

Edgar Filing: DCAP GROUP INC/ - Form 10QSB

DCAP GROUP INC/  
Form 10QSB  
August 22, 2001

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2001  
or

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

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

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

Delaware

36-2476480

-----  
(State or other jurisdiction of  
incorporation or organization)

(I.R.S Employer  
Identification No.)

2545 Hempstead Turnpike, East Meadow, New York

11554

-----  
(Address of principal executive offices)

(Zip Code)

(516) 735-0900

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

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

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

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

Indicate by check mark whether the registrant has filed all documents and  
reports required to be filed by Sections 12, 13 or 15(d) of the Securities  
Exchange Act of 1934 subsequent to the distribution of securities under a plan

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confirmed by a court. ( ) Yes ( ) No

## APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 11,353,402 shares as of July 31, 2001

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#### Forward Looking Statements

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This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated

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benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties associated with undertaking different lines of business, the lack of experience in operating certain new business lines, the decline in the number of insurance companies offering insurance products in our markets, the volatility of insurance premium pricing, government regulation, competition from larger, better financed and more established companies, the possibility of tort reform and a resultant decrease in the demand for insurance, the uncertainty of litigation with regard to our hotel lease, the dependence on our executive management, and our ability to raise additional capital which may be required in the near term. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publically update or revise any forward-looking statements, whether from new information, future events or otherwise.

### Explanatory Note

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Throughout this Quarterly Report, the words "DCAP Group," "we," "our," and "us" refer to DCAP Group, Inc. and the operations of DCAP Group, Inc. as a whole. References to "DCAP Insurance" and the "DCAP Companies" in this Annual Report mean our wholly-owned subsidiary, DCAP Insurance Agencies, Inc., and affiliated companies, and the operations of our insurance-related subsidiaries.

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### PART I. FINANCIAL INFORMATION

#### Item 1. FINANCIAL STATEMENTS

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

June 30, 2001

#### ASSETS

##### CURRENT ASSETS:

Cash and cash equivalents	\$ 593,250
Accounts receivable	267,796
Notes receivable	131,997
Prepaid expenses and other current assets	57,607
	-----
Total current assets	1,050,650
	-----

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PROPERTY AND EQUIPMENT, net	783,212 -----
OTHER ASSETS:	
Goodwill, net	751,682
Other intangibles	268,036
Deposits and other assets	99,268 -----
Total other assets	1,118,986 -----
	\$ 2,952,848 =====
LIABILITIES AND STOCKHOLDERS' EQUITY -----	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$ 1,550,878
Current portion of long-term debt	5,420
Current portion capital lease obligations	96,474
Deferred revenue	188,523
Deposits on sale of stores	739,115
Debentures payable	154,200 -----
Total current liabilities	2,734,610 -----
OTHER LIABILITIES:	
Long-term debt	193,790
Capital lease obligations	162,907
Deferred revenue	40,000 -----
Total other liabilities	396,697 -----
MINORITY INTEREST	24,948 -----
STOCKHOLDERS' EQUITY:	
Common Stock, \$.01 par value; authorized, 25,000,000 shares; issued, 15,068,018 shares	150,680
Capital in excess of par	9,752,409
Deficit	(9,170,170) -----
Treasury Stock	732,919 (928,654) -----
Total Stockholders' Equity	(195,735) -----
	\$ 2,952,848 =====

See notes to condensed consolidated financial statements.

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### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Six months ended June 30,	
	2001 ----	2000 ----
<b>Revenues:</b>		
Commissions and fees	\$ 1,383,763	\$ 3,996,517
Rooms	498,608	518,227
Other	17,497	28,409
	-----	-----
Total revenues	1,899,868	4,543,153
	-----	-----
<b>Costs and expenses:</b>		
General and administrative	2,362,425	3,961,081
Departmental	139,631	194,738
Depreciation and amortization	171,906	426,495
Lease rentals	102,556	104,940
Property operation and maintenance	30,602	16,425
	-----	-----
	2,807,120	4,703,679
	-----	-----
Operating Loss:	(907,252)	(160,526)
<b>Other Income (Expense):</b>		
Interest income	9,402	28,717
Interest expense	(30,642)	(64,759)
Gain on sale of store	56,043	-
	-----	-----
	34,803	(36,042)
	-----	-----
Loss before income taxes and minority interest	(872,449)	(196,568)
Provision for income taxes	20,304	9,550
	-----	-----
Loss before minority interest	(892,753)	(206,118)
Minority interest	(5,148)	6,219
	-----	-----
Net loss	\$ (887,605)	\$ (212,337)
	=====	=====
<b>Net loss per common share:</b>		
Basic	\$ (.06)	\$ (.01)
	=====	=====
Diluted	\$ (.06)	\$ (.01)
	=====	=====
<b>Weighted average number of shares outstanding:</b>		
Basic	15,068,018	14,432,865
	=====	=====

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Diluted	15,068,018	14,432,865
	=====	=====

See notes to condensed consolidated financial statements.

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

	Three months ended June 30,	
	2001	2000
	----	----
Revenues:		
Commissions and fees	\$ 497,146	\$ 1,867,884
Rooms	226,472	232,544
Other	11,105	22,101
	-----	-----
Total revenues	734,723	2,122,529
	-----	-----
Costs and expenses:		
General and administrative	799,709	1,902,787
Departmental	66,184	114,635
Depreciation and amortization	77,223	211,059
Lease rentals	46,773	46,675
Property operation and maintenance	14,224	9,741
	-----	-----
	1,004,113	2,284,897
	-----	-----
Operating Loss:	(269,390)	(162,368)
Other (Expense) Income:		
Interest income	659	14,810
Interest expense	(7,383)	(33,005)
	-----	-----
	(27,921)	(18,195)
	-----	-----
Loss before income taxes and minority interest	(276,114)	(180,563)
Provision for income taxes	2,383	463
	-----	----
Loss before minority interest	(278,497)	(181,026)
Minority interest	(3,836)	14,713
	-----	-----
Net loss	\$ (274,661)	\$ (195,739)

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	=====	=====
Net loss per common share:		
Basic	\$          (.02)	\$          (.01)
	=====	=====
Diluted	\$          (.02)	\$          (.01)
	=====	=====
Weighted average number of shares outstanding:		
Basic	15,068,018	14,557,668
	=====	=====
Diluted	15,068,018	14,557,668
	=====	=====

See notes to condensed consolidated financial statements.

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

	Six months ended June 30,
	2001
	----
Cash flows from operating activities:	
Net loss	\$ (887,605)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:	
Depreciation and amortization	171,906
Loss on sale of ownership interests in joint ventures	-
Forgiveness of note receivable	141,454
Provision for bad debts	1,800
Minority interest in net (loss) earnings	(5,148)
Gain on sale of store	(56,043)
Decrease (increase) in assets:	
Accounts receivable	104,169
Prepaid expenses and other current assets	(617)
Deposits and other	(25,707)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(309,448)
Deferred revenue	(124,565)
Deposits on sale of stores	739,115
	-----
Net cash (used in) provided by operating activities	(250,689)
	-----

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Cash flows from investing activities:	
Decrease (Increase) in notes and other receivables, net	169,765
Acquisition of property and equipment	-
Proceeds from sale of store	104,976
	-----
Net cash provided by (used in) investing activities	274,741
	-----
Cash flows from financing activities:	
Proceeds from long-term debt	-
Principal payment of long-term debt and capital lease obligations	(190,111)
	-----
Net cash used in financing activities	(190,111)
	-----
Net (decrease) increase in cash and cash equivalents	(166,059)
Cash and cash equivalents, beginning of period	759,309
	-----
Cash and cash equivalents, end of period	\$ 593,250
	=====

See notes to condensed consolidated financial statements.

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

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

The accompanying consolidated financial statements include the accounts of all subsidiaries and joint venture interests in which we exercise



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significant influence over all decision making related to the ongoing major operations. All significant intercompany accounts and transactions have been eliminated.

b. Revenue recognition  
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We recognize commission revenue from insurance policies at the beginning of the contract period, on income tax preparation when the services are completed and on automobile club dues equally over the contract period. Franchise fee revenue is recognized when substantially all of our contractual requirements under the franchise agreement are completed. Refunds of commissions on the cancellation of insurance policies are reflected at the time of cancellation.

Premium financing fee revenue is earned based upon the collection of loan installments by third party financing companies. We record this revenue upon the receipt of fees from the financing companies, as we do not have the ability to determine whether we have earned fees during the term of the financing agreement.

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

c. Website Development Costs  
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Technology and content costs are generally expenses as incurred, except for certain costs relating to the development of internal-use-software, including those relating to operating our website, that are capitalized and depreciated over two years. No costs were incurred during the six months ended June 30, 2001.

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3. The results of operations and cash flows for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.
4. Segment and Related Information. We have two business units with separate management teams that provide different products and services.

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

Period Ended June 30, 2001 -----	Insurance -----	Hotel -----	Other (1) -----
Revenues from external customers	\$1,383,763	\$510,347	\$ 5,758
Interest income	-	-	9,402
Interest expense	30,642	-	-
Depreciation and amortization	165,379	6,527	-
Segment (loss) profit	(787,647)	82,807	(182,765)

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Segment assets	2,358,208	299,786	294,854
Period Ended			
June 30, 2000	Insurance	Hotel	Other (1)
-----	-----	-----	-----
Revenues from external customers	\$3,996,517	\$529,902	\$ 16,734
Interest income	3,928	-	24,789
Interest expense	64,759	-	-
Depreciation and amortization	406,086	20,409	-
Segment (loss) profit	(206,469)	82,342	(88,210)
Segment assets	6,604,350	323,962	629,584
Expenditures for segment assets	75,261	-	-

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(1) Column represents corporate-related items.

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

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SIX MONTHS ENDED JUNE 30, 2001 AND 2000

Results of Operations

Our net loss for the six months ended June 30, 2001 was \$887,605 as compared to a net loss of \$212,337 for the six months ended June 30, 2000.

During the six months ended June 30, 2001, revenues from our DCAP Insurance operations were \$1,383,763 as compared to \$3,996,517 during the six months ended June 30, 2000. The decline in revenues from our insurance-related operations was generally due to competitive pressures in the industry and the sale (and, in general, conversion to franchise status) or closure of 12 DCAP offices. Effective March 28, 2001, we entered into agreements to sell eight of our remaining 11 wholly-owned and joint venture offices. Pursuant to our agreements with the purchasers of the stores, pending the closing, they are entitled to receive all profits from the operations of the stores and are responsible for all losses. We have therefore determined not to record any revenues or expenses with respect to these stores commencing with the effective date of the agreement. We intend to sell our remaining wholly-owned and joint venture offices in the foreseeable future. Therefore, we anticipate that revenues from our insurance-related operations will further decline during the remainder of 2001. However, as a result of our shift in 2000 to a franchise business model, monthly franchise fees are anticipated to increase substantially during the remainder of 2001. Since, in general, monthly franchise fees are not payable with regard to the initial 12 months of operations, and since many of the franchises sold in 2000 did not commence operations until the latter part of the year, the increase in monthly franchise fees is not expected to take place until the latter part of 2001. Hotel revenues decreased approximately \$20,000 between the six months ended June 30, 2000 and 2001.

Our general and administrative expenses for the six months ended June 30, 2001 were \$1,598,656 less than for the comparable period in 2000 primarily due to the sale and closure of stores discussed above. In addition, our depreciation

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and amortization expenses decreased \$254,589 between the six months ended June 30, 2000 and 2001 primarily due to a write off of goodwill and other intangibles that occurred with respect to our 2000 fiscal year results and the sale or closure in 2000 of stores as discussed above.

Our DCAP Insurance operations during the six months ended June 30, 2001, on a stand-alone basis, generated a net loss of \$787,647 (after giving effect to a gain of \$56,043 on the sale of our ownership interest in a DCAP store) as compared to a net loss of \$206,469 for the six months ended June 30, 2000. The net loss was incurred primarily due to the decline in revenues discussed above which was not offset by a comparable decline in operating expenses. The operations of the hotel during the six months ended June 30, 2001, on a stand-alone basis, generated a net income of \$82,807 as compared to a net income of \$82,342 for the six months ended June 30, 2000.

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### Liquidity and Capital Resources

As of June 30, 2001, we had \$593,250 in cash and cash equivalents and a working capital deficiency of \$1,683,960. As of December 31, 2000, we had \$759,309 in cash and cash equivalents and a working capital deficiency of \$161,156.

Cash and cash equivalents decreased between December 31, 2000 and June 30, 2001 due to the loss incurred during the period and the outlay of cash to satisfy accounts payable and accrued expense obligations of \$309,448 and repay long-term debt and capital lease obligations of \$190,111. These amounts were offset by the receipt of approximately \$105,000 in cash in February 2001 from the sale of a DCAP store and approximately \$739,000 in April 2001 pursuant to agreements to sell eight of our stores. Pending the closing of the sale of the eight stores, the \$739,000 received has been recorded on the balance sheet as a liability under the heading "Deposits on sale of stores".

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

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

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

- o We have continued efforts to expand franchise operations and decrease the number of wholly-owned and partially-owned stores (by the sale of stores and, in general, conversion to franchise status).
- o We have continued efforts to reduce overhead expenses. These efforts include the reduction of "central office" expenses due to the shift to a franchise-oriented strategy. In addition, effective March 28, 2001, the employment agreements for Kevin Lang, Abraham Weinzimer, Morton L. Certilman and Jay M. Haft, our then President, Executive Vice President, Chairman of the Board and Vice Chairman of the Board, respectively, were terminated. Pursuant to the agreements, Messrs. Lang, Weinzimer, Certilman and Haft had been entitled to receive aggregate annual compensation of

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approximately \$647,000. Concurrently, our subsidiary, DCAP Management, entered into a six month employment agreement with Mr. Lang pursuant to which he is entitled to receive compensation at the rate of \$125,000 per annum.

- o We have continued to seek an infusion of capital.

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

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### PART II. OTHER INFORMATION

#### Item 1. LEGAL PROCEEDINGS

None.

#### Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

#### Item 3. DEFAULTS UPON SENIOR SECURITIES

None

#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

#### Item 5. OTHER INFORMATION

None

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

##### (a) Exhibits

3(a) Certificate of Incorporation, as amended 1

3(b) By-laws, as amended 2

10(a) Employment Agreement, dated as of May 10, 2001 between us and Barry Goldstein.

10(b) Stock Option Agreement, dated as of May 10, 2001 between us and Barry Goldstein.

##### (b) Reports on Form 8-K

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

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

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

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### SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this amendment to the report to be signed on its behalf by the undersigned, thereunto duly authorized.

DCAP GROUP, INC.

Dated: August 22, 2001

By: /s/ Barry Goldstein

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