pricing and commission rates could adversely affect our operations.

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We currently derive most of our insurance-related revenues from commissions paid by insurance companies. The commission is usually a percentage of the premium paid by an insured. Insurance premiums are not determined by us. Historically, property and casualty premiums have been cyclical in nature and have displayed a high degree of volatility based on economic and competitive conditions. In times of expanded underwriting capacity of insurance companies, premium rates have decreased causing a reduction in the commissions payable to us. In addition, in many cases, insurance companies may seek to reduce their expenses by reducing the commission rates payable to insurance agents. We cannot predict the timing or extent of future changes in

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commission rates or premiums and therefore cannot predict the effect, if any, that such changes would have on our operations.

We are subject to regulation that may restrict our ability to earn profits.

Our premium finance subsidiary is subject to regulation and supervision by the financial institution departments in the states where it offers to finance premiums. Certain regulatory restrictions, including restrictions on the maximum permissible rates of interest for premium financing, and prior approval requirements may affect its ability to operate.

The operations of our storefronts depend on their continued good standing under the licenses and approvals pursuant to which they operate. Licensing laws and regulations vary from jurisdiction to jurisdiction. Such laws and regulations are subject to amendment or interpretation by regulatory authorities, and generally such authorities are vested with broad discretion as to the granting, suspending, renewing and revoking of licenses and approvals.

In addition, there are currently 44 DCAP franchises. The offering of franchises is regulated by both the federal government and some states, including New York.

As a holding company, we are dependent on the results of operations of our operating subsidiaries and the regulatory and contractual capacity of our premium finance subsidiary to pay dividends to us.

We are a holding company and a legal entity separate and distinct from our operating subsidiaries. As a holding company without significant operations of our own, the principal sources of our funds are dividends and other payments from our operating subsidiaries. Dividends from our premium finance subsidiary are limited by the minimum capital requirements in applicable state regulations and by covenants in our loan agreement with Manufacturers and Traders Trust Co. Consequently, our ability to repay debts, pay expenses and pay cash dividends to our shareholders may be limited.

Our premium finance subsidiary is subject to capital requirements, and our failure to meet these standards could subject us to regulatory actions.

Our premium finance subsidiary is subject to minimum capital requirements imposed under the laws of the states in which it conducts business. Failure to meet applicable minimum statutory capital requirements could subject our premium finance subsidiary to further examination or corrective action imposed by state regulators, including limitations on our engaging in finance activities, state supervision or even liquidation.

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A decline in the number of insurance companies offering insurance products in our markets would adversely affect our business.

Based upon economic conditions and loss history, insurance companies enter and leave our

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market. A reduction in the number of available insurance products that we can offer to our customers would adversely affect our business.

We may have difficulties in managing our expansion into new geographic markets, and we may not be successful in identifying agency acquisition candidates or integrating their operations.

Our future growth plans include expanding into new states by acquiring the business and assets of local agencies. Our future growth will face risks, including risks associated with obtaining necessary licenses for our premium finance operations and our ability to identify agency acquisition candidates or, if acquired, to integrate their operations. In addition, we may acquire businesses in states in which market and other conditions may not be favorable to us.

Our inability to identify and acquire agency acquisition candidates could hinder our growth by slowing down our ability to expand into new states. If we do acquire additional agencies, we could suffer increased costs, disruption of our business and distraction of our management if we are unable to integrate the acquired agencies into our operations smoothly. Our geographic expansion will also continue to place significant demands on our management, operations, systems, accounting, internal controls and financial resources. Any failure by us to manage our growth and to respond to changes in our business could have a material adverse effect on our business, financial condition and results of operations.

We may seek to expand through acquisitions of complementary businesses or other assets which involve additional risks that may adversely affect us.

We continually seek to expand our operations by acquiring businesses or other assets which we believe will complement or enhance our business. We may also acquire or make investments in complementary businesses, products, services or technologies. In the event we effect any such acquisition, we may not be able to successfully integrate any acquired business, asset, product, service or technology in our operations without substantial costs, delays or other problems or otherwise successfully expand our operations. In addition, efforts expended in connection with such acquisitions may divert our management's attention from other business concerns. We also may have to borrow money to pay for future acquisitions and we may not be able to do so at all or on terms favorable to us. Additional borrowings and liabilities may have a materially adverse effect on our liquidity and capital resources.

We are materially dependent upon the operations of our third party premium finance servicing agent.

The administration, servicing and collection of our premium finance receivables is handled by a third party. Our premium finance business is materially dependent upon the operations of such company in a professional manner, including the timely cancellation of insurance policies based upon the failure of the customer to pay a premium finance receivable installment.

We rely on our information technology and telecommunication systems, and the failure of these systems could materially and adversely affect our business.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology and telecommunications systems as well as those of our premium financing servicing agent. We rely on these systems to support our operations, as well as to process new and renewal business, provide customer service, make claims payments, support premium financing activities, and facilitate collections and cancellations. The failure of these systems could interrupt our operations and result in a material adverse effect on our business.

The enactment of tort reform could adversely affect our business.

Legislation concerning tort reform is from time to time considered in the United States Congress and in several states. Among the provisions considered for inclusion in such legislation are limitations on damage awards, including punitive damages, and various restrictions applicable to class action lawsuits. Enactment of these or similar provisions by Congress or by states in which we sell insurance could result in a reduction in the demand for liability insurance policies or a decrease in the limits of such policies, thereby reducing our commission revenues. We cannot predict whether any such legislation will be enacted or, if enacted, the form such legislation will take, nor can we predict the effect, if any, such legislation would have on our business or results of operations.

ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this Item 7 are included in this Annual Report on Form 10-KSB following Item 14 hereof.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

There were no changes in accountants due to disagreements on accounting and financial disclosure during the twenty-four month period ended December 31, 2003.

ITEM 8A. 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 December 31, 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 fourth quarter of the fiscal year ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE
 WITH SECTION 16(a) OF THE EXCHANGE ACT

Executive Officers and Directors

The following table sets forth the positions and offices presently held by each of our current directors and executive officers and their ages:

Name	Age	Positions and Offices Held
Barry B. Goldstein	50	President, Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Treasurer and Director
Morton L. Certilman	72	Secretary and Director
Jay M. Haft	68	Director
Robert Wallach	51	Director

Barry B. Goldstein

Mr. Goldstein was elected our President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board, and a director in March 2001 and our Treasurer in May 2001. Since April 1997, he has served as President of AIA Acquisition Corp., which operated insurance agencies in Pennsylvania and which sold substantially all of its assets to us in May 2003. Since 1982, he has served as President of Stone Equities, a consulting firm. Mr. Goldstein received his B.A. and M.B.A. from State University of New York at Buffalo, and has been a certified public accountant since 1979.

Morton L. Certilman

Mr. Certilman served as our Chairman of the Board from February 1999 until March 2001. From October 1989 to February 1999, he served as our President. He was elected our Secretary in May 2001 and has served as one of our directors since 1989. Mr. Certilman has been engaged in the practice of law since 1956 and is affiliated with the law firm of Certilman Balin Adler & Hyman, LLP. Mr. Certilman is Chairman of the Long Island Regional Planning Board, the Nassau County Coliseum Privatization Commission, and the Northrop/Grumman Master Planning Council. He served as a director of the Long Island Association and the New Long Island Partnership for a period of ten years and currently serves as a director of the Long Island Sports Commission. Mr. Certilman has lectured extensively before bar associations, builders' institutes, title companies, real estate institutes, banking and law school seminars, The Practicing Law

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Estate Management and at annual conventions of such organizations as the National Association of Home Builders, the Community Associations Institute and the National Association of Corporate Real Estate Executives. He was a member of the faculty of the American Law Institute/American Bar Association, as well as the Institute on Condominium and Cluster Developments of the University of Miami Law Center. Mr. Certilman has written various articles in the condominium field, and is the author of the New York State Bar Association Condominium Cassette and the Condominium portion of the State Bar Association book on "Real Property Titles." Mr. Certilman received an LL.B. degree, cum laude, from Brooklyn Law School.

Jay M. Haft

Mr. Haft served as our Vice Chairman of the Board from February 1999 until March 2001. From October 1989 to February 1999, he served as our Chairman of the Board. He has served as one of our directors since 1989. Mr. Haft has been engaged in the practice of law since 1959 and since 1994 has served as counsel to Parker Duryee Rosoff & Haft (and since December 2001, its successor, Reed Smith). From 1989 to 1994, he was a senior corporate partner of that firm. Mr. Haft is a strategic and financial consultant for growth stage companies. He is active in international corporate finance and mergers and acquisitions. Mr. Haft also represents emerging growth companies. He has actively participated in strategic planning and fund raising for many high-tech companies, leading edge medical technology companies and marketing companies. He is a director of many public and private corporations, including Encore Medical Corporation and DUSA Pharmaceuticals, Inc., whose securities are traded on the Nasdaq Stock Market, and also serves on the Board of the United States-Russian Business Counsel. Mr. Haft is a past member of the Florida Commission for Government Accountability to the People, a past national trustee and Treasurer of the Miami City Ballet, and a past Board member of the Concert Association of Florida. He is also a trustee of Florida International University Foundation and serves on the advisory board of the Wolfsonian Museum and Florida International University Law School. Mr. Haft received B.A. and LL.B. degrees from Yale University.

Robert M. Wallach

Mr. Wallach has served since 1993 as President, Chairman and Chief Executive Officer of The Robert Plan Corporation, a servicer and underwriter of private passenger and commercial automobile insurance. He has served as one of our directors since 1999.

There are no family relationships among any of our executive officers and directors.

Each director will hold office until the next annual meeting of stockholders and until his successor is elected and qualified or until his earlier resignation or removal. Each executive officer will hold office until the initial meeting of the Board of Directors following the next annual meeting of stockholders and until his successor is elected and qualified or until his earlier resignation or removal.

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Audit Committee Financial Expert

Our Board of Directors has determined that the Audit Committee of the Board does not have an "audit committee financial expert," as that is defined in Item 401(e)(2) of Regulation S-B. We are currently seeking to obtain the services of an individual who would serve on our Board and Audit Committee and who would be an "audit committee financial expert."

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Exchange Act requires that reports of beneficial ownership of common shares and changes in such ownership be filed with the Securities and Exchange Commission by Section 16 "reporting persons," including directors, certain officers, holders of more than 10% of the outstanding common shares and certain trusts of which reporting persons are trustees. We are required to disclose in this Annual Report each reporting person whom we know to have failed to file any required reports under Section 16 on a timely basis during the fiscal year ended December 31, 2003. To our knowledge, based solely on a review of written representations that no reports were required, during the fiscal year ended December 31, 2003, our officers, directors and 10% stockholders complied with all Section 16(a) filing requirements applicable to them, except that, on two occasions, Mr. Goldstein filed a Form 4 one day late (which forms reported one late transaction each).

Code of Ethics for Senior Financial Officers

Our Board of Directors has adopted a Code of Ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics is filed as an exhibit to this Annual Report. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or a waiver from, or Code of Ethics by posting such information on our website, www.dcapinsurance.com.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain information concerning the compensation for the fiscal years ended December 31, 2003, 2002 and 2001 for Barry B. Goldstein, our Chief Executive Officer:

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards		All Compen
		Salary	Bonus	Shares	Underlying Options	
Barry B. Goldstein Chief Executive Officer	2003	\$300,000	\$50,000 (1)	-	-	
	2002	200,000	20,000	1,000,000		
	2001	200,000 (2)	-	1,000,000		

(1) Paid in March 2003 for services rendered during 2002.

(2) Includes amounts earned as a consultant prior to his employment.

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Option Tables

OPTION GRANTS IN FISCAL YEAR ENDED DECEMBER 31, 2003

Name	Number of Common Shares Underlying Options Granted	Percentage of Total Options Granted To Employees in Fiscal Year	Exercise Price
Barry B. Goldstein	-	-	-

AGGREGATED OPTION EXERCISES IN FISCAL YEAR ENDED DECEMBER 31, 2003 AND FISCAL YEAR-END OPTION VALUES

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at December 31, 2003 Exercisable/Unexercisable	Value of In-the-Money at December 31, 2003
Barry B. Goldstein	-	-	1,600,000/400,000	\$1,070,000

Long-Term Incentive Plan Awards

No awards were made to Mr. Goldstein during the fiscal year ended December 31, 2003 under any long-term incentive plan.

Compensation of Directors

Effective January 1, 2004, our non-employee directors are entitled to receive compensation for their services as directors as follows:

- o \$15,000 per annum
- o additional \$5,000 per annum for committee chair
- o \$500 per Board meeting attended (\$250 if telephonic)
- o \$250 per committee meeting attended (\$125 if telephonic)

In addition, in 2003, we paid Mr. Certilman \$50,000 in consideration of his services in obtaining the \$500,000 settlement amount for our Puerto Rico hotel lease, as discussed in "Developments During 2002" in Item 1(a) of this Annual Report. In addition, during 2003, Mr. Certilman was paid a fee of \$50,000 from us for consulting services.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

Mr. Goldstein is employed as our President, Chairman of the Board and Chief Executive Officer pursuant to an employment agreement that expires on April 1, 2005. Mr. Goldstein is entitled to receive a salary of \$300,000 per annum plus such additional compensation as may be determined by the Board of Directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

 RELATED STOCKHOLDER MATTERS

Security Ownership

The following table sets forth certain information as of February 29, 2004 regarding the beneficial ownership of our common shares by (i) each person who we believe to be the beneficial owner of more than 5% of our outstanding common shares, (ii) each present director, (iii) each person listed in the Summary Compensation Table under "Executive Compensation," and (iv) all of our present executive officers and directors as a group.

Name and Address of Beneficial Owner -----	Number of Shares Beneficially Owned -----	Approximate Percent of Class -----
Barry B. Goldstein 1158 Broadway Hewlett, New York	1,902,000 (1) (2)	13.4%
AIA Acquisition Corp. 6787 Market Street Upper Darby, Pennsylvania	1,808,000 (3)	12.8%
Eagle Insurance Company c/o The Robert Plan Corporation 999 Stewart Avenue Bethpage, New York	1,486,893 (4)	12.0%
Robert M. Wallach c/o The Robert Plan Corporation 999 Stewart Avenue Bethpage, New York	1,486,893 (5)	12.0%
Jack Seibald 1336 Boxwood Drive West Hewlett Harbor, New York	1,238,750 (6)	9.9%
Morton L. Certilman The Financial Center at Mitchel Field 90 Merrick Avenue East Meadow, New York	1,056,005 (1) (7)	8.5%

Name and Address of Beneficial Owner -----	Number of Shares Beneficially Owned -----	Approximate Percent of Class -----
Jay M. Haft	911,393 (1) (8)	7.3%

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69 Beaver Dam Road
Salisbury, CT 06068

Abraham Weinzimer 418 South Broadway Hicksville, New York	783,924 (1)	6.3%
Kevin Lang 3789 Merrick Road Seaford, New York	651,460 (1)	5.3%
All executive officers and directors as a group (4 persons)	5,356,291 (1) (2) (7) (8) (9)	37.2%

- (1) Based upon Schedule 13D filed under the Securities Exchange Act of 1934, as amended.
- (2) Represents (i) 1,800,000 shares issuable upon the exercise of options that are exercisable currently or within 60 days, (ii) 42,500 shares held by Mr. Goldstein's children, and (iii) 59,500 shares held in a retirement trust for the benefit of Mr. Goldstein. Mr. Goldstein disclaims beneficial ownership of the shares held by his children and retirement trust. Excludes shares owned by AIA Acquisition Corp. of which Mr. Goldstein is President and members of his family are principal stockholders.
- (3) Based upon Schedule 13G filed under the Securities Exchange Act of 1934, as amended. Represents shares issuable upon the conversion of preferred shares that are currently convertible.
- (4) Eagle is a wholly-owned subsidiary of The Robert Plan Corporation.
- (5) Represents shares owned by Eagle, of which Mr. Wallach, one of our directors, is a Vice President. Eagle is a wholly-owned subsidiary of The Robert Plan Corporation, of which Mr. Wallach is President, Chairman and Chief Executive Officer.
- (6) Based upon Schedule 13G filed under the Securities Exchange Act of 1934, as amended. Represents (i) 565,000 shares owned jointly by Mr. Seibald and his wife, Stephanie Seibald; (ii) 500,000 shares owned by SDS Partners I, Ltd., a limited partnership ("SDS"); (iii) 15,000 shares owned by Boxwood FLTD Partners, a limited partnership ("Boxwood"); (iv) 30,000 shares owned by Stewart Spector IRA ("S. Spector"); (v) 15,000 shares owned by Barbara Spector IRA Rollover ("B. Spector"); (vi) 20,000 shares owned by Karen Dubrowsky IRA

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("Dubrowsky"); and (vii) 93,750 shares issuable upon the exercise of currently exercisable warrants. Mr. Seibald has voting and dispositive power over the shares owned by SDS, Boxwood, S. Spector, B. Spector and Dubrowsky. The amount reflected as owned by S. Spector includes 15,000 shares issuable upon the exercise of currently exercisable warrants and excludes 135,000 shares issuable upon the exercise of warrants that are not exercisable due to a restriction that precludes the beneficial ownership of more than 9.999% of the outstanding common shares.

- (7) Includes 125,000 shares issuable upon the exercise of currently exercisable

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options.

- (8) Includes (i) 125,000 shares issuable upon the exercise of currently exercisable options and (ii) 15,380 shares held in a retirement trust for the benefit of Mr. Haft.
- (9) Includes shares owned by Eagle, of which Mr. Wallach is a Vice President. Mr. Wallach is also President, Chairman and Chief Executive Officer of The Robert Plan, Eagle's parent.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2003 with respect to compensation plans (including individual compensation arrangements) under which our common shares are authorized for issuance, aggregated as follows:

- o All compensation plans previously approved by security holders; and
- o All compensation plans not previously approved by security holders.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number available under e (excluding
Equity compensation plans approved by security holders	3,152,500	\$.66	
Equity compensation plans not approved by security holders	-0-	-0-	
Total	3,152,500 =====	\$.66 =====	

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Sale of Brentwood Store

Effective February 27, 2003, we sold our Brentwood, New York store to Abraham Weinzimer, one of our principal stockholders, at a purchase price of \$115,437 (equal to approximately 70% of the store's commission income during 2002). Concurrently with the purchase, the entity acquired by Mr. Weinzimer entered into a franchise agreement with DCAP Management Corp., our franchise subsidiary, on terms similar in most respects to our standard conversion franchise agreements. The terms of the above sale were the result of arm's length negotiations between us and Mr. Weinzimer that were based upon the terms

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of other recent sales of our stores to persons who are not affiliated with us and then current market conditions. No independent appraisal or valuation was received in connection with the agreement.

Purchase of Pennsylvania Stores

Effective May 1, 2003, we acquired substantially all of the assets of AIA Acquisition Corp., an insurance brokerage firm with offices located in eastern Pennsylvania. The salient terms of the acquisition are as follows:

- o A base purchase price of \$904,000 (which represents (i) 69% of AIA's includable commission income for the 12 months ended March 31, 2002 or the year ended December 31, 2002, whichever was less, plus (ii) an amount equal to AIA's collected accounts receivable and prepaid expenses). The base purchase price was payable in Series A preferred shares. The Series A preferred shares carry a 5% dividend, are convertible into common shares at a conversion price of \$.50 per share and are redeemable on April 30, 2007 (or sooner under certain circumstances).
- o 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. The additional consideration cannot exceed an aggregate of \$335,000.

Mr. Goldstein, our Chief Executive Officer, is President of AIA and members of his family are principal stockholders of AIA. The terms of the acquisition were the result of arm's length negotiations between us and AIA and were based upon the sales price of stores to persons who are not affiliated with us and current market conditions.

Guaranty

Mr. Goldstein has guaranteed the repayment of \$2,500,000 of the \$18,000,000 line of credit from Manufacturers and Traders Trust Co. discussed in Items 1(a) and 6 of this Annual Report. In consideration of the guaranty, we have agreed that, for so long as the guaranty remains in effect, we will pay him \$50,000 per annum and reimburse him for all premiums paid by him on a \$2,500,000 insurance policy on his life. In the event, at the time of his death, the guaranty is still in effect, the

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proceeds of the life insurance policy will be used to satisfy the guaranty. In such event, Mr. Goldstein's estate would not be entitled to be indemnified for the amount so paid as a guarantor.

Relationship

Certilman Balin Adler & Hyman, LLP, a law firm with which Mr. Certilman is affiliated, serves as our counsel. It is presently anticipated that such firm will continue to represent us and will receive fees for its services at rates and in amounts not greater than would be paid to unrelated law firms performing similar services.

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ITEM 13. EXHIBITS, LIST AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description of Exhibit
2(a)	Share Purchase Agreement, dated as of August 30, 2002, by and between Progressive Agency Holdings Corp. and Blast Acquisition Corp.(1)
2(b)	Asset Purchase Agreement, dated May 28, 2003, by and among AIA-DCAP Corp., DCAP Group, Inc. and AIA Acquisition Corp.(2)
3(a)	Restated Certificate of Incorporation(3)
3(b)	Certificate of Designation of Series A Preferred Stock (2)
3(c)	By-laws, as amended(4)
10(a)	1998 Stock Option Plan, as amended(4)
10(b)	Subscription Agreement, dated as of October 2, 1998, between DCAP Group, Inc. and Eagle Insurance Company and amendments thereto(5)
10(c)	Form of Subscription Agreement with regard to private offering of Units, dated June 2, 1999(6)
10(d)	Form of Registration Rights Agreement with regard to private offering of Units, dated June 2, 1999(6)
10(e)	Form of Warrant Agreement with regard to private offering of Units, dated June 2, 1999(6)
10(f)	Stock Purchase Agreement dated May 17, 2000 by and between DCAP Group, Inc., Dealers Choice Automotive Planning, Inc., Alyssa Greenvald, Morton Certilman, DCAP Ridgewood, Inc., DCAP Bayside, Inc., DCAP Freeport, Inc. and MC DCAP, Inc.(7)
10(g)	Employment Agreement, dated as of May 10, 2001, between DCAP Group, Inc. and Barry Goldstein(8)
10(h)	Stock Option Agreement, dated as of May 10, 2001, between DCAP Group, Inc. and Barry Goldstein(8)
10(i)	Stock Option Agreement, dated as of May 15, 2002, between DCAP Group, Inc. and Barry Goldstein(4)
10(j)	Stock Option Agreement, dated as of May 15, 2002, between DCAP Group, Inc. and Morton L. Certilman(4)
10(k)	Stock Option Agreement, dated as of May 15, 2002, between DCAP Group, Inc. and Jay M. Haft(4)
10(l)	Stock Purchase Agreement, dated as of February 27, 2003, between DCAP

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Group, Inc. and Abraham Weinzimer with respect to sale of DCAP Brentwood Inc.(4)

- 10(m) Financing and Security Agreement, dated July 10, 2003, by and between Manufacturers and Traders Trust Company and Payments Inc.(9)
- 10(n) Grid Note, dated July 10, 2003, in the principal amount of \$18,000,000 issued by Payments Inc. to Manufacturers and Traders Trust Company(9)
- 10(o) Security Agreement, dated July 10, 2003, by DCAP Group, Inc, DCAP Management Corp., AIA-DCAP Corp., Aard-Vark Agency, Ltd., Barry Scott Agency, Inc., Barry Scott Companies, Inc., Barry Scott Acquisition Corp., Baron Cycle, Inc., Blast Acquisition Corp., Dealers Choice Automotive Planning, Inc., IAH, Inc. and Intandem Corp. for the benefit of Manufacturers and Traders Trust Company(9)
- 10(p) Pledge, Assignment and Security Agreement, dated July 10, 2003, by DCAP Group, Inc. for the benefit of Manufacturers and Traders Trust Company(9)
- 10(q) Pledge, Assignment and Security Agreement, dated July 10, 2003, by Blast Acquisition Corp. for the benefit of Manufacturers and Traders Trust Company(9)
- 10(r) Unit Purchase Agreement, dated as of July 2, 2003, by and among DCAP Group, Inc. and the purchasers named therein(9)
- 10(s) Security Agreement, dated as of July 10, 2003, by and among Payments Inc. and the secured parties named therein(9)
- 10(t) Pledge Agreement, dated as of July 10, 2003, by and among DCAP Group, Inc. and the pledgees named therein(9)
- 10(u) Form of Secured Subordinated Promissory Note, dated July 10, 2003, issued by DCAP Group, Inc. with respect to aggregate principal indebtedness of \$3,500,000(9)
- 10(v) Form of Warrant, dated July 10, 2003, for the purchase of an aggregate of 525,000 shares of common stock of DCAP Group, Inc.(9)
- 10(w) Registration Rights Agreement, dated July 10, 2003, by and among DCAP Group, Inc. and the purchasers named therein(9)

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- 10(x) Letter agreement, dated October 31, 2003, between DCAP Group, Inc. and Barry Goldstein
- 14 Code of Ethics
- 21 Subsidiaries
- 23 Consent of Holtz Rubenstein & Co., LLP
- 31 Rule 13a-14(a)/15d-14(a) Certification as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated August 30, 2002 and incorporated herein by reference.
 - (2) Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated May 28, 2003 and incorporated herein by reference.
 - (3) 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.
 - (4) Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002 and incorporated herein by reference.
 - (5) 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.
 - (6) Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999 and incorporated herein by reference.
 - (7) Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended June 30, 2000 and incorporated herein by reference.
 - (8) Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended June 30, 2001 and incorporated herein by reference.
 - (9) Denotes document filed as an exhibit to Amendment No. 1 to our Current Report on Form 8-K for an event dated May 28, 2003 and incorporated herein by reference.

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(b) Reports on Form 8-K

No reports on Form 8-K were filed by us during the last quarter of the fiscal year ended December 31, 2003.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to us by Holtz Rubenstein & Co., LLP, our independent auditors, for professional services rendered for the fiscal years ended December 31, 2003 and December 31, 2002:

Fee Category -----	Fiscal 2003 Fees -----	Fiscal 2002 Fees -----
Audit Fees(1)	\$44,400	\$58,305
Audit-Related Fees(2)	1,675	10,750
Tax Fees	-	-
All Other Fees(3)	9,630	13,000
	-----	-----
Total Fees	\$55,705 =====	\$82,055 =====

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- (1) Audit Fees consist of aggregate fees billed for professional services rendered for the audit of our annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for the fiscal years ended December 31, 2003 and December 31, 2002, respectively.
 - (2) Audit-Related Fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." These fees related to a review of our Current Reports on Form 8-K and matters related to our acquisition of Barry Scott Companies, Inc.
 - (3) All Other Fees consist of aggregate fees billed for products and services provided by Holtz Rubenstein, other than those disclosed above. These fees related to the audits of our wholly-owned subsidiary, DCAP Management Corp., and general accounting consulting services.

The Audit Committee is responsible for the appointment, compensation and oversight of the work of the independent auditors and approves in advance any services to be performed by the independent auditors, whether audit-related or not. The Audit Committee reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent auditors. All of the fees shown above were pre-approved by the Audit Committee.

DCAP GROUP, INC. AND
SUBSIDIARIES

REPORT ON AUDITS OF CONSOLIDATED
FINANCIAL STATEMENTS

Two Years Ended December 31, 2003

DCAP GROUP, INC. AND
SUBSIDIARIES

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Two Years Ended December 31, 2003

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Independent Auditors' Report

Board of Directors and Stockholders
DCAP Group, Inc. and Subsidiaries
Hewlett, New York

We have audited the accompanying consolidated balance sheet of DCAP Group, Inc. and Subsidiaries as of December 31, 2003 and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for each of the years in the two-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DCAP Group, Inc. and Subsidiaries as of December 31, 2003 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein & Co., LLP

Melville, New York
February 13, 2004

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DCAP GROUP, INC. AND
SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2003

Assets

Current Assets:

Cash and cash equivalents	
Accounts receivable, net of allowance for doubtful accounts of \$73,000	
Finance contracts receivable	\$ 21,202,827
Less: Deferred interest	(1,871,157)
Less: Allowance for doubtful accounts	(247,509)

Prepaid expenses and other current assets

Total Current Assets

Property and Equipment, net

Goodwill

Other Intangibles, net

Deposits and Other Assets

Total Assets

Liabilities and Stockholders' Equity

Current Liabilities:

Revolving credit line
Accounts payable and accrued expenses
Premiums payable
Current portion of long-term debt
Other current liabilities

Total Current Liabilities

Long-Term Debt

Other Liabilities

Mandatorily Redeemable Preferred Stock

Commitments

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Stockholders' Equity:

Preferred stock, \$.01 par value; authorized
 1,000,000 shares; 0 shares issued and outstanding
 Common stock, \$.01 par value; authorized 40,000,000 shares;
 issued 16,068,018
 Capital in excess of par
 Deficit

Treasury stock, at cost, 3,714,616 shares

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

 See notes to consolidated financial statements.

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DCAP GROUP, INC. AND
 SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31,

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Revenues:

Commissions and fees	\$ 6,
Premium finance revenue	2,

	8,

Operating Expenses:

General and administrative expenses	6,
Depreciation and amortization	
Premium finance interest expense	

Total Operating Expenses	7,

Operating Income	1,

Other (Expense) Income:

Interest income	
Interest expense	
Interest expense - mandatorily redeemable preferred stock	
Gain on sale of stores and business	

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Income Before Provision for Income Taxes and Minority Interest	1,
Provision for Income Taxes	
Income Before Minority Interest	1,
Minority Interest	
Income from Continuing Operations	1,
Discontinued Operations:	
(Loss) income from operations of discontinued subsidiary, net of	
income taxes of \$0 and \$3,194, respectively	
Gain on disposition of discontinued subsidiary,	
net of income taxes of \$22,000	
Net Income	\$ 1,
Net Income Per Common Share:	
Basic:	
Income from continuing operations	
(Loss) income from operations of discontinued subsidiary	
Gain on disposition of discontinued subsidiary	
Net income	
Diluted:	
Income from continuing operations	
(Loss) income from operations of discontinued subsidiary	
Gain on disposition of discontinued subsidiary	
Net income	
Weighted Average Number of Shares Outstanding	
Basic	12,
Diluted	14,

See notes to consolidated financial statements.

DCAP GROUP, INC. AND
SUBSIDIARIES

Consolidated Statement of Stockholders' Equity (Deficit)

Years Ended December 31, 2003 and 2002

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	Common Stock		Preferred Stock		Capital in Excess of Par
	Shares	Amount	Shares	Amount	
Balance, January 1, 2002	15,068,018	\$150,680	-	\$ -	\$ 9,752,409
Securities Issued to Private Placement Investors	1,000,000	10,000	-	-	490,000
Net Income	-	-	-	-	-
Balance, December 31, 2002	16,068,018	160,680	-	-	10,242,409
Warrants Issued with Private Placement	-	-	-	-	147,000
Net Income	-	-	-	-	-
Balance, December 31, 2003	16,068,018	\$160,680	-	\$ -	\$10,389,409

See notes to consolidated financial statements.

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DCAP GROUP, INC. AND
SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31,

2003

Cash Flows from Operating Activities:

Net income	\$ 1,
Adjustments to reconcile net income to net cash provided by operating activities:	

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Depreciation and amortization	
Bad debt expense	
Gain on sale of stores and business	(
Amortization of warrants	
Gain on disposition of discontinued subsidiary	
Minority interest	
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(1,
Prepaid expenses and other current assets	
Deposits and other assets	(
Increase (decrease) in liabilities:	
Premiums payable	6,
Accounts payable and accrued expenses	
Other current liabilities	
Net Cash Provided by Operating Activities	7,
Cash Flows from Investing Activities:	
Increase in finance contracts receivable - net	(19,
Decrease in notes and other receivables - net	
Proceeds from disposition of discontinued subsidiary	
Proceeds from sale of stores and business	(
Purchase of property and equipment	(
Business acquisitions	
Purchase of minority interest	
Net Cash Used in Investing Activities	(18,
Cash Flows from Financing Activities:	
Principal payments on long-term debt	(
Proceeds from long-term debt	3,
Proceeds from revolving loan	17,
Payments on revolving loan	(8,
Proceeds from private placement	
Decrease in due to officer	
Net Cash Provided by Financing Activities	12,
Net Increase in Cash and Cash Equivalents	
Cash and Cash Equivalents, beginning of year	
Cash and Cash Equivalents, end of year	\$ 1,

See notes to consolidated financial statements.

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DCAP GROUP, INC. AND
SUBSIDIARIES

Notes to Consolidated Financial Statements

Two Years Ended December 31, 2003

1. Organization and Nature of Business

DCAP Group, Inc. and Subsidiaries (the "Company") operate a network of retail offices and franchise operations engaged in the sale of retail auto, motorcycle, boat, business, and homeowner's insurance, and provide premium financing of insurance policies for customers of their offices as well as customers of non-affiliated entities. The Company also provides automobile club services for roadside emergencies and tax preparation services.

Prior to July 14, 2003, the Company's premium finance business entailed the origination of premium finance contracts which were sold to third parties, and for which the Company earned a fee. On July 14, 2003, the Company changed its business model with respect to its premium finance operations from selling finance contracts to third parties to internally financing those contracts.

In addition, the Company operated the International Airport Hotel in San Juan, Puerto Rico (the "Hotel") through its wholly owned subsidiary, IAH, Inc. The lease on the hotel was terminated in January 2003 and the operations of this subsidiary