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DCAP GROUP INC/  
Form 10KSB  
April 16, 2002

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, 2001
- 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  
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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 -----	Name of each exchange on which registered -----
none -----	

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: \$3,520,464

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State the aggregate market value of the voting stock held by non-affiliates 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: \$1,719,368 as of March 31, 2002.

### (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: 11,353,402 shares as of March 31, 2002.

### DOCUMENTS INCORPORATED BY REFERENCE

None

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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 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

Throughout this Annual 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

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affiliated companies, and the operations of our insurance- related subsidiaries.

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### ITEM 1. DESCRIPTION OF BUSINESS

#### (a) Business Development

##### Background

Prior to February 25, 1999, our sole business was the operation of the International Airport Hotel in San Juan, Puerto Rico. The hotel is discussed in Item 1(b) of this Annual Report.

##### DCAP Acquisition

On February 25, 1999, we acquired the DCAP Companies. The business of the DCAP Companies is discussed in Item 1(b) of this Annual Report.

At the time of our acquisition of the DCAP Companies, the following other actions occurred:

- o The size of our Board of Directors was initially increased to four, and Kevin Lang and Abraham Weinzimer, the principals of the DCAP Companies, joined Morton L. Certilman and Jay M. Haft as our Board members.
- o Messrs. Lang and Weinzimer were appointed as our President and Executive Vice President, respectively. Messrs. Certilman and Haft, formerly President and Chairman of the Board, respectively, were appointed Chairman of the Board and Vice Chairman of the Board, respectively.
- o Messrs. Lang, Weinzimer, Certilman and Haft acquired common shares from us and from one of our principal shareholders as discussed in Item 12 of this Annual Report.
- o We changed our name from EXTECH Corporation to DCAP Group, Inc.
- o Eagle Insurance Company acquired common shares from us as discussed in Item 12 of this Annual Report. Eagle is a New Jersey insurance company wholly-owned by The Robert Plan Corporation, an insurance holding company that is engaged in providing services to insurance companies.
- o The size of our Board of Directors was increased further to five and Robert M. Wallach, Eagle's Vice President and the President, Chairman and Chief Executive Officer of The Robert Plan, was appointed as a member of our Board.

##### Private Placement

In June 1999, we raised gross proceeds of \$1,675,000 through a private placement of our securities.

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### Acquisitions of Joint Venture Interests

In December 1999, we acquired the interests of our joint venture partners in 15 DCAP retail insurance stores. These acquisitions were part of our plan to phase out joint ventures in the DCAP system and to concentrate on wholly-owned and franchise operations.

### Sale of Stores; Emphasis on Franchise Operations

Commencing in 2000 and continuing into 2001, we began pursuing a strategy of shifting toward franchise operations. Pursuant to that strategy, since May 2000, we have closed or sold our interest in 20 wholly-owned or partially-owned stores and have granted 24 franchises to operate DCAP stores. We now have three remaining wholly-owned or partially-owned stores.

### Developments During 2001

The following events occurred in March 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 Messrs. Lang, Weinzimer and Certilman to sell them a total of eight of our DCAP stores for an aggregate cash consideration of \$767,000. These transactions, which closed in November 2001, are discussed in Item 12 of this Annual Report.
- o We repurchased common shares from Messrs. Lang and Weinzimer as discussed in Item 12.
- o We terminated our employment agreements with Messrs. Lang, Weinzimer, Certilman and Haft; 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. The termination of the employment agreements is discussed in Item 12.

(b) Business of Issuer

General

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We operate three lines of business:

- o franchising, ownership and operation of storefront insurance agencies
- o premium financing of insurance policies for our DCAP clients as well as clients of non-affiliated entities
- o operation of the International Airport Hotel in San Juan, Puerto Rico

Our DCAP storefront locations serve as insurance agents or brokers and place various types of insurance on behalf of customers. The types of insurance placed include the following:

- o automobile
- o motorcycle
- o boat
- o livery/taxi
- o life
- o business
- o homeowner
- o excess coverage

There are 57 DCAP locations in the New York metropolitan area. Fifty-four of them are franchises. The balance are either wholly owned or partially owned by us. We try to select locations that will attract "walk-in" retail customers.

The DCAP 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 DCAP stores serve as an insurance company and therefore do not assume underwriting risks.

We also offer the following additional services in connection with the operation of the DCAP stores:

- o income tax return preparation services
- o automobile club services for roadside emergencies

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

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We also operate the International Airport Hotel in San Juan, Puerto Rico which caters to commercial and tourist travelers in transit.

We were incorporated in 1961 under the name Executive House, Inc. We changed our name to EXTECH Corporation in 1991. In February 1999, we acquired the DCAP Companies and began our insurance operations. At that time we changed our name to DCAP Group, Inc.

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.

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### DCAP Insurance

#### Insurance Brokerage

For many years, DCAP Insurance specialized in offering assigned-risk and nonstandard automobile insurance policies. Assigned-risk and nonstandard policies are issued after an analysis of such factors as the driver's accident record, the kind of car being insured, the age and credit risk of the driver, where the insured lives, and other items. Over the last several years, DCAP Insurance has also been marketing and selling standard and preferred policies. Through such preferred carriers as Travelers, Progressive Casualty, and Metlife Auto and Home, serving as either brokers or agents, we can offer our customers many carrier and premium options.

Due to the continued lack of profitability experienced by many nonstandard carriers, the number of insurers servicing the nonstandard market has decreased. The effect during 2001 was particularly acute in New York City. This has created a situation where we can no longer offer certain drivers (e.g., a driver seeking minimum legal liability limits) a choice in carriers (known as the "voluntary market"), and we must place the insured in the "assigned risk" New York Automobile Insurance Plan (known as the "involuntary market").

During the fiscal year ended December 31, 2001, approximately 67% of our DCAP Insurance revenues were derived from commissions and other fees received in connection with the selling of automobile and other property and casualty insurance policies.

We have established a presence in all five New York City boroughs, Nassau, Suffolk, Westchester, Rockland and Dutchess Counties, New York and New Jersey. We select locations to maximize the attraction of "walk-in" retail customers. These customers generally do not have an established relationship with us and come to our stores without an appointment. These customers constitute the majority of our DCAP Insurance business.

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In addition to automobile insurance, we offer:

- 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, Connecticut and Pennsylvania (except for one area code in Pennsylvania) as a way to increase our insurance brokerage business.

#### Franchises

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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.

During the year ended December 31, 2000, we granted a total of 26 franchises. One additional franchise was granted in 2001. We now have a total of 54 franchises, representing 95% of our total number of locations.

Franchises currently pay us an initial franchise fee of \$37,500 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. Initial franchise fees and ongoing monthly fees payable by franchisees constituted approximately 22% of our DCAP Insurance revenues during the year ended December 31, 2001.

### Income Tax Return Preparation

Many our DCAP stores 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.

The participating DCAP stores gather information from filers. The stores then process the information, generate returns to be submitted to the Internal Revenue Service and other taxing authorities, manually or electronically file the return and processes any refunds. We believe that the provision of this service not only increases our revenues, but also enhances our presence in the various markets that we serve and aids in customer retention. During fiscal 2001, fees received in connection with income tax return preparation constituted approximately 1% of our DCAP Insurance revenues.

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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 2001, fees received in connection with automobile club services constituted approximately 10% of our DCAP Insurance revenues.

### Premium Financing

Customers who purchase insurance policies are often unable to pay the premium in a lump sum and, therefore, require financing. Until September 1999, we outsourced premium financing for our customers. Based upon the perceived need for premium financing, we formed Payments, Inc. and it became licensed by the New York State Banking Department as a premium finance agency.

Payments, Inc. has a contract with another premium finance agency which has agreed to purchase premium finance receivables as originated by Payments, Inc.



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Payments, Inc. is entitled to a fee with respect to the purchased receivables, subject to certain conditions. Payments, Inc. retains none of the receivables.

### Structure and Operations

As stated above, we currently have 57 offices, of which 54 are franchises, one is wholly-owned, and two are joint ventures. Our franchises and joint venture offices 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.

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 DCAP Management System (as discussed below)

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. This direct relationship is enhanced by a software system, known as the DCAP Management System ("DMS") that provides a direct link to certain carrier databases. DMS enables each DCAP office that utilizes it to access policy coverage and cost information, application requirements, and other kinds of information. All needed premium finance rates and forms are included as a module within DMS. DMS also enables the DCAP offices' brokers to search various databases to obtain pertinent information about potential customers.

### Strategy

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We currently have the following three-pronged business strategy:

- o strengthen the DCAP name to increase franchise value
- o provide to the DCAP franchisees certain proprietary products and services that may not be available elsewhere
- 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

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 offices to advertise in various editions of directories and in automobile sales and other publications. We have also utilized television and radio advertising and will consider further use in the future.

Our strategy of expanding and diversifying the products and services offered will capitalize on the nature of the typical DCAP customer. We offer our "walk-in" customer not only a variety of automobile insurance products, but, as noted above, additional types of insurance currently offered, including life, business and homeowner's insurance, and excess coverage, and other services, including an income tax return processing program.

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

Our final strategy 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 provides for limited finance options, and the insurance premiums have increased dramatically in recent years. Thus, 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 in New York, and have been given permission to operate in Pennsylvania. Our application to do business in New Jersey is pending.

### 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

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between us and other agents and brokers. As the number of voluntary carriers has declined, the differentiations 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, such as Progressive Insurance, has shown some promise; however, the market share currently attributable to the Internet is not material. Further, recent legislation that allows banks to offer insurance to their customers has taken market share from the storefront insurance operators.

In connection with our income tax preparation services, we compete with well-established companies such as H&R Block and Jackson Hewitt as well as smaller tax preparation companies and tax preparers.

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.

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### International Airport Hotel

We operate the International Airport Hotel in San Juan, Puerto Rico. The hotel is located on the site of the San Juan International Airport and occupies the third and fifth floors of the main terminal building. In addition to its 57 guest rooms, the hotel has a lobby area. The hotel caters generally to commercial and tourist travelers in transit; it is marketed through brochures, local advertising and in-airport advertising. We also operate a video game room on the terminal level of the airport. The operations of the hotel are highly seasonal, with a disproportionate share of its revenues generated during the first several months of the calendar year. Approximately 9% of the total room sales for the hotel for 2001 were attributable to one customer, American Airlines. During 2001, the hotel's average occupancy rate was approximately 60%. From 1997 to 2000, the average occupancy rate was approximately 63%. The hotel's average room rate during 2001 was approximately \$71.

The hotel is the only hotel actually located on the site of the airport. As such, it has little direct competition for the tourist trade or commercial travelers seeking only sleeping accommodations at the airport. Other hotels are located in areas surrounding the airport. We have been adversely affected by the reduction in air travel since the attack on the World Trade Center on September 11, 2001.

See Item 3 of this Annual Report for a discussion of a lawsuit with regard to the lease for the hotel.

### Employees

We employ approximately 31 persons; eight of them (all of whom are employed in connection with our hotel operations) are represented by a collective bargaining organization. We believe that our relationship with our employees is good.

## ITEM 2. DESCRIPTION OF PROPERTY

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Our principal executive offices are located at 1158 Broadway, Hewlett, New York. We currently also have three wholly-owned or joint venture DCAP stores that are located as follows:

Store Location	Nature of Ownership
White Plains, New York	Wholly-owned
Brentwood, New York	Joint venture (1)
Greenbrook, New Jersey	Joint venture (2)

-----

- (1) 80% owned by us.
- (2) 50% owned by us.

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Our three wholly-owned or joint venture DCAP offices and our executive 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 \$142,000.

Our hotel is leased from the Puerto Rico Ports Authority. The annual rental obligation equals the greater of \$169,400 or 20% of annual gross revenues. Total rent expense under the lease amounted to approximately \$178,000 for 2001 compared to approximately \$197,000 for 2000.

### ITEM 3. LEGAL PROCEEDINGS

#### Dispute with Ports Authority

On July 22, 1988, we entered into a lease agreement with the Puerto Rico Ports Authority pursuant to which the Ports Authority granted us a lease to operate the hotel for five years until June 30, 1993. We also received the option to extend the term of the lease for an additional five year term to end June 30, 1998 (subject to agreement as to the rental amount payable, which the parties agreed to negotiate in good faith).

In 1992, in accordance with the lease agreement, we exercised our right for a five year extension of the lease. At the time, the Ports Authority was uncertain as to whether it wished to build a new hotel in the parking lot of the airport or upgrade the hotel and requested that we accept a 30 month extension of the then existing term. We agreed to a 30 month extension and signed a supplemental lease agreement with the Ports Authority in May 1992 extending the lease term to December 31, 1995. We believe that, pursuant to the supplemental lease agreement, we retained our option to continue the lease for a period of five years to December 31, 2000 and thereafter for additional five year terms.

In July 1993, the Assistant Director of Operations of the Ports Authority forwarded to us a letter containing the terms of a proposed ten year lease extension which we approved, signed and returned to the Ports Authority. Thereafter, a lease agreement was drafted by the Ports Authority which we also approved, signed and returned. Although the proposed lease extension does not make the Ports Authority's approval conditional upon the approval of its Board of Directors, the Ports Authority has taken that position. The Ports Authority contends that, since Board of Directors approval was not obtained, the extension is not in effect. Alternatively, the Ports Authority contends that we were

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entitled to only one extension of the lease term. We believe that a lease totaling ten years has been entered into between us and the Ports Authority pursuant to the proposed lease extension or that, alternatively, we exercised our right to extend the term of the lease to December 31, 2000. We have notified the Ports Authority that we believe that we have the right to further extend the term of the lease to December 31, 2005 and that we exercised this right.

Based upon our refusal to acknowledge that, effective January 1, 1996, we occupied the hotel on a month-to-month basis, in February 1996, the Ports Authority requested that we vacate, surrender and deliver the premises by February 29, 1996. Following the receipt of that request, on February

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26, 1996, we brought an action in the Superior Court of San Juan, Puerto Rico for declaratory judgment and possessory injunction against the Ports Authority with respect to the hotel. The action seeks a declaratory judgment that we exercised an option with respect to our lease for the hotel for an extension of the term of five years commencing on January 1, 1996 or, in the alternative, that the Ports Authority executed a new lease agreement for a ten year period commencing on that date. Discovery proceedings have taken place, and the action is still pending. We have continued to operate the hotel during the pendency of the action.

### Casmalia Resource Site

In September 2000, we received notices from the United States Environmental Protection Agency and counsel to the Casmalia Resources Site Steering Committee seeking payment for certain costs anticipated to be incurred in connection with the cleanup of a former hazardous waste facility. The notices relate to AG Oil, a company with which we had no connection and that allegedly sent waste to the Casmalia Disposal Site in Santa Barbara County, California in and around 1982. In 1989 AG Oil merged with Aegis Industries Incorporated, a company with which we also had no connection until 1990 when we obtained a 24% equity interest. In 1992 Aegis was involuntarily dissolved by the State of Delaware. Based upon its acknowledgment that AG Oil sent relatively small amounts of waste to the site, the EPA offered to settle the matter for approximately \$110,000. In October 2000, our counsel sent a letter to the EPA explaining the tenuous relationship between AG Oil and us and indicating our belief that we have no responsibility for any alleged acts of AG Oil and, therefore, no liability in connection with this matter. We have received no further notices or communications from the EPA with regard to the matter.

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

Our Annual Meeting of Stockholders was held on November 27, 2001. 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
---	-----

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Barry Goldstein	8,041,498	110,283
Morton L. Certilman	8,041,488	110,293
Jay M. Haft	8,041,488	110,293
Robert Wallach	8,041,498	110,283

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2. Approval and ratification of the sale by us and our subsidiaries of assets that may constitute, under Delaware law, substantially all of our assets.

For	6,725,784
Against	54,918
Abstain	8,299
Broker Non-Vote	1,362,780

3. Approval of an increase in the number of common shares authorized to be issued pursuant to our 1998 Stock Option Plan from 2,000,000 to 3,000,000.

For	6,558,093
Against	159,915
Abstain	70,993
Broker Non-Vote	1,362,780

4. Approval of an amendment to our Certificate of Incorporation to increase the number of authorized common shares from 25,000,000 to 40,000,000.

For	7,917,378
Against	160,620
Abstain	73,783
Broker Non-Vote	-

5. Approval of an amendment to our Certificate of Incorporation to provide for the authority to issue up to 1,000,000 preferred shares.

For	6,559,018
Against	160,125
Abstain	69,858
Broker Non-Vote	1,362,780

6. Approval of an amendment to our Certificate of Incorporation to broaden the corporate purposes to include any lawful act or activity for which corporations may be organized under Delaware law.

For	6,732,872
Against	51,123
Abstain	5,006
Broker Non-Vote	1,362,780

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Our common shares are traded over-the-counter and quoted on the NASD OTC Electronic 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
2001 Calendar Year		
First Quarter	\$.40	\$.25
Second Quarter	.37	.26
Third Quarter	.33	.25
Fourth Quarter	.27	.23
2000 Calendar Year		
First Quarter	\$1.06	\$.75
Second Quarter	.81	.31
Third Quarter	.47	.38
Fourth Quarter	.38	.25

(b) Holders

As of April 9, 2002, there were approximately 2,303 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. 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 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.

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(d) Recent Sales of Unregistered Securities

Not applicable.

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

Our DCAP storefront locations serve as insurance agents or brokers and place various types of insurance on behalf of customers. The types of insurance placed include the following:

- o automobile
- o motorcycle
- o boat
- o livery/taxi
- o life
- o business
- o homeowner
- o excess coverage

The DCAP 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 DCAP stores serve as an insurance company and therefore do not assume underwriting risks. The DCAP 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, licensed by the New York State Banking Department, which offers premium financing to clients of DCAP offices, as well as non-DCAP insurance agencies. We currently operate solely within New York State, but are permitted to conduct business also in Pennsylvania. Our application to conduct business in New Jersey is pending.

We also operate the International Airport Hotel in San Juan, Puerto Rico.

#### Results of Operations

Our net loss for the year ended December 31, 2001 was \$929,551 as compared to a net loss of \$3,718,297 for the year ended December 31, 2000. The decreased loss primarily was the result of decreased operating expenses of \$5,097,264 resulting from the sale or closure of DCAP stores and a gain on the sale of DCAP stores of \$56,043 (as compared to a loss of \$2,136,681 in 2000 which gave effect to a write off of \$2,169,000 of goodwill attributable to such stores). These positive

factors were offset by a reduction in revenues of \$4,294,960 and a loss on the disposal of equipment of \$252,791. Included in the decrease in operating expenses was a reduction in general and administrative expenses of \$4,071,673, a reduction in lease rental expenses of \$449,648, a reduction in depreciation and amortization of \$494,654 and the elimination in 2001 of impairment of intangible expenses and impairment of notes receivable expenses in the aggregate of \$282,000 from 2000. These expense reductions offset an increase in the provision for bad debts of \$227,266.



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During the year ended December 31, 2001, revenues from the operations of DCAP Insurance were \$2,350,094 as compared to \$6,677,556 for the year ended December 31, 2000. The decline in revenues from the operations of DCAP Insurance was generally due to the sale (and, in general, conversion to franchise status) or closure of most of our DCAP offices, competitive pressures in the industry and a reduction in the sale of new franchises. We anticipate that revenues from the operations of DCAP Insurance will further decline in 2002 due primarily to the sale of nine of our stores during 2001. However, as a result of our shift in 2000 and 2001 to a franchise business model, monthly franchise fees are anticipated to increase during 2002. Premium finance revenues increased \$220,654 between the year ended December 31, 2000 and 2001. This increase was the result of (i) our renegotiation in June 2001 of our agreement regarding the sale of premium finance receivables that has given rise to increased revenues per transaction, (ii) an increase in the number of franchisees utilizing our premium finance services, and (iii) an expansion of our premium finance marketing efforts to non-DCAP insurance agencies. Hotel revenues decreased approximately \$90,277 between the year ended December 31, 2000 and 2001 primarily due to the overall reduction in air travel since the events of September 11, 2001.

The operations of DCAP Insurance during the year ended December 31, 2001, on a stand-alone basis, generated a net loss of \$821,555 as compared to a net loss of \$3,581,176 for the year ended December 31, 2000. Our premium finance operations during the year ended December 31, 2001, on a stand alone basis, generated a net profit of \$234,128 as compared to a profit of \$24,995 in 2000. The operations of the hotel during the year ended December 31, 2001, on a stand-alone basis, generated net income of \$99,053 as compared to a net income of \$183,272 for 2000. Losses from corporate-related items not allocable to reportable segments increased to \$441,177 during the year ended December 31, 2001 as compared to \$345,388 for 2000.

### Income Taxes

We have recorded a full valuation allowance against our net deferred tax assets because of the uncertainty that sufficient taxable income will be realized during the carry-forward period to utilize the deferred tax asset.

### Liquidity and Capital Resources

As of December 31, 2001, we had \$220,774 in cash and cash equivalents and a working capital deficiency of \$598,263. As of December 31, 2000, we had \$517,425 in cash and cash equivalents and a working capital deficiency of \$161,156.

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Cash and cash equivalents decreased between December 31, 2000 and December 31, 2001 primarily due to the net loss of \$929,551 for 2001 and cash used to repay long-term debt and capital lease obligations of \$235,704, offset by proceeds from the sale of DCAP stores of \$844,091.

Our liquidity at December 31, 2001 was insufficient to meet operating requirements. We believe that the following will help reduce our working capital deficiency and alleviate cash flow demands:

- o We have continued efforts to expand our premium finance customer base of both DCAP and non-DCAP agencies, within and outside New York State.
- o Monthly franchise fees generally are not payable with regard to the

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

Management believes that such items, should they develop as contemplated, are reasonably capable of reducing our working capital deficiency and alleviating our cash flow demands during the 12 month period ended December 31, 2002. We can give no assurances that our efforts will be successful.

We have no current commitments for capital expenditures.

### ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this Item 7 are included in this Annual Report on Form 10-KSB following Item 13 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, 2001.

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## PART III

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

Name	Age	Positions and Offices Held
----	---	-----
Barry B. Goldstein	49	President, Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Treasurer and Director
Morton L. Certilman	70	Secretary and Director
Jay M. Haft	66	Director
Robert Wallach	49	Director

Barry 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 operates insurance agencies in Pennsylvania. 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 (concurrently with our acquisition of DCAP Insurance) until March 2001. From

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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 a member of 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 Institute, The Institute of Real 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

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Law Center. Mr. Certilman has written various articles in the condominium field, 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 (concurrently with our acquisition of DCAP Insurance) 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 technical product, service and marketing companies. He is a director of many public and private corporations, including Robotic Vision Systems, Inc., NCT Group, Inc., Encore Medical Corporation, DUSA Pharmaceuticals, Inc., Oryx Technology Corp., and Thrift Management, Inc, all of whose securities are traded in the over-the-counter market. Mr. Haft is a past member of the Florida Commission for Government Accountability to the People, and a national trustee and Treasurer of the Miami Ballet. He is also a trustee of Florida International University and serves on the advisory board of the Wolfsonian Museum in Miami, Florida. 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, an insurance company holding company that provides services to insurance companies. He has served as one of our directors since 1999.

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

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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.

### 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

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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 proxy statement 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, 2001. To our knowledge, based solely on a review of written representations that no reports were required, during the fiscal year ended December 31, 2001, our officers, directors and 10% stockholders complied with all Section 16(a) filing requirements applicable to them, except that (i) Kevin Lang and Abraham Weinzimer, former officers, directors and 10% stockholders, filed their respective Form 4 late (which forms each reported one transaction) and (ii) Barry Goldstein filed his Form 3 late.

### ITEM 10. EXECUTIVE COMPENSATION

#### Summary Compensation Table

The following table sets forth certain information concerning the compensation for the fiscal years ended December 31, 2001, 2000 and 1999 for each of our executive officers as of December 31, 2001 who had a total salary and bonus for that year in excess of \$100,000.

Name and Principal Position -----	Year ----	Annual Compensation ----- Salary -----	Long-Term Compensation Awards ----- Shares Underlying Options -----
Barry B. Goldstein Chief Executive Officer	2001	\$200,000 (1)	1,000,000
	2000	-	-
	1999	-	-
Morton L. Certilman Chairman of Board(2)	2001	\$ 31,250 (2)	-
	2000	125,000	-
	1999	129,167	225,000
Kevin Lang President(3)	2001	\$132,715 (3)	-
	2000	250,000	-

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1999

208,000

200,000

\* Excludes fees payable during 1999, 2000 and 2001 by us to Certilman Balin Adler & Hyman, LLP, a law firm of which Mr. Certilman is a member.

- (1) Includes amounts earned as a consultant prior to his employment.
- (2) Effective March 28, 2001, Mr. Certilman resigned his position as our Chairman of the Board.
- (3) Effective March 28, 2001, Mr. Lang resigned his position as our President and a director. Effective September 30, 2001, his employment with DCAP Management Corp., one of our wholly-owned subsidiaries, ended.

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Options Tables

OPTION GRANTS IN FISCAL YEAR ENDED DECEMBER 31, 2001

Name	Number of Common Shares Underlying Options Granted	Percentage of Total Options Granted To Employees in Fiscal Year	Exercise Price	Exp
Barry B. Goldstein	1,000,000	100%	\$.25	Ma
Morton L. Certilman	-	-	-	
Kevin Lang	-	-	-	

AGGREGATED OPTION EXERCISES IN FISCAL YEAR ENDED DECEMBER 31, 2001 AND FISCAL YEAR-END OPTION VALUES

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at December 31, 2001 Exercisable/Unexercisable	Value In at Exerc
Barry B. Goldstein		N/A	0/1,000,000	
Morton L. Certilman	-	N/A	225,000/0	
Kevin Lang	-	N/A	-	

Long-Term Incentive Plan Awards

No awards were made to any of Messrs. Goldstein, Certilman or Lang during the fiscal year ended December 31, 2001 under any long-term incentive plan.

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### Compensation of Directors

Our directors are not entitled to receive any compensation for their services as directors.

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

Effective April 1, 2001, we entered into a four year employment agreement with Mr. Goldstein pursuant to which he is employed as our President, Chairman of the Board and Chief Executive Officer. Mr. Goldstein is entitled to receive a salary of \$200,000 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

The following table sets forth certain information as of March 31, 2002 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

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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
Jay M. Haft 1001 Brickell Bay Drive Miami, Florida	1,788,893 (1) (2)	15.5%
Eagle Insurance Company c/o The Robert Plan Corporation 999 Stewart Avenue Bethpage, New York	1,486,893 (3)	13.1%
Robert M. Wallach c/o The Robert Plan Corporation 999 Stewart Avenue Bethpage, New York	1,486,893 (4)	13.1%
Morton L. Certilman The Financial Center at Mitchel Field 90 Merrick Avenue East Meadow, New York	1,336,005 (1) (5)	11.5%
Abraham Weinzimer 418 South Broadway Hicksville, New York	783,924 (1)	6.9%

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Kevin Lang 3789 Merrick Road Seaford, New York	651,460 (1)	5.7%
Barry B. Goldstein 1158 Broadway Hewlett, NY 11557	425,000 (6)	3.6%
All executive officers and directors as a group (4 persons)	5,036,791 (1) (2) (5) (6) (7)	41.3%

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- (1) Based upon Schedule 13D filed under the Securities Exchange Act of 1934.
- (2) Includes 225,000 shares issuable upon the exercise of currently exercisable options and 15,380 shares held in a retirement trust for the benefit of Mr. Haft.
- (3) Eagle is a wholly-owned subsidiary of The Robert Plan. See Item 12 of this Annual Report.
- (4) 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, of which Mr. Wallach is President, Chairman and Chief Executive Officer.
- (5) Includes 225,000 shares issuable upon the exercise of currently exercisable options and 902,452 shares held in a retirement trust for the benefit of Mr. Certilman.
- (6) Represents 400,000 shares issuable upon the exercise of currently exercisable options, 5,000 shares held by Mr. Goldstein's minor child and 20,000 shares held in a retirement trust for the benefit of Mr. Goldstein. Mr. Goldstein disclaims beneficial ownership of the shares held by his child and retirement trust.
- (7) 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.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### Sale of Interests in Stores

Prior to May 31, 2000, four of the DCAP stores were owned one-half by the daughter of Mr. Certilman and one-half by us. Effective May 31, 2000 we sold our 50% interest in each of the stores to Mr. Certilman upon the following material terms and conditions:

- o The purchase price for our interest in the stores was approximately

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\$141,000, after certain credits.

- o The purchase price was payable as follows:
  - o \$66,000 was payable at the rate of \$6,000 per month, starting on the first anniversary of the closing, and
  - o the balance of the purchase price was payable over five years, together with 6% interest, in equal monthly installments commencing on the second anniversary of the closing.

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- o We agreed to waive all indebtedness owing by the stores to us. As of the closing, the approximate amount of such indebtedness, which related to advances made by us on behalf of the stores, was \$210,000.
- o As part of the transaction, the stores became conversion franchisees, and the first annual franchise charge of \$18,000 per store was paid in full at the closing in consideration for a waiver of the annual franchise charges during the second year.
- o The stores entered into franchise agreements with us, which are similar in most respects to our standard conversion franchise agreement (including standard territorial rights), except that
  - o the stores have a right of first refusal with regard to franchise locations to be offered in zip codes adjoining those in which the stores are located, and
  - o in the event we sell another franchise to be located in the territory with respect to which a store currently has certain rights (which is more expansive than the rights granted pursuant to the franchise agreements), the annual franchise fee for the particular store will be waived for six months.
  - o These rights were granted in consideration of the waiver of certain other geographic rights not granted to other franchisees.
- o Certain license fees totaling \$40,000 previously prepaid by Mr. Certilman will be retained by us, to be applied generally against franchise fees for any new franchises granted to Mr. Certilman or his designee.

The terms of sale were the result of arm's length negotiations between Mr. Certilman and us. No independent appraisal or valuation was received in connection with the sale.

The purchase price for the 50% interest in the stores acquired by Mr. Certilman (prior to the credits applied) was equal to approximately one-half of the aggregate commissions for the stores for the year ended December 31, 1999. We believe that a purchase price for a 50% interest in a store equal to one-half of the store's annual commissions represented fair market value at that time.

See "March 2001 Transactions" for a discussion of the cancellation of the above amount due by Mr. Certilman as well as of agreements to sell DCAP stores



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to Mr. Certilman as well as to Messrs. Kevin Lang and Abraham Weinzimer, principal stockholders and former DCAP officers and directors.

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### March 2001 Transactions

In March 2001, the following transactions occurred:

- o We entered into agreements with Messrs. Lang, Weinzimer and Certilman that provided for our sale to them of a total of eight of our DCAP stores. Pursuant to the agreements, which were closed in November 2001 following shareholder approval, Mr. Lang acquired three of the stores for a total purchase price of approximately \$257,000, Mr. Weinzimer acquired three of the stores for a total purchase price of \$285,000 and an entity owned by Mr. Certilman (we refer to the entity as "Mr. Certilman") acquired two of the stores for a total purchase price of approximately \$225,000. The locations of the stores are as follows:
  - o Lang: Amityville, New York  
Medford, New York  
Seaford, New York
  - o Weinzimer: Hempstead, New York  
Hicksville, New York  
Jamaica, New York
  - o Certilman: East Meadow, New York  
Flushing, New York

At the time of execution of the agreements with Messrs. Lang and Weinzimer, each of them paid to us the total amount of his respective purchase price. At the time of execution of the agreement with Mr. Certilman, we received approximately \$197,000 of the purchase price. The balance of \$28,000 was paid at the closing of the acquisition through the assumption of our obligation to an unaffiliated third party in that amount. The obligation was incurred in May 2000 in connection with our acquisition of the third party's interest in one of the stores acquired by Mr. Certilman. Pending the closing of the sales, each of Messrs. Lang, Weinzimer and Certilman managed his respective stores and was entitled to receive a management fee equal to the net profits of the stores. Each of them was also responsible for all losses incurred during the interim period.

- o At the closing, we entered into franchise agreements with Lang, Weinzimer and Certilman on terms similar to those entered into by Mr. Certilman in May 2000 (as described above under "Sale of Interests in Stores"), except that, in general, none of the franchisees will be allowed to terminate their respective franchise agreements prior to March 31, 2003. Pending the closing, Messrs. Lang, Weinzimer and Certilman were responsible for charges as if the franchise agreements had been executed.

- o We reacquired a total of 3,714,616 of the shares owned by 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 agreed with Mr. Lang to terminate his employment agreement that was scheduled to expire in February 2004, and DCAP Management, our wholly-owned subsidiary that operates our franchise business, entered into a new employment agreement with him which expired on September 30, 2001. Based upon Mr. Lang's agreement to forgo the compensation otherwise payable to him for the balance of the original employment term (\$667,000, net of the amount payable to him pursuant to his new employment agreement), we granted to Mr. Lang a price concession of approximately \$85,000 in connection with his purchase of his three stores. This price concession resulted in the purchase price of \$257,000 for Mr. Lang.
- o We agreed with Mr. Weinzimer to terminate his employment agreement that was scheduled to expire in February 2004. Based upon Mr. Weinzimer's agreement to forgo the compensation otherwise payable to him for the balance of the employment term (\$729,000), we granted to Mr. Weinzimer a price concession of approximately \$85,000 in connection with his purchase of his three stores. This price concession resulted in the purchase price of \$285,000 for Mr. Weinzimer.
- o We agreed with Mr. Certilman to terminate his employment agreement that was scheduled to expire in February 2004. Concurrently, based upon Mr. Certilman's agreement to forgo the compensation otherwise due him for the balance of the term of the employment agreement (\$365,000), we agreed to cancel indebtedness of approximately \$141,000 that Mr. Certilman owed to us pursuant to his purchase of our interest in four DCAP stores as discussed above under "Sale of Interests in Stores."
- o We agreed with Mr. Haft to terminate his employment agreement that was scheduled to expire in February 2004.
- o Each of Messrs. Lang, Weinzimer, and Haft resigned as an officer of DCAP Group. Messrs. Lang and Weinzimer also resigned as our directors.

The terms of the above sales agreements were the result of arm's length negotiations between us and each of Messrs. Lang, Weinzimer and Certilman that were based upon the terms of other recent sales of our stores to persons who are not affiliated with us, then current market conditions and the termination of the employment agreements with each of them, as discussed above. No independent appraisal or valuation was received in connection with the agreements. We did not utilize a special independent committee of our Board of Directors to perform an analysis of the fairness of the transactions or to negotiate the terms of the sales on our behalf.

## Relationship

Certilman Balin Adler & Hyman, LLP, a law firm of which Mr. Certilman is a member, 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. Certilman Balin has also served as counsel to DCAP Insurance and The Robert Plan with respect to certain matters; however, it did not serve as counsel to DCAP Insurance or Messrs. Lang and Weinzimer in connection with our acquisition of DCAP Insurance, to Messrs. Lang or Weinzimer in connection with the transactions with them discussed under "March 2001 Transactions" or to Eagle in connection with our issuance of shares to Eagle. In addition, Certilman Balin did not serve as counsel to either us or Mr. Certilman in connection with the transactions with him discussed under "Sale of Interests in Stores" and "March 2001 Transactions" above.

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

## (a) Exhibits

Exhibit Number	Description of Exhibit
3(a)	Certificate of Incorporation, as amended(1)
(b)	By-laws, as amended(2)
10(a)	Agreement, dated July 22, 1988, between the Ports Authority and IAH(3)
10(b)	Resolution of Board of Directors of Ports Authority, dated August 10, 1994, regarding rental obligation of the Hotel(4)
10(c)	1998 Stock Option Plan(2)
10(d)	Stock Option Agreement, dated February 25, 1999, between DCAP Group, Inc. and Morton L. Certilman(2)
10(e)	Stock Option Agreement, dated February 25, 1999, between DCAP Group, Inc. and Jay M. Haft(2)
10(f)	Subscription Agreement, dated as of October 2, 1998, between DCAP Group, Inc. and Eagle Insurance Company and amendments thereto(2)
10(g)	Form of Subscription Agreement with regard to private offering of Units, dated June 2, 1999(5)
10(h)	Form of Registration Rights Agreement with regard to private offering

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of Units, dated June 2, 1999(5)

- 10(i) Form of Warrant Agreement with regard to private offering of Units, dated June 2, 1999(5)
- 10(j) Sale and Assignment Agreement, dated as of September 1, 1999, among Payments, Inc., Flatiron Credit Company, Inc. and Westchester Premium Acceptance Corp.(5)
- 10(k) Letter agreement, dated as of June 1, 2001, among Westchester Premium Acceptance Corporation, Payments, Inc. and Input 1, LLC.

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- 10(l) 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.(6)
- 10(m) Agreement, dated as of March 28, 2001, between DCAP Group, Inc. and Kevin Lang with respect to sale of DCAP Bayshore, Inc., DCAP Medford, Inc. and DCAP Seaford, Inc.(7)
- 10(n) Agreement, dated as of March 28, 2001, between DCAP Group, Inc. and Abraham Weinzimer with respect to sale of Diversified Coverage Asset Planning, Inc., ADCAP Brokerage, Inc. and DCAP Hicksville, Inc.(7)
- 10(o) Asset Purchase Agreement, dated as of March 28, 2001, between East Meadow Agency, Inc., DCAP Flushing, Inc. and MLC East Meadow/Flushing LLC(7)
- 10(p) Agreement, dated as of March 28, 2001, between DCAP Group, Inc. and Kevin Lang with respect to repurchase of shares(7)
- 10(q) Agreement, dated as of March 28, 2001, between DCAP Group, Inc. and Abraham Weinzimer with respect to repurchase of shares(7)
- 10(r) Letter agreement, dated as of March 28, 2001, between DCAP Group, Inc. and Abraham Weinzimer(7)
- 10(s) Letter agreement, dated as of March 28, 2001, between DCAP Group, Inc. and Morton L. Certilman(7)
- 10(t) Letter agreement, dated as of March 28, 2001, between DCAP Group, Inc. and Jay M. Haft(7)
- 10(u) Employment Agreement, dated as of March 28, 2001, between DCAP Management, Inc. and Kevin Lang(7)
- 10(v) Employment Agreement, dated as of May 10, 2001, between DCAP Group, Inc. and Barry Goldstein(8)
- 10(w) Stock Option Agreement, dated as of May 10, 2001, between DCAP Group, Inc. and Barry Goldstein(8)

21 Subsidiaries

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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.

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- (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.
- (3) Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 1993 and incorporated herein by reference.
- (4) Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 1994 and incorporated herein by reference.
- (5) 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.
- (6) 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.
- (7) Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 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.

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(b) Reports on Form 8-K

One report on Form 8-K was filed by us during the last quarter of the fiscal year ended December 31, 2001 as follows:

Date of Report: December 5, 2001  
Items Reported: 5 and 7

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REPORT ON AUDITS OF  
CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2001 AND 2000

ITEM 7 - Consolidated Financial Statements

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CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of DCAP Group, Inc. and Subsidiaries as of December 31, 2001 and the related consolidated statements

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of operations, stockholders' deficit and cash flows for each of the years in the two-year period ended December 31, 2001. 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, 2001 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

HOLTZ RUBENSTEIN & CO., LLP

Melville, New York  
March 20, 2002

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### DCAP GROUP, INC. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2001

#### ASSETS

##### CURRENT ASSETS:

Cash and cash equivalents	\$ 220,774
Due from franchises, net of allowance for doubtful accounts of \$53,000	225,939
Note receivable - former officer	39,095
Prepaid expenses and other current assets	36,755
	-----
Total current assets	522,563
	-----

PROPERTY AND EQUIPMENT, net	354,236
GOODWILL, net	75,000
OTHER INTANGIBLES, net	236,574
DEPOSITS AND OTHER ASSETS	43,589
	-----
	\$ 1,231,962
	=====

#### LIABILITIES AND STOCKHOLDERS' DEFICIT

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CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$ 733,060
Current portion of long-term debt	25,537
Current portion of capital lease obligations	84,939
Deferred revenue	89,757
Debentures payable	154,200
Due to officer	33,333
	-----
Total current liabilities	1,120,826
	-----
LONG-TERM DEBT	182,146
	-----
CAPITAL LEASE OBLIGATIONS	120,377
	-----
DEFERRED REVENUE	37,372
	-----
MINORITY INTEREST	8,923
	-----
COMMITMENTS	
STOCKHOLDERS' DEFICIT:	
Common stock, \$.01 par value; authorized 40,000,000 shares; issued 15,068,018	150,680
Preferred stock, \$.01 par value; authorized 1,000,000 shares; 0 shares issued and outstanding	-
Capital in excess of par	9,752,409
Deficit	(9,212,116)
	-----
	690,973
Treasury stock, at cost, 3,714,616 shares	(928,655)
	-----
	(237,682)
	-----
	\$ 1,231,962
	=====

See notes to consolidated financial statements

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DCAP GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2001	2000
REVENUES:		
Commissions and fees	\$ 2,350,094	\$ 6,677,556
Rooms	879,918	970,195
Premium finance revenue	259,454	38,800
Other operating departments	30,998	128,873
	-----	-----
Total revenues	3,520,464	7,815,424
	-----	-----
OPERATING EXPENSES:		



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General and administrative expenses	2,861,849	6,933,522
Impairment of intangibles	-	201,000
Impairment of notes receivable	-	81,000
Provision for bad debt	232,666	5,400
Departmental	357,029	382,683
Depreciation and amortization	293,605	788,259
Lease rentals	409,116	858,764
Property operation and maintenance	60,139	61,040
	-----	-----
Total operating expenses	4,214,404	9,311,668
	-----	-----
OPERATING LOSS	(693,940)	(1,496,244)
	-----	-----
OTHER (EXPENSE) INCOME:		
Interest income	15,960	78,660
Interest expense	(47,429)	(144,173)
Gain (loss) on sale of DCAP stores	56,043	(2,136,681)
Loss on disposal of property and equipment	(252,791)	-
	-----	-----
	(228,217)	(2,202,194)
	-----	-----
LOSS BEFORE INCOME TAXES AND MINORITY INTEREST	(922,157)	(3,698,438)
	-----	-----
INCOME TAXES	20,336	25,000
	-----	-----
LOSS BEFORE MINORITY INTEREST	(942,493)	(3,723,438)
	-----	-----
MINORITY INTEREST	12,942	5,141
	-----	-----
NET LOSS	\$ (929,551)	\$ (3,718,297)
	=====	=====
NET LOSS PER COMMON SHARE		
Basic	\$ (0.08)	\$ (0.25)
	=====	=====
Diluted	\$ (0.08)	\$ (0.25)
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	12,238,222	14,751,832
	=====	=====
Diluted	12,238,222	14,751,832
	=====	=====

See notes to consolidated financial statements

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DCAP GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

	Common Stock		Preferred Stock		Capital	
	Shares	Amount	Shares	Amount	in Excess	Deficit
	-----	-----	-----	-----	of Par	-----

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Balance, January 1, 2000	14,299,176	\$ 142,992	-	\$ -	\$9,752,597	\$ (4,564,268)	\$
Securities issued to private placement investors	761,342	7,613	-	-	(7,613)	-	-
Securities issued to acquire intangible property	7,500	75	-	-	7,425	-	-
Net loss for the year	-	-	-	-	-	(3,718,297)	-
Balance, December 31, 2000	15,068,018	150,680	-	-	9,752,409	(8,282,565)	-
Cancellation in connection with sale of stores	-	-	-	-	-	-	-
Purchase of 3,714,616 shares of treasury stock	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	-	(929,551)	-
Balance, December 31, 2001	15,068,018	\$ 150,680	-	\$ -	\$9,752,409	\$ (9,212,116)	-

See notes to consolidated financial statements

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DCAP GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2001	2000
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (929,551)	\$ (3,718,297)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	293,605	788,297
Bad debt expense	232,666	-
Gain on sale of stores	(56,043)	-
Loss on disposal of fixed assets	252,791	-
Forgiveness of note receivable	141,454	-
Impairment of intangible assets	-	201,000
Impairment of notes receivable	-	81,000
Loss on sale of ownership interests in joint ventures	-	2,136,000
Minority interest	(12,942)	(5,000)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	124,522	(19,000)
Prepaid expenses and other current assets	25,986	(9,000)
Deposits and other assets	29,972	30,000
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,078,732)	431,000

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Deferred revenue	(225,959)	313
	-----	---
Net cash (used in) provided by operating activities	(1,202,231)	230
	-----	---
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(25,577)	(165)
Decrease (increase) in notes and other receivables - net	53,303	(190)
Proceeds from sale of DCAP stores	844,091	323
Decrease (increase) in restricted cash - other current assets	236,134	(84)
	-----	---
Net cash provided by (used in) investing activities	1,107,951	(117)
	-----	---
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(235,704)	(381)
Increase in due to officer	33,333	---
	-----	---
Net cash used in financing activities	(202,371)	(381)
	-----	---
Net decrease in cash and cash equivalents	(296,651)	(268)
	-----	---
Cash and cash equivalents, beginning of year	517,425	786
Cash and cash equivalents, end of year	\$ 220,774	\$ 517
	=====	=====

See notes to consolidated financial statements

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DCAP GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

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 tax preparation services and automobile club services for road-side emergencies. The Company also provides premium financing of insurance policies for their DCAP clients as well as clients of non-affiliated entities. In addition, the Company operates the International Airport Hotel in San Juan, Puerto Rico (the "Hotel") through its wholly-owned subsidiary, IAH, Inc. The Hotel caters generally to commercial and tourist travelers in transit.

In March 2001, the Company entered into agreements with three shareholders that provided for the sale of a total of eight DCAP stores for cash consideration of an aggregate of \$767,000. The Company recognized a net gain of approximately \$56,000 on the sale of the stores. At the time of execution of the agreements with two of the shareholders, they each paid to the Company the total amount of their respective purchase price. At the time of execution of the agreement with the remaining shareholder, the Company received approximately \$197,000 of the purchase price. The balance was paid at the closing of the acquisition through the assumption of a liability.

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At the closing of the store sales, the Company entered into franchise agreements with the three shareholders on terms similar to those previously entered into by one of the shareholders, except that, in general, none of the franchisees will be allowed to terminate their respective franchise agreements prior to March 31, 2003.

The Company reacquired a total of 3,714,616 of the issued shares from two of these shareholders in consideration of the cancellation of indebtedness owed to the Company by them in the aggregate amount of \$928,655. Notes in the original principal amount of \$33,000 plus accrued interest are still owed to the Company from one of the shareholders (see Note 4).

The Company agreed with one of the shareholders to terminate his employment agreement that was scheduled to expire in February 2004. Concurrently, the Company agreed to cancel indebtedness of \$141,454 that the shareholder owed to the Company pursuant to his purchase of the Company's interest in certain DCAP stores.

During 2000, the Company recognized a net loss of approximately \$2,136,000 on the sale of 14 of its DCAP stores (giving effect to the write off of approximately \$2,169,000 of goodwill attributable to such stores).

### 2. Summary of Significant Accounting Policies:

#### a. Principles of consolidation

-----

The accompanying consolidated financial statements include the accounts of all subsidiaries and joint ventures in which the Company has a majority voting interest or voting control. All significant intercompany accounts and transactions have been eliminated.

#### b. Revenue recognition

-----

The Company recognizes 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 the Company's contractual requirements under the franchise agreement are completed. Refunds of commissions on the cancellation of insurance policies are reflected at the time of cancellation.

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### 2. Summary of Significant Accounting Policies: (Cont'd)

-----

#### b. Revenue recognition (cont'd)

-----

Premium financing fee revenue is earned based upon the origination of premium finance contracts sold by agreement to third parties. The contract fee gives consideration to an estimate as to the collectability of the loan amount. Periodically, actual results are compared to estimates previously recorded, and adjusted accordingly.

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

#### c. Goodwill and intangible assets

-----

The excess of the fair value paid over the net assets from the Company's acquisitions of DCAP and interests in other DCAP Companies has been allocated to goodwill and other intangible assets, including restrictive covenants. Accordingly, a portion of the purchase price of each acquisition is considered to relate to goodwill. In determining the period in which to amortize goodwill, management considered the effects of obsolescence, demand, competition, the rate of technological change, expected changes in distribution channels and barriers to entry. Goodwill and other intangibles recorded in connection with the Company's acquisitions is amortized on a straight-line basis over a period of three to fifteen years. Amortization of goodwill and intangible assets approximated \$61,000 and \$367,000 for the years ended December 31, 2001 and 2000, respectively. The Company reviews goodwill and certain identifiable intangibles for impairment as described in Notes 2j and 2k (see Note 3).

d. Property and equipment

-----

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are being amortized using the straight-line method over the estimated useful lives of the related assets or the remaining term of the lease.

e. Concentration of credit risk

-----

The Company invests its excess cash in deposits and money market accounts with major financial institutions and has not experienced losses related to these investments.

A majority of the Company's receivables are derived from franchises and represent franchise fees and reimbursable expenses.

f. Statement of cash flows

-----

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less, as well as bank money market accounts, to be cash equivalents.

g. Estimates

-----

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

h. Loss per share

-----

The Company's net loss per share was calculated by dividing net loss by the weighted average number of common shares outstanding.

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### 2. Summary of Significant Accounting Policies: (Cont'd)

#### i. Advertising costs

Advertising costs are charged to operations when the advertising first takes place.

#### j. Impairment of long-lived assets

The Company reviews long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the fair value of the asset. If other events or changes in circumstances indicate that the carrying amount of an asset that the Company expects to hold and use may not be recoverable, the Company will estimate the undiscounted future cash flows expected to result from the use of the asset or its eventual disposition, and recognize an impairment loss. The impairment loss, if determined to be necessary would be measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. A similar evaluation is made in relation to goodwill, with any impairment loss measured as the amount by which the carrying value of such goodwill exceeds the expected undiscounted future cash flows.

#### k. New accounting pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting for business combinations and prohibits the use of the pooling of interests method. SFAS No. 141 also expands the definition of intangible assets acquired in a purchase business combination. SFAS No. 142 eliminates the amortization of goodwill, requires annual impairment testing of goodwill and introduces the concept of indefinite life intangible assets. It must be adopted on January 1, 2002. The new rules also prohibit the amortization of goodwill associated with business combinations that close after June 30, 2001.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disclosure of Long-lived Assets". SFAS No. 144 addresses significant issues relating to the implementation of SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of," develops a single accounting model, based on the framework established in SFAS No. 121 for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired.

The Company does not expect the implementation of SFAS 144 to have a material effect on its financial position or results of operations.

#### l. Website development costs

Technology and content costs are generally expensed as incurred, except for certain costs relating to the development of internal-use software, including those relating to operating the Company's website, that are capitalized and depreciated over two years. No costs were incurred during 2001 or 2000.

#### m. Reclassifications

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Certain reclassifications have been made to the consolidated financial statements for the year ended December 31, 2000 to conform with the classifications used in 2001.

### n. Comprehensive income (loss)

-----

Comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. At December 31, 2001, there were no such adjustments required.

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### 3. Impairment of Other Intangibles:

-----

As discussed in Note 2j, the Company reviews long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the fair value of the asset. During the fourth quarter of 2000, the Company evaluated the carrying value of other intangibles. As a result, unamortized goodwill and other intangibles of \$201,000 were written off.

### 4. Note Receivable:

-----

The note receivable at December 31, 2001 is an amount due from a former officer approximating \$39,000 including accrued interest. The note is due on demand, together with accrued interest at 6.0% per annum.

### 5. Property and Equipment:

-----

At December 31, 2001 property and equipment consists of the following:

Furniture, fixtures and equipment	\$	668,482
Office equipment		17,169
Leasehold improvements		149,267
Computer hardware and software		333,132
Transportation equipment		31,047
Entertainment facility		200,538
		-----
		1,399,635
Less accumulated depreciation and amortization		1,045,399
		-----
	\$	354,236
		=====

### 6. Accounts Payable and Accrued Expenses:

-----

At December 31, 2001 accounts payable and accrued expenses consists of the following:

Accounts payable	\$	520,770
Payroll and related costs		15,615

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Professional fees	50,000
Other	146,675
	-----
	\$ 733,060
	=====

### 7. Debentures Payable:

-----

In 1971, the Company, pursuant to a plan of arrangement, issued a series of debentures which matured in 1977. As of December 31, 2001, \$154,200 of these debentures have not been presented for payment. Accordingly, this balance has been included as a current liability in the accompanying consolidated balance sheet. Interest has not been accrued on the remaining debentures payable. In addition, no interest, penalties or other charges have been accrued with regard to any escheat obligation of the Company.

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### 8. Long-Term Debt:

-----

At December 31, 2001, long-term debt is comprised of the following:

Note payable to franchisee, due in varying monthly installments ranging from \$1,700 to \$2,000 per month through April 2003, including interest at approximately 24% per annum.	\$ 27,514
Mortgage payable, due in monthly installments of \$1,803, including interest at 9%, per annum through May 2017. The obligation is collateralized by the Company's entertainment facility having a book value of \$139,000.	180,169
	-----
	207,683
Less current maturities	25,537
	-----
	\$ 182,146
	=====

Long-term debt matures as follows:

Years Ended December 31, -----	
2002	\$ 26,000
2003	14,000
2004	7,000
2005	7,000
2006	8,000
Thereafter	146,000

### 9. Capitalized Lease Obligations:

-----

Included in computer and office equipment are certain assets having an acquisition cost of approximately \$151,000, leased under capital leases.



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Accumulated amortization at December 31, 2001 totaled \$62,000. The future minimum lease payments of these capital leases and the present value of the net minimum lease payments as of December 31, 2001 are as follows:

Years Ended December 31, -----	
2002	\$ 124,000
2003	85,000
2004	59,000
2005	6,000
	-----
Minimum lease payment	274,000
Less amount representing interest	69,000
	-----
Present value of net minimum lease payments	205,000
Less current maturities	85,000
	-----
Long-term portion of capitalized lease obligations	\$ 120,000
	=====

### 10. Related Party Transaction:

-----

During the years ended December 31, 2001 and 2000, the Company leased its corporate office facility from a partnership of which a stockholder/officer is a member. Rent expense amounted to \$1,500 and \$6,000 for the years ended December 31, 2001 and 2000, respectively.

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### 11. Income Taxes:

-----

The Company files a consolidated U.S. Federal Income Tax return that includes all wholly-owned subsidiaries. State tax returns are filed on a consolidated, or separate basis depending on applicable laws.

The 2001 and 2000 income of IAH, Inc., a wholly-owned subsidiary, has been calculated excluding the loss of DCAP Group, Inc., as it is separately taxed under the laws of Puerto Rico. For 2001 and 2000, a provision of approximately \$3,000 and \$6,000 has been made for this tax liability, respectively.

The provision for income taxes is comprised of the following:

	Years Ended December 31, -----	
	2001	2000
	-----	-----
Benefit at federal statutory rates	\$ (316,047)	\$ (1,274,532)
Loss in excess of available benefit	336,383	1,299,532
	-----	-----
	\$ 20,336	\$ 25,000
	=====	=====

At December 31, 2001 the Company had net operating loss carryforwards for tax purposes of approximately \$5,100,000. The tax loss carryforwards expire at

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various dates through 2021.

Internal Revenue Code Section 382 places a limitation on the utilization of federal net operating loss and other credit carryforwards when an ownership change, as defined by the tax law occurs. Generally, this occurs when a greater than 50 percentage point change in ownership occurs. Accordingly, the actual utilization of the net operating loss and carryforwards for tax purposes may be limited annually to a percentage (approximately 6%) of the fair market value of the Company at the time of any such ownership change.

Deferred tax assets at December 31, 2001 consist of the following:

Deferred tax assets:	
Net operating loss carryovers	\$ 2,036,000
Other	55,000
	-----
Total deferred tax asset	2,091,000
Less valuation allowance	(2,091,000)
	-----
Net deferred tax assets	\$ -
	=====

The Company has recorded a full valuation allowance against its net deferred tax assets because of the uncertainty that sufficient taxable income will be realized during the carryforward period to utilize the deferred tax asset.

### 12. Commitments:

-----

#### a. Leases

-----

IAH, Inc. leases the International Airport Hotel (the "Hotel") property pursuant to an operating lease with the Ports Authority, which expired in December 1995. As discussed below, IAH is of the belief that pursuant to a supplemental lease agreement, it retained the option to continue the lease for a period of five years to December 31, 2000, which right it exercised, or alternatively, that the Ports Authority executed a new lease agreement for a ten year term commencing on January 1, 1996. The lease agreement provides for the annual rental payments to be equal to the greater of \$169,400 or 20% of the annual gross revenues, as defined, effective January 1, 1994. Total rent expense under this lease amounted to approximately \$178,000 for 2001 and \$197,000 for 2000.

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### 12. Commitments: (Cont'd)

-----

Based upon IAH's refusal to acknowledge that, effective January 1, 1996, it occupied the Hotel on a month-to-month basis, in February 1996, the Ports Authority requested that IAH vacate, surrender and deliver the premises by February 29, 1996. Following the receipt of such request, IAH brought an action in the Superior Court of San Juan, Puerto Rico for declaratory judgment and possessory injunction against the Ports Authority with respect to the Hotel. The action seeks a declaratory judgment that, among other alternatives, IAH exercised an option with respect to its lease for the Hotel for an extension of the term of five years commencing on January 1, 1996 or that the Ports Authority executed a new lease agreement for a ten year period commencing on such date.

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Certain discovery proceedings have taken place, and the action is still pending. Management is of the opinion that the Company will prevail on the declaratory judgment; therefore, management will vigorously defend its position.

The Company and each of its affiliates lease office space under noncancellable operating leases expiring at various dates through August 2011. Many of the leases are renewable and include additional rent for real estate taxes and other operating expenses. The minimum future rentals under these lease commitments for leased facilities and office equipment are as follows:

Years Ended December 31, -----	
2002	\$ 142,000
2003	130,000
2004	113,000
2005	96,000
2006	64,000
Thereafter	288,000

Rental expense approximated \$407,000 and \$662,000 for the years ended December 31, 2001 and 2000, respectively.

### b. Employment agreement -----

During 2001, the Company entered into an employment agreement with an officer, which provides for minimum salary of \$200,000 per annum. The employment agreement also provides for discretionary bonuses and other perquisites commonly found in such agreements. In addition, the Company granted the officer the right and option to purchase up to 1,000,000 shares of the Company's common stock. The employment agreement expires on April 1, 2005.

### c. Litigation -----

The Company is involved in various lawsuits and claims incidental to its business. In the opinion of management, the ultimate liabilities, if any, resulting from such lawsuits and claims will not materially affect the financial position of the Company.

## 13. Stockholders' Deficit: -----

### a. Capitalization -----

During 2001, the Company amended its Certificate of Incorporation and increased the amount of authorized common stock from 25,000,000 to 40,000,000, with a par value of \$.01 per share. All references to the par value of the common stock outstanding reflect this par value.

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## 13. Stockholders' Deficit: (Cont'd) -----

### b. Preferred stock -----

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During 2001, the Company amended its Certificate of Incorporation to provide for the authority to issue 1,000,000 shares of preferred stock, with a par value of \$.01 per share. The Board of Directors has the authority to issue shares of preferred stock from time to time in a series and to fix, before the issuance of each series, the number of shares in each series and the designation, liquidation preferences, conversion privileges, rights and limitations of each series.

### c. Private placement of securities

-----

On June 2, 1999, the Company sold, through a private placement, 33.5 Units (each consisting of 45,453 common shares and 15,151 Class A, 15,151 Class B and 15,151 Class C warrants) at a purchase price of \$50,000 per Unit for net proceeds of \$1,360,000 net of closing costs approximating \$315,000. Each Class A, B and C warrant is exercisable at \$1.10, \$1.37 and \$1.65, respectively and expires June 2, 2004. All warrants issued in connection with the private placement are outstanding at December 31, 2001.

On June 2, 2000, the Company issued 761,342 common shares to the private placement investors pursuant to price protection provisions contained in the offering agreement. Pursuant to those provisions, the Company had agreed to issue to the investors additional shares based upon the market price of the Company's common shares one year after the June 2, 1999 offering date (if lower than the market price at the time of the offering). As a result, the per share price was reduced from \$1.10 to \$.73 (the floor price provided for) and the additional shares were issued.

### d. Stock options

-----

In November 1998, the Company adopted the 1998 Stock Option Plan which provides for the issuance of incentive stock options or non-statutory stock options. Under this plan, options to purchase not more than 2,000,000 shares of common stock were originally permitted to be granted, at a price to be determined by the Board of Directors or the Stock Option Committee at the time of grant. During 2001, the Company increased the number of common shares authorized to be issued pursuant to the 1998 stock option plan from 2,000,000 to 3,000,000. Incentive stock options granted under this plan expire ten years from date of grant (except five years for a grant to a 10% stockholder of the Company). The Board of Directors or the Stock Option Committee will determine the expiration date with respect to non-statutory options granted under this plan.

A summary of the status of the Company's stock option plans of December 31, 2001 and 2000, and changes during the years then ended is presented below:

	Years Ended December 31,			
	2001		2000	
Fixed Stock Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

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Outstanding, beginning of year	950,000	\$ 2.51	950,000	\$2.51
Granted	1,000,000	.25	-	-
Expired	(100,000)	1.00	-	-
Forfeited	(400,000)	2.69	-	-
	-----	-----	-----	-----
Outstanding, end of year	1,450,000	\$ 1.01	950,000	\$ 2.51
	=====		=====	
Weighted average fair value of options granted during year		\$ .18		\$ -
		=====		=====

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13. Stockholders' Deficit: (Cont'd)

d. Stock options (cont'd)

The following table summarizes information about stock options outstanding at December 31, 2001:

Exercise Price	Options Outstanding			Options Outstanding
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	
\$0.25	1,000,000	4.25 yrs.	\$0.25	-
\$2.69	450,000	2.17 yrs.	\$2.69	450,000

The Company has elected the disclosure only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("FASB 123") in accounting for its employee stock options. Accordingly, no compensation expense has been recognized. Had the Company recorded compensation expense for the stock options based on the fair value at the grant date for awards in the years ended December 31, 2001 and 2000, consistent with the provisions of SFAS 123, the Company's net loss and net loss per share would not have been impacted.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following range of weighted average assumptions were used for grants during the year ended December 31, 2001:

Dividend yield	0.00%
Volatility	92.82%
Risk-free interest rate	6.00%
Expected life	5 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions

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and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

e. Common shares reserved

Warrants	2,740,898
	=====
Stock Option Plans	3,000,000
	=====

14. Business Segments:

The Company currently has three reportable business segments: Insurance, Premium Finance and Hotel. The Insurance segment sells retail auto, motorcycle, boat, life, business, and homeowner's insurance and franchises. In addition, this segment offers tax preparation services and automobile club services for roadside emergencies. Insurance revenues are derived from activities within the United States, and all long-lived assets are located within the United States. The Hotel segment operates the International Airport Hotel in San Juan, Puerto Rico. The Hotel caters generally to commercial and tourist travelers in transit. The Premium Finance segment offers property and casualty policyholders loans to finance the policy premiums.

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14. Business Segments: (Cont'd)

Revenue, operating income, capital expenditures, and depreciation and amortization pertaining to the industries in which the Company operates are presented below.

Year Ended December 31, 2001	Premium Finance	Insurance	Hotel	Other
-----	-----	-----	-----	-----
Revenues from				
external customers	\$ 259,454	\$ 2,350,094	\$ 905,158	\$ 5,7
Interest income	-	5,577	-	10,3
Interest expense	-	47,429	-	
Depreciation and amortization	-	278,430	15,175	
Segment profit (loss)	234,128	(821,555)	99,053	(441,1
Segment assets	51,719	853,862	268,905	57,4
Expenditures for segment assets	2,080	1,619	21,878	

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

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Year Ended December 31, 2000	Premium Finance	Insurance	Hotel	Other
Revenues from external customers	\$ 38,800	\$ 6,677,556	\$ 1,057,723	\$ 41,3
Interest income	-	31,297	-	47,3
Interest expense	-	144,173	-	
Depreciation and amortization	-	751,228	37,031	
Segment profit (loss)	24,995	(3,581,176)	183,272	(345,3
Segment assets	24,655	3,443,454	302,012	660,5
Expenditures for segment assets	-	235,552	20,222	
Impairment of intangible assets	-	201,000	-	

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

The following is a reconciliation of reportable segment expenditures for segment assets to consolidated totals:

Expenditures for Segment Assets for 2000	
Total expenditures for segment assets	\$ 255,774
Non-cash acquisitions of assets	(90,360)
Consolidated total	\$ 165,414

15. Fair Value of Financial Instruments:

The methods and assumptions used to estimate the fair value of the following classes of financial instruments were:

Current Assets and Current Liabilities: The carrying amount of cash, current receivables, notes receivable and payables and certain other short-term financial instruments approximate their fair value.

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15. Fair Value of Financial Instruments: (Cont'd)

Long-Term Debt: The fair value of the Company's long-term debt, including the current portion, was estimated using a discounted cash flow analysis, based on the Company's assumed incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of variable and fixed rate debt at December 31, 2001 approximates fair value.

16. Advertising Costs:

Included in selling, general and administrative expenses are advertising costs approximating \$216,000 and \$866,000 for the years ended December 31, 2001

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and 2000, respectively.

17. Supplementary Information - Statement of Cash Flows:

Cash paid during the years for:

	Years Ended December 31,	
	2001	2000
Supplemental disclosures:		
Interest	\$ 73,670	\$ 117,9
Income Taxes	\$ 25,232	\$ 15,4
Non-cash financing and investment activities:		
Common stock issued for acquisitions and intangible property	\$ -	\$ 7,5
Acquisitions of property and equipment through capital leases	\$ -	\$ 90,3

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this amendment to the report to be signed on its behalf by the undersigned, thereunto duly authorized.

DCAP GROUP, INC.

Dated: April 15, 2002

By: /s/ Barry B. Goldstein

Barry B. Goldstein  
Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Capacity	Date
-----	-----	----

President, Chairman of the Board,  
Chief Executive Officer, Chief  
Financial Officer, Treasurer and



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/s/ Barry B. Goldstein ----- Barry B. Goldstein	Director (Principal Executive, Financial and Accounting Officer)	April 15, 2002
/s/ Morton L. Certilman ----- Morton L. Certilman	Secretary and Director	April 15, 2002
/s/ Jay M. Haft ----- Jay M. Haft	Director	April 15, 2002
Robert M. Wallach	Director	