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DCAP GROUP INC/
Form 8-K/A
November 01, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A
AMENDMENT NO. 1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: August 30, 2002
(Date of earliest event reported)

DCAP GROUP, INC.

(Exact name of Registrant as specified in charter)

| | | |
|--|-----------------------|---|
| Delaware | 0-1665 | 36-2476480 |
| ----- | ----- | ----- |
| (State or other jurisdiction incorporation) | (Commission File No.) | (IRS Employer Identification Number) |

| | |
|--|------------|
| 1158 Broadway, Hewlett, New York | 11557 |
| ----- | ----- |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (516) 374-7600

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Businesses Acquired.

(i) Consolidated Balance Sheets of Barry Scott Companies, Inc. ("BSC")
at December 31, 2001 and 2000.

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(ii) Consolidated Statements of Operations and Retained Earnings of BSC for the years ended December 31, 2001 and 2000.

(iii) Consolidated Statements of Cash Flows of BSC for the years ended December 31, 2001 and 2000.

(iv) Consolidated Balance Sheet of BSC at June 30, 2002.

(v) Consolidated Statements of Operations and Retained Earnings of BSC for the six months ended June 30, 2002 and 2001.

(vi) Consolidated Statements of Cash Flows of BSC for the six months ended June 30, 2002 and 2001.

(b) Pro Forma Financial Information.

(i) Pro Forma Condensed Consolidated Balance Sheet of the Registrant as of June 30, 2002.

(ii) Pro Forma Condensed Consolidated Statement of Operations of the Registrant for the six months ended June 30, 2002.

(iii) Pro Forma Condensed Consolidated Statement of Operations of the Registrant for the fiscal year ended December 31, 2001.

(c) Exhibits.

| Exhibit No. | Description |
|-------------|--|
| 2.1 | Share Purchase Agreement dated as of August 30, 2002 by and between Progressive Agency Holdings Corp. and Blast Acquisition Corp.(1) |

(1) Previously filed.

BARRY SCOTT COMPANIES, INC.
AND SUBSIDIARIES
Audited Financial Statements
For the Years Ended December 31, 2001 and 2000

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Board of Directors
Barry Scott Companies, Inc.
Albany, NY

Independent Auditor's Report

We have audited the accompanying consolidated balance sheets of Barry Scott Companies, Inc. and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, retained earnings and cash flows for the years then ended. These 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Barry Scott Companies, Inc. and subsidiaries as of December 31, 2001 and 2000, the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 26, 2002

A.W. Guthman & Company

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BARRY SCOTT COMPANIES, INC.
 Consolidated Balance Sheets
 As of December 31, 2001 and 2000

| ASSETS | 2001 | 2000 |
|---|-----------|-----------|
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash | \$166,580 | \$ 24,474 |
| Commissions Receivable (Note 2) | 175,000 | 155,000 |
| Prepaid Expenses | 25,124 | 39,502 |
| Deferred Taxes (Note 2) | - | 55,317 |
| Other Assets | 2,405 | 21,276 |
| | ----- | ----- |
| Total Current Assets | 369,109 | 295,569 |
| NON-CURRENT ASSETS | | |
| Equipment, Furniture and Leasehold Improvements, Less Accumulated Depreciation (Note 2) | 66,156 | 107,589 |
| Security Deposits | 24,595 | 19,627 |
| | ----- | ----- |
| TOTAL NON-CURRENT ASSETS | 90,751 | 127,216 |
| | ----- | ----- |
| TOTAL ASSETS | \$459,860 | \$422,785 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$121,651 | \$168,411 |
| Due to Parent Company (Note 5) | 601,272 | 341,404 |
| Due to Affiliates (Note 5) | 4,760 | 30,489 |
| Agency Purchase Liability (Note 3) | 136,966 | 5,274 |
| Note Payable (Note 4) | 38,854 | 47,700 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 903,503 | 593,278 |
| LONG-TERM LIABILITIES | | |
| Agency Purchase Liability, Net of Current Portion (Note 3) | 42,632 | - |
| Note Payable, Net of Current Portion | - | 35,696 |
| | ----- | ----- |
| TOTAL LONG-TERM LIABILITIES | 42,632 | 35,696 |
| | ----- | ----- |
| TOTAL LIABILITIES | 946,135 | 628,974 |
| SHAREHOLDER'S EQUITY | | |
| Common Stock | 93 | 93 |
| Retained Earnings | (486,368) | (206,282) |
| | ----- | ----- |
| TOTAL SHAREHOLDER'S EQUITY | (486,275) | (206,189) |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | \$459,860 | \$422,785 |

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See accompanying notes to financial statements.

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BARRY SCOTT COMPANIES, INC.
 Consolidated Statements of Operations and Retained Earnings
 For the Years Ended December 31, 2001 and 2000

| | 2001 | 2000 |
|--|--------------|--------------|
| INCOME | | |
| Commissions, Net | \$2,175,415 | \$2,105,436 |
| 2119 Fees | 875,388 | 1,105,829 |
| Other Service Fees | 77,919 | 98,922 |
| Miscellaneous | 13,193 | 17,112 |
| | ----- | ----- |
| TOTAL INCOME | 3,141,915 | 3,327,299 |
| EXPENSES | | |
| Salaries | 1,945,869 | 2,130,615 |
| Rent | 303,730 | 296,594 |
| Advertising | 173,880 | 354,313 |
| Office Supplies | 131,171 | 115,616 |
| Telephone and Communications | 112,777 | 127,566 |
| Utilities | 56,670 | 58,825 |
| Postage and Delivery | 83,819 | 83,007 |
| Insurance | 32,544 | 17,954 |
| Repairs and Maintenance | 26,340 | 26,410 |
| Professional Fees | 10,220 | 25,205 |
| Depreciation | 66,397 | 100,567 |
| Interest | 6,223 | 11,415 |
| Agency Purchases (Note 3) | 267,018 | 102,773 |
| DMV Reports | 39,711 | 71,343 |
| Bounced Check and Other Bank Charges | 116,014 | 79,221 |
| State and Local Taxes (Note 2) | 32,743 | 36,889 |
| Miscellaneous | 85,304 | 98,138 |
| | ----- | ----- |
| TOTAL EXPENSES | 3,490,430 | 3,736,451 |
| NET INCOME BEFORE FEDERAL INCOME TAXES | (348,515) | (409,152) |
| Provision for Federal Income Taxes (Note 2) | (68,429) | (143,203) |
| | ----- | ----- |
| NET LOSS | (280,086) | (265,949) |
| RETAINED EARNINGS - Beginning of Year | (206,282) | 59,667 |
| | ----- | ----- |
| RETAINED EARNINGS - End of Year | \$ (486,368) | \$ (206,282) |
| | ===== | ===== |

See accompanying notes to financial statements.

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BARRY SCOTT COMPANIES, INC.
 Consolidated Statements of Cash Flows
 For the Years Ended December 31, 2001 and 2000

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| | 2001 ----- | 2000 ----- |
|--|---------------|---------------|
| OPERATING ACTIVITIES | | |
| Net Loss | \$ (280,086) | \$ (265,949) |
| Adjustments to reconcile Net Loss to Net Cash Used in Operating Activities: | | |
| Depreciation | 66,397 | 100,567 |
| Changes in Operating Assets and Liabilities | | |
| Increase/Decrease in Commissions | | |
| Receivable | (20,000) | 8,414 |
| Increase/Decrease in Prepaid Expenses | 14,378 | (22,230) |
| Increase in Income Taxes Recoverable | (121,980) | (143,203) |
| Decrease in Deferred Taxes | 55,317 | - |
| Decrease in Other Assets | 18,871 | 27,987 |
| Increase in Security Deposits | (4,968) | - |
| Decrease in Accounts Payable | (46,760) | (91,359) |
| | ----- | ----- |
| NET CASH USED IN OPERATING ACTIVITIES | (318,831) | (385,773) |
| FINANCING ACTIVITIES | | |
| Increase in Due to Parent Company | 381,847 | 456,619 |
| Decrease/Increase in Due to Affiliates | (25,729) | 15,188 |
| Increase/Decrease in Agency Purchase Liabilities | 174,324 | (3,316) |
| Decrease in Note Payable | (44,542) | (38,308) |
| | ----- | ----- |
| NET CASH PROVIDED IN FINANCING ACTIVITIES | 485,900 | 430,183 |
| INVESTING ACTIVITIES | | |
| Fixed Asset Acquisitions | (24,963) | (23,094) |
| NET INCREASE IN CASH | 142,106 | 21,316 |
| CASH - Beginning of Year | 24,474 | 3,158 |
| | ----- | ----- |
| CASH - End of Year | \$ 166,580 | \$ 24,474 |
| | ===== | ===== |

See accompanying notes to financial statements.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2001 and 2000

NOTE 1 - ORGANIZATION

Barry Scott Companies, Inc., consolidated (the Company) is comprised of its holding company, Barry Scott Companies, Inc., and three insurance agencies, Barry Scott Agency, Inc., Barron Cycle Agency, Inc. and AARD-VARK Agency, Ltd., a wholly-owned subsidiary of Barry Scott Acquisition Corp. The insurance agencies are represented by eighteen branches located throughout New York State which derive substantially all of their income from commissions associated with the sale of auto insurance.

The Company has been a wholly-owned subsidiary of Progressive Agency Holdings Corp., (the Parent), since November 10, 1999. For reporting and corporate income tax purposes, the Company's results of operations are consolidated with the

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Parent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Assets, liabilities, income and expenses are recorded using the accrual basis of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of Barry Scott Companies, Inc., and its wholly-owned subsidiaries Barry Scott Agency, Inc., Barron Cycle Agency, Inc., and Barry Scott Acquisition Corp. All material intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, 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. Also affected are the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2001 and 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fixed Assets

Property and equipment are recorded at cost and depreciated using the straight line method over their estimated useful lives, ranging from three to twenty years. Such assets were comprised of the following as of December 31, 2001 and 2000.

| Description | 2001 | 2000 |
|---|-----------|------------|
| Computer and Office Equipment | \$567,926 | \$ 898,810 |
| Leasehold Improvements | 159,443 | 159,443 |
| Vehicles | 9,026 | 44,300 |
| Furniture and Fixtures | 130,088 | 127,134 |
| | ----- | ----- |
| Total | 866,483 | 1,229,687 |
| Less Accumulated Depreciation and Amortization | 800,327 | 1,122,098 |
| | ----- | ----- |
| Net Property and Equipment | \$ 66,156 | \$ 107,589 |
| | ===== | ===== |

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In 2001, the Company retired fully depreciated computer equipment totaling \$352,893 and transportation equipment totaling \$35,274.

Commission Income

Commission income is recognized when policies become effective and substantially all required services have been performed. Commissions receivable represent management's estimate of the uncollected commissions on policies written less estimated return commissions on cancelled policies. A liability for customer deposits results when policies are written but have not yet become effective. The Company is required by state insurance regulations to maintain cash balances in an amount at least equal to such customer deposits. Such amounts, included in accounts payable, were not considered material for both years.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2001 and 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income Taxes

State and local income taxes are determined and booked at the Company level. Quarterly estimated payments are expensed and based on quarterly net income adjusted for the appropriate federal M-1 items and other state and local modifications for each subsidiary separately. Due to the immateriality of such taxes in relation to the statement of operations, accruals of any underpayments or overpayments are not recorded at year end.

The Company's federal income tax return is consolidated with The Progressive Corporation, the parent company to Progressive Agency Holdings Corp. The Company's provision for recovery of federal income taxes was estimated at 35% of the net loss before federal income taxes. Amounts allocated to the Company are included in Due to Parent Company in the balance sheet.

Deferred taxes arising from timing differences prior to the Parent's acquisition of the Company, were written off in 2001.

NOTE 3 - PURCHASE LIABILITIES

The components of the Company's purchase liabilities are as follows:

| Company Acquired | 2001 | 2000 |
|---------------------------|-----------|---------|
| Blue Star Brokerage Corp. | \$ 7,460 | \$5,274 |
| AARD-VARK Agency, LTD. | 172,138 | - |
| | ----- | ----- |
| Total | \$179,598 | \$5,274 |
| | ===== | ===== |

Amounts due to the seller of Blue Star Brokerage Corp., an auto insurance agency located in Brooklyn, NY, stem from the terms of Barron Cycle Agency, Inc.'s (BCA) purchase agreement which was consummated in 1998 and provided as follows: (1) \$50,000 to be paid at the closing and (2) sixty monthly payments in amounts which are equal to the lesser of a) 50% of the gross insurance commissions and NY State Insurance Law section 2119 fees derived by BCA from the business of the seller for each of the first sixty full calendar months following the closing or

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b) \$16,667. In the event that the sum of the first twelve monthly payments is equal or greater than \$200,000, the buyer agrees that the last forty-eight payments must, in the aggregate, total at least \$400,000. In the event that the sum of the first twelve monthly payments is equal to or greater than \$200,000 and the last forty-eight payments as calculated above do not total at least \$400,000, the buyer shall pay to the seller the difference between \$400,000 and the sum of the last forty eight payments due. Such difference will be paid by BCA as part of the final monthly payment to the seller. Until such time as the purchase price has been paid in full, the seller has a security interest in BCA's commissions receivable and all assets that were acquired in the purchase.

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BARRY SCOTT COMPANIES, INC. Notes to Consolidated Financial Statements For the Years Ended December 31, 2001 and 2000

NOTE 3 - PURCHASE LIABILITIES (CONT'D)

Amounts due to the seller of AARD-VARK Agency, Ltd., an auto insurance agency located in Queens, NY, stem from the terms of Barry Scott Acquisition Corp.'s, (BSAC) 1998 purchase agreement which provides that the purchase be based on the future income of the agency acquired. In accordance with the terms of the purchase agreement, the purchase price of \$170,718 as derived by management, was calculated at four times the average annual earnings before taxes during the twenty-four month period that began on April 16, 1999. The balance outstanding as of December 31, 2001, includes accrued interest of \$1,420.

As of the date of this report, the seller, who has received all scheduled payments as determined by the Company, has rejected management's calculation of the purchase price. See note 8 for further details.

NOTE 4 - NOTE PAYABLE

The note payable, which is due to an employee and former owner of the AARD-VARK Agency, Ltd., was assumed by the Company in connection with its acquisition of the agency in 1998. As of May 31, 1999, the Company discounted the balance outstanding on the note (\$162,995) by 5% to \$149,529. Payments totaling \$47,700 for 2001 and 2000 included interest of \$3,158 and \$5,865 respectively.

NOTE 5 - RELATED PARTIES

As discussed in Note 1, the Company is a wholly owned subsidiary of Progressive Agency Holdings Corp. The Company, which earns commissions from a variety of insurance carriers, derives approximately 33% and 26% for 2001 and 2000 respectively of such income from Progressive's auto insurance companies. Amounts due to Progressive consist of advertising costs paid on behalf of the Company, cash advances, and amounts allocated to the Company for federal income taxes.

The Company shares its office space, telephone systems, accounting system and certain accounting and administrative employees with Capital Payment Plan, Inc. (CPP), which prior to November 10, 1999, was also a wholly owned subsidiary of Barry Scott Companies, Inc. Such costs along with supplies and postage are allocated according to mutually agreed upon percentages and evaluated periodically. The aggregate amount of expenses allocated by the Company to CPP in 2001 and 2000 was approximately \$269,000 and \$541,000 respectively.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2001 and 2000

NOTE 5 - RELATED PARTIES (CONT'D)

Amounts due to affiliates arising from normal business operations and non-interest bearing, consisted of the following:

| | 2001 | 2000 |
|------------------------------|-----------|-----------|
| Due to Progressive | \$601,272 | \$341,404 |
| Due to Capital Payment Plan | 5,211 | 27,391 |
| Due from/to Other Affiliates | (451) | 3,098 |
| | ----- | ----- |
| Total | \$606,032 | \$371,893 |
| | ===== | ===== |

The Company leases office space for one of its branches from a related party. The Company's rental commitment of \$1,400 per month for this location expires in 2003. See note 7 for further details.

NOTE 6 - EMPLOYEE BENEFITS

The Company maintains a 401(K) profit sharing plan along with CPP covering substantially all employees who meet certain age and service requirements. The plan allows for employee elective contributions not to exceed 15% of eligible compensation and Company matching contributions in an amount equal to 25% of each participant's contribution to a maximum of 6% of the participant's eligible compensations. The plan also allows for Company discretionary contributions. An employee's interest in the Company's matching and discretionary contributions is fully vested after six years of service. Employer matching contributions were \$12,261 and \$12,317 for 2001 and 2000 respectively.

NOTE 7 - LEASE COMMITMENTS

Office Space

Rent expense for the Company's headquarters and branch offices amounted to \$303,730 and \$296,594 for 2001 and 2000 respectively. The Company's minimum lease commitment for rental of its headquarters and other branch offices is as follows:

| | | |
|------|---|-----------|
| 2002 | - | \$180,881 |
| 2003 | - | 146,435 |
| 2004 | - | 77,953 |
| 2005 | - | 52,980 |
| 2006 | - | 38,159 |
| 2007 | - | 5,733 |

The Company also leases other office space on a month to month basis or with terms of one year or less.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2001 and 2000

NOTE 7 - LEASE COMMITMENTS (CONT'D)

Office Equipment

The Company's minimum lease commitment for rental of its copiers and transportation equipment is as follows:

| | | |
|------|---|----------|
| 2002 | - | \$45,099 |
| 2003 | - | 24,308 |
| 2004 | - | 6,111 |
| 2005 | - | 2,267 |

NOTE 8 - CONTINGENCIES

On October 16, 1998 BSACQ entered into an agreement to acquire all of the outstanding stock of AARD-VARK Agency, Ltd. As explained more fully in Note 3, the agreement required BSACQ to pay the sellers a purchase price equal to four times the average annual earnings before taxes of AARD-VARK during a twenty-four month period which ended March 31, 2001 in exchange for 100% of the outstanding AARD-VARK stock. In April, 2001 BSACQ used the formula prescribed by the agreement to derive a purchase price of \$170,718. Dissatisfied with the BSACQ's determination, the sellers filed their initial complaint in the Supreme Court of the State of New York, Queens County, alleging six causes of action including claims for breach of contract, breach of fiduciary duty and fraudulent misrepresentation. Attorneys for Progressive, acting on behalf of BSACQ, moved to dismiss the action based on the plaintiff's failure to properly state a claim. On March 27, 2002 the Court granted Progressive's motion dismissing the initial Complaint in its entirety. The Plaintiffs, who did not appeal the decision, resubmitted the same Complaint containing an almost verbatim reassertion of the initial claims. Progressive's attorneys and Company management are confident that the case will be dismissed again. Consequently, no accrual for any estimated loss, arising from the outcome of the case, has been recorded in the financial statements.

NOTE 9 - SUBSEQUENT EVENT

On or about August 30, 2002, the Parent is scheduled to sell 100% of the Company's stock to another insurance agency. Apart from efficiency measures, both parties expect that operations will continue as usual. As of the date of this report, Parent's management is not aware of any plans, on the part of the buyer, that would have a material impact on the carrying value of the Company's assets as stated in this report.

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BARRY SCOTT COMPANIES, INC.
AND SUBSIDIARIES
Reviewed Financial Statements
For the Six Month Periods Ended June 30, 2002 and 2001

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Board of Directors
Barry Scott Companies, Inc.
Albany, NY

Independent Auditor's Report

We have reviewed the consolidated balance sheet of Barry Scott Companies, Inc. and subsidiaries as of June 30, 2002 and the related consolidated statements of operations, retained earnings and cash flows for the six month periods ended June 30, 2002 and 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to

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be in conformity with accounting principles generally accepted in the United States of America.

October 11, 2002

A.W. Guthman & Company

BARRY SCOTT COMPANIES, INC.
Consolidated Balance Sheet
As of June 30, 2002

| ASSETS | 2002 |
|---|------------|
| | ----- |
| CURRENT ASSETS | |
| Cash | \$ 124,520 |
| Commissions Receivable (Note 2) | 191,600 |
| Prepaid Expenses | 161,766 |
| Due from Affiliates | 17,563 |
| Other Assets | 9,321 |
| | ----- |
| TOTAL CURRENT ASSETS | 504,770 |
| NON-CURRENT ASSETS | |
| Equipment, Furniture and Leasehold Improvements, Less Accumulated Depreciation (Note 2) | 38,718 |
| Security Deposits | 25,550 |
| | ----- |
| TOTAL NON-CURRENT ASSETS | 64,268 |
| | ----- |
| TOTAL ASSETS | \$ 569,038 |
| | ===== |
| LIABILITIES AND SHAREHOLDER'S EQUITY | |
| CURRENT LIABILITIES | |
| Accounts Payable and Accrued Expenses | \$ 109,367 |
| Due to Parent Company (Note 5) | 770,308 |
| Due to Affiliates | 5,439 |
| Agency Purchase Liability (Note 3) | 67,420 |
| Note Payable (Note 4) | 15,736 |
| | ----- |
| TOTAL LIABILITIES | 968,270 |
| SHAREHOLDER'S EQUITY | |
| Common Stock | 93 |
| Retained Earnings | (399,325) |
| | ----- |
| TOTAL SHAREHOLDER'S EQUITY | (399,232) |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | \$ 569,038 |
| | ===== |

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See accompanying notes to financial statements.

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BARRY SCOTT COMPANIES, INC.
 Consolidated Statements of Operations and Retained Earnings
 For the Six Month Periods Ended June 30, 2002 and 2001

| | 2002 | 2001 |
|--|--------------|--------------|
| | ----- | ----- |
| INCOME | | |
| INCOME | | |
| Commissions, Net | \$1,302,588 | \$ 965,172 |
| 2119 Fees | 442,341 | 449,308 |
| Miscellaneous | 4,663 | 17,688 |
| | ----- | ----- |
| TOTAL INCOME | 1,749,592 | 1,432,168 |
| EXPENSES | | |
| Salaries and Fringe Benefits | 951,162 | 971,156 |
| Rent | 152,318 | 160,517 |
| Advertising | 90,902 | 92,816 |
| Office Supplies | 57,999 | 58,757 |
| Telephone and Communications | 71,369 | 57,522 |
| Utilities | 25,865 | 32,147 |
| Postage and Delivery | 42,750 | 42,761 |
| Insurance | 20,616 | 15,806 |
| Repairs and Maintenance | 15,273 | 12,652 |
| Professional Fees | 31,847 | 2,729 |
| Depreciation | 27,438 | 33,864 |
| Interest | 2,092 | 3,124 |
| Agency Purchases (Note 3) | 59,552 | 215,126 |
| DMV Reports | 10,300 | 22,661 |
| Bounced Check and Other Bank Charges | 20,632 | 53,399 |
| State and Local Taxes (Note 2) | 743 | 1,565 |
| Miscellaneous | 34,791 | 45,249 |
| | ----- | ----- |
| TOTAL EXPENSES | 1,615,649 | 1,821,851 |
| NET INCOME BEFORE FEDERAL INCOME TAXES | 133,943 | (389,683) |
| Provision for Federal Income Taxes (Note 2) | 46,900 | (136,177) |
| | ----- | ----- |
| NET INCOME (LOSS) | 87,043 | (253,506) |
| RETAINED EARNINGS - Beginning of Period | (486,368) | (206,282) |
| | ----- | ----- |
| RETAINED EARNINGS - End of Period | \$ (399,325) | \$ (459,788) |
| | ===== | ===== |

See accompanying notes to financial statements

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BARRY SCOTT COMPANIES, INC.
 Consolidated Statements of Cash Flows
 For the Six Month Periods Ended June 30, 2002 and 2001

| | 2002 | 2001 |
|--|------------|--------------|
| | ----- | ----- |
| OPERATING ACTIVITIES | | |
| Net Income (Loss) | \$ 87,043 | \$ (253,506) |
| Adjustments to reconcile Net Income to Net Cash Used in Operating Activities: | | |
| Depreciation | 27,438 | 33,864 |
| Changes in Operating Assets and Liabilities | | |
| Increase in Commissions Receivable | (16,600) | (25,000) |
| Increase in Prepaid Expenses | (136,642) | (5,772) |
| Decrease/Increase in Income Taxes Recoverable | 46,900 | (155,550) |
| Increase in Due from Affiliates | (6,916) | - |
| Decrease in Deferred Taxes | - | 35,955 |
| Increase/Decrease in Other Assets | (17,563) | 11,201 |
| Increase in Security Deposits | (955) | (5,518) |
| Decrease/Increase in Accounts Payable and Accrued Expenses | (12,286) | 19,781 |
| | ----- | ----- |
| NET CASHED PROVIDED IN OPERATING ACTIVITIES | (29,581) | (344,545) |
| FINANCING ACTIVITIES | | |
| Increase in Due to Parent Company | 122,138 | 351,653 |
| Increase/Decrease in Due to Affiliates | 679 | (27,233) |
| Decrease/Increase in Agency Purchase Liabilities | (112,178) | 174,229 |
| Decrease in Note Payable | (23,118) | (21,993) |
| | ----- | ----- |
| NET CASH USED IN FINANCING ACTIVITIES | (12,479) | 476,656 |
| INVESTING ACTIVITIES | | |
| Acquisition of Fixed Asset | - | (16,803) |
| NET DECREASE/INCREASE IN CASH | (42,060) | 115,308 |
| CASH - Beginning of Year | 166,580 | 24,474 |
| | ----- | ----- |
| CASH - End of Year | \$ 124,520 | \$ 139,782 |
| | ===== | ===== |

See accompanying notes to financial statements.

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BARRY SCOTT COMPANIES, INC.
 Notes to Consolidated Financial Statements
 For the Six Month Periods Ended June 30, 2002 and 2001

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NOTE 1 - ORGANIZATION

Barry Scott Companies, Inc., consolidated (the Company) is comprised of its holding company, Barry Scott Companies, Inc., and three insurance agencies, Barry Scott Agency, Inc., Barron Cycle Agency, Inc. and AARD-VARK Agency, Ltd., a wholly-owned subsidiary of Barry Scott Acquisition Corp. The insurance agencies are represented by eighteen branches located throughout New York State which derive substantially all of their income from commissions associated with the sale of auto insurance.

The Company has been a wholly-owned subsidiary of Progressive Agency Holdings Corp., (the Parent), since November 10, 1999. For reporting and corporate income tax purposes, the Company's results of operations are consolidated with the Parent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Assets, liabilities, income and expenses are recorded using the accrual basis of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of Barry Scott Companies, Inc., and its wholly-owned subsidiaries Barry Scott Agency, Inc., Barron Cycle Agency, Inc., and Barry Scott Acquisition Corp. All material intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, 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. Also affected are the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Six Month Periods Ended June 30, 2002 and 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fixed Assets

Property and equipment are recorded at cost and depreciated using the straight line method over their estimated useful lives, ranging from three to twenty years. Such assets were comprised of the following as of June 30, 2002.

| Description | Amount |
|-------------|--------|
|-------------|--------|

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| | |
|---|-----------|
| Computer and Office Equipment | \$567,926 |
| Leasehold Improvements | 159,443 |
| Vehicles | 9,026 |
| Furniture and Fixtures | 130,088 |
| | ----- |
| Total | 866,483 |
| | |
| Less Accumulated Depreciation and Amortization | 827,765 |
| | ----- |
| Net Property and Equipment | \$ 38,718 |
| | ===== |

In August 2001, the Company retired fully depreciated computer equipment totaling \$352,893 and transportation equipment totaling \$35,274.

Commission Income

Commission income is recognized when policies become effective and substantially all required services have been performed. Commissions receivable represent management's estimate of the uncollected commissions on policies written less estimated return commissions on cancelled policies. A liability for customer deposits results when policies are written but have not yet become effective. The Company is required by state insurance regulations to maintain cash balances in an amount at least equal to such customer deposits. Such amounts, included in accounts payable, were not considered material for both years.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Six Month Periods Ended June 30, 2002 and 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income Taxes

State and local income taxes are determined and booked at the Company level. Quarterly estimated payments are expensed and based on quarterly net income adjusted for the appropriate federal M-1 items and other state and local modifications for each subsidiary separately. Due to immateriality of such taxes in relation to the statement of operations, accruals of any underpayments or overpayments are not recorded at year end.

The Company's federal income tax return is consolidated with The Progressive Corporation, the parent company to Progressive Agency Holdings Corp. The Company's provision for recovery of federal income taxes was estimated at 35% of the net loss before federal income taxes. Amounts allocated to the Company are included in Due to Parent Company in the balance sheet.

Deferred taxes arising from timing differences prior to the Parent's acquisition of the Company, were written off as of December 31, 2001.

NOTE 3 - PURCHASE LIABILITIES

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The components of the Company's purchase liabilities as of June 30, 2002 are as follows:

| Company Acquired | Amount |
|---------------------------|-----------|
| Blue Star Brokerage Corp. | \$ 8,138 |
| AARD-VARK Agency, LTD | 59,282 |
| | ----- |
| TOTAL | \$ 67,420 |
| | ===== |

Amounts due to the seller of Blue Star Brokerage Corp., an auto insurance agency located in Brooklyn, NY, stem from the terms of Barron Cycle Agency, Inc.'s (BCA) purchase agreement which was consummated in 1998 and provided as follows: (1) \$50,000 to be paid at the closing and (2) sixty monthly payments in amounts which are equal to the lesser of a) 50% of the gross insurance commissions and NY State Insurance Law section 2119 fees derived by BCA from the business of the seller for each of the first sixty full calendar months following the closing or b) \$16,667. In the event that the sum of the first twelve monthly payments is equal or greater than \$200,000, the buyer agrees that the last forty-eight payments must, in the aggregate, total at least \$400,000. In the event that the sum of the first twelve monthly payments is equal to or greater than \$200,000 and the last forty-eight payments as calculated above do not total at least \$400,000, the buyer shall pay to the seller the difference between \$400,000 and the sum of the last forty eight payments due. Such difference will be paid by BCA as part of the final monthly payment to the seller. Until such time as the purchase price has been paid in full, the seller has a security interest in BCA's commissions receivable and all assets that were acquired in the purchase.

BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Six Month Periods Ended June 30, 2002 and 2001

NOTE 3 - PURCHASE LIABILITIES (CONT'D)

Amounts due to the seller of AARD-VARK Agency, Ltd., an auto insurance agency located in Queens, NY, stem from the terms of Barry Scott Acquisition Corp.'s (BSAC) 1998 purchase agreement which provides that the purchase be based on the future income of the agency acquired. In accordance with the terms of the purchase agreement, the purchase price of \$170,718 as derived by management, was calculated at four times the average annual earnings before taxes during the twenty-four month period that began on April 16, 1999.

As of the date of this report, the seller, who has received all scheduled payments as determined by the Company, has rejected management's calculation of the purchase price. See note 8 for further details.

NOTE 4 - NOTE PAYABLE

The note payable, which is due to an employee and former owner of the AARD-VARK Agency, Ltd., was assumed by the Company in connection with its acquisition of the agency in 1998. As of June 30, 1999, the Company discounted the balance outstanding on the note (\$162,995) by 5% to \$149,529. Payments totaling \$19,875 for each six month periods ended June 30, 2002 and 2001 included interest of

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\$732 and \$1,856 for each period respectively.

NOTE 5 - RELATED PARTIES

As discussed in Note 1, the Company is a wholly owned subsidiary of Progressive Agency Holdings Corp. The Company, which earns commissions from a variety of insurance carriers, derived approximately 37% of such income from Progressive's auto insurance companies during both six month periods ended June 30, 2002 and 2001. Amounts due to Progressive consist of advertising costs paid on behalf of the Company, cash advances and amounts allocated to the Company for federal income taxes.

The Company shares its office space, telephone systems, accounting system and certain accounting and administrative employees with Capital Payment Plan, Inc. (CPP), which prior to November 10, 1999, was also a wholly owned subsidiary of Barry Scott Companies, Inc. Such costs, along with supplies and postage, are allocated according to mutually agreed upon percentages and evaluated periodically.

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Six Month Periods Ended June 30, 2002 and 2001

NOTE 5 - RELATED PARTIES (CONT'D)

Amounts due to affiliates arising from normal business operations and non-interest bearing, consisted of the following as of June 30, 2002.

| Affilaite Name | Amount |
|-------------------------------|-----------|
| Due to Progressive | \$709,217 |
| Due from Capital Payment Plan | (12,268) |
| Due to/from Other Affiliates | 144 |
| | ----- |
| Total | \$697,093 |
| | ===== |

The Company leases office space for one of its branches from a related party. The Company's rental commitment of \$1,400 per month for this location expires in 2003. See note 7 for further details.

NOTE 6 - EMPLOYEE BENEFITS

The Company maintains a 401(K) profit sharing plan along with CPP covering substantially all employees who meet certain age and service requirements. The plan allows for employee elective contributions not to exceed 15% of eligible compensation and Company matching contributions in an amount equal to 25% of each participant's contribution to a maximum of 6% of the participant's eligible compensations. The plan also allows for Company discretionary contributions. An employee's interest in the Company's matching and discretionary contributions is fully vested after six years of service. Employer matching contributions were

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\$6,196 and \$6,249 for the six month periods ended June 30, 2002 and 2001 respectively.

NOTE 7 - LEASE COMMITMENTS

Office Space

Rent expense for the Company's headquarters and branch offices amounted to \$152,318 and \$160,517 for the six month periods ended June 30, 2002 and 2001 respectively. The Company's minimum calendar year lease commitment for rental of its headquarters and other branch offices is as follows:

| | | |
|------|---|-----------|
| 2002 | - | \$180,881 |
| 2003 | - | 146,435 |
| 2004 | - | 77,953 |
| 2005 | - | 52,980 |
| 2006 | - | 38,159 |
| 2007 | - | 5,733 |

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BARRY SCOTT COMPANIES, INC.
Notes to Consolidated Financial Statements
For the Six Month Periods Ended June 30, 2002 and 2001

NOTE 7 - LEASE COMMITMENTS (CONT'D)

The Company also leases other office space on a month to month basis or with terms of one year or less.

Office Equipment

The Company's minimum calendar year lease commitment for rental of its copiers and transportation equipment is as follows:

| | | |
|------|---|----------|
| 2002 | - | \$45,099 |
| 2003 | - | 24,308 |
| 2004 | - | 6,111 |
| 2005 | - | 2,267 |

NOTE 8 - CONTINGENCIES

On October 16, 1998 BSACQ entered into an agreement to acquire all of the outstanding stock of AARD-VARK Agency, Ltd. As explained more fully in Note 3, the agreement required BSACQ to pay the sellers a purchase price equal to four times the average annual earnings before taxes of AARD-VARK during a twenty-four month period which ended March 31, 2001 in exchange for 100% of the outstanding AARD-VARK stock. In April, 2001 BSACQ used the formula prescribed by the agreement to derive a purchase price of \$170,718. Dissatisfied with the BSACQ's determination, the sellers filed their initial complaint in the Supreme Court of the State of New York, Queens County, alleging six causes of action including claims for breach of contract, breach of fiduciary duty and fraudulent misrepresentation. Attorneys for Progressive, acting on behalf of BSACQ, moved

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to dismiss the action based on the plaintiff's failure to properly state a claim. On March 27, 2002 the Court granted Progressive's motion dismissing the initial Complaint in its entirety. The Plaintiffs, who did not appeal the decision, resubmitted the same Complaint containing an almost verbatim reassertion of the initial claims. Progressive's attorneys and Company management are confident that the case will be dismissed again. Consequently, no accrual for any estimated loss, arising from the outcome of the case, has been recorded in the financial statements.

NOTE 9 - SUBSEQUENT EVENT

On August 30, 2002, the Parent sold 100% of the Company's stock to another insurance agency. Apart from efficiency measures, operations have continued as usual. As of the date of this report, current management has no plans that would have a material impact on the carrying value of the Company's assets as stated in this report.

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PRO FORMA FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated financial statements give effect to the acquisition (the "Acquisition") by DCAP Group, Inc. (the "Registrant") of the shares of Barry Scott Companies, Inc. ("BSC") accounted for as a purchase transaction and the concurrent issuance of Common Shares of the Registrant to investors in a private placement (the "Issuance"). These pro forma financial statements are presented for illustrative purposes only, and therefore are not necessarily indicative of the operating results and financial position that might have been achieved had the Acquisition occurred as of an earlier date, nor are they necessarily indicative of the operating results and financial position which may occur in the future.

A Pro Forma Condensed Consolidated Balance Sheet is provided as of June 30, 2002, giving effect to the Acquisition and the Issuance as though they had been consummated on that date. Pro Forma Condensed Consolidated Statements of Operations are provided for the six months ended June 30, 2002 and the year ended December 31, 2001, giving effect to the Acquisition as though it had occurred on January 1, 2001.

The pro forma financial statements are based on preliminary estimates of values and transaction costs. The actual recording of the transactions will be based on final values and transaction costs. Accordingly, the actual recording of the transactions may differ from these pro forma financial statements.

The pro forma condensed consolidated financial statements presented as of June 30, 2002 and for the six months then ended, and for the fiscal year ended December 31, 2001, are derived from the separate historical consolidated financial statements of the Registrant and BSC and should be read in conjunction with the audited and unaudited consolidated financial statements of the Registrant (included in its Annual Report on Form 10-KSB for the year ended December 31, 2001 and Quarterly Report on Form 10-QSB for the period ended June 30, 2002) and BSC (contained elsewhere herein).

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DCAP GROUP, INC. AND SUBSIDIARIES
AND
BARRY SCOTT COMPANIES, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

JUNE 30, 2002
(Unaudited)

| | Historical | | Pro Forma | |
|--|-------------------|--------------------------|--|-------|
| | DCAP Companies | Barry Scott Companies | Adjustments | Con |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 256,540 | \$ 124,520 | \$ 500,000 (1) (325,000) (2) | \$ |
| Due from franchises | 204,998 | - | - | |
| Commissions receivable | | 191,600 | - | |
| Note receivable from former officer | 40,085 | - | - | |
| Prepaid expenses and other assets | 50,017 | 188,650 | - | |
| | ----- | ----- | ----- | ----- |
| Total current assets | 551,640 | 504,770 | 175,000 | 1, |
| PROPERTY AND EQUIPMENT, net | 323,489 | 38,718 | - | |
| OTHER ASSETS: | | | | |
| Goodwill | 75,000 | - | 310,653 (2) 158,000 (4) 50,000 (5) | |
| Other intangibles, net | 205,248 | - | 103,550 (2) | |
| Deposits and other assets | 42,350 | 25,550 | - | |
| | ----- | ----- | ----- | ----- |
| Total other assets | 322,598 | 25,550 | 622,203 | |
| | ----- | ----- | ----- | ----- |
| | \$1,197,727 | \$ 569,038 | \$ 797,203 | \$2, |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 684,797 | \$ 109,367 | \$ 50,000 (5) | \$ |
| Current portion of long-term debt | 24,049 | - | 105,000 (4) | |
| Current portion of capital lease obligations | 73,322 | - | - | |
| Deferred revenue | 79,169 | - | - | |
| Debentures payable | 154,200 | - | - | |
| Due to officer | 33,333 | - | - | |
| Due to parent company and affiliate | - | 775,747 | (775,747) (3) | |
| Agency purchase liability | - | 67,420 | (59,282) (3) | |
| Note payable | - | 15,736 | - | |
| | ----- | ----- | ----- | ----- |
| Total current liabilities | 1,048,870 | 968,270 | (680,029) | 1, |

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| | | | | |
|---|-------------|------------|---------------|-------|
| LONG TERM DEBT | 171,470 | - | 525,000 (2) | |
| | | | 53,000 (4) | |
| CAPITAL LEASE OBLIGATIONS | 89,571 | - | - | |
| DEFERRED REVENUE | 27,341 | - | - | |
| MINORITY INTEREST | 10,859 | - | - | |
| STOCKHOLDERS' (DEFICIT) EQUITY | | | | |
| Common stock | 150,680 | 93 | 10,000 (1) | |
| | | | (93) (2) | |
| Preferred stock | - | - | - | |
| Capital in excess of par | 9,752,409 | - | 490,000 (1) | 10, |
| Deficit | (9,124,818) | (399,325) | (435,704) (2) | (9, |
| | - | - | 835,029 (3) | |
| | ----- | ----- | ----- | ----- |
| | 778,271 | (399,232) | 899,232 | 1, |
| Treasury stock | (928,655) | - | - | (|
| | ----- | ----- | ----- | ----- |
| Total stockholders' (deficit) equity | (150,384) | (399,232) | 899,232 | |
| | ----- | ----- | ----- | ----- |
| | \$1,197,727 | \$ 569,038 | \$ 797,203 | \$ 2, |
| | ===== | ===== | ===== | ===== |

See accompanying notes to pro forma consolidated financial statements

DCAP GROUP, INC. AND SUBSIDIARIES
AND
BARRY SCOTT COMPANIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

JUNE 30, 2002

- To record amount received from an investor (1,000,000 shares at \$.50 per share) used to purchase Barry Scott Companies concurrently with the acquisition.
- To record the purchase price of \$850,000 for Barry Scott Companies acquisition consisting of \$325,000 in cash with the balance of \$525,000 bearing interest at 5% per annum and the elimination of the historical equity capitalization of Barry Scott Companies in accordance with the purchase method of accounting.

The goodwill and intangible assets acquired are valued at \$310,653 and \$103,550, respectively. Intangible assets represent customer lists obtained from Barry Scott Companies and will be amortized over an estimated useful life of four years. On an ongoing basis, the Company will evaluate the carrying value of goodwill versus the discounted cash benefit expected to be realized from the performance of the underlying operations and adjust for any impairment in value.

- Represents items not assumed by purchaser.
- To record estimated remaining contingent obligation in connection with a

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previous acquisition by Barry Scott Companies.

5. To record estimated transaction costs in connection with the acquisition of Barry Scott Companies.

DCAP GROUP, INC. AND SUBSIDIARIES
AND
BARRY SCOTT COMPANIES, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

| | Historical | | Adjustm |
|--|-------------------|--------------------------|---------|
| | DCAP Companies | Barry Scott Companies | |
| Revenues: | | | |
| Commissions and fees | \$ 699,235 | \$ 1,744,929 | |
| Rooms | 417,685 | - | |
| Premium finance revenue | 427,096 | - | |
| Other | 6,904 | 4,663 | |
| Total revenues | 1,550,920 | 1,749,592 | |
| Operating expenses: | | | |
| General and administrative | 1,240,503 | 1,495,217 | |
| Depreciation and amortization | 67,458 | 27,438 | 12, |
| Marketing | 105,934 | 90,902 | |
| Property operation and maintenance | 19,898 | - | |
| Total operating expenses | 1,433,793 | 1,613,557 | 12, |
| Operating income | 117,127 | 136,035 | (12, |
| Other (expense) income: | | | |
| Interest income | 2,251 | - | |
| Interest expense | (28,900) | (2,092) | (13, |
| Total other (expense) income | (26,649) | (2,092) | (13, |
| Income before income taxes and minority interest | 90,478 | 133,943 | (26, |
| Provision for income taxes | 1,243 | 46,900 | (46, |
| Income before minority interest | 89,235 | 87,043 | 20, |
| Minority interest | 1,936 | - | |
| Net income | \$ 87,299 | \$ 87,043 | \$ 20, |
| Net income per share: | | | |
| Basic | \$ 0.01 | | |
| Diluted | \$ 0.01 | | |

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=====

Weighted average number of shares outstanding:

| | |
|---------|------------|
| Basic | 11,353,402 |
| | ===== |
| Diluted | 11,429,673 |
| | ===== |

See accompanying notes to pro forma consolidated financial statements

DCAP GROUP, INC. AND SUBSIDIARIES
AND
BARRY SCOTT COMPANIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2002

1. To remove income tax provision on Barry Scott Companies based upon the utilization of net operating loss carryforwards of DCAP Group, Inc.
2. Basic and Diluted pro forma income per share is based on historical weighted average number of Common Shares and equivalents of DCAP Group during the six months ended June 30, 2002, adjusted for the shares issued to an investor concurrently with the acquisition.
3. To record six months of interest expense on the indebtedness incurred in connection with the acquisition of Barry Scott Companies.
4. Reflects amortization of intangible assets acquired in connection with the acquisition of Barry Scott Companies. The intangible assets are being amortized over a 4 year period.

DCAP GROUP, INC. AND SUBSIDIARIES
AND
BARRY SCOTT COMPANIES, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2001
(Unaudited)

| | Historical | | |
|-------------------------|-------------------|--------------------------|-----------|
| | DCAP Companies | Barry Scott Companies | Adjustmen |
| | ----- | ----- | ----- |
| Revenues: | | | |
| Commissions and fees | \$ 2,350,094 | \$ 3,128,722 | \$ |
| Rooms | 879,918 | - | |
| Premium finance revenue | 259,454 | - | |

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| | | | |
|--|--------------|--------------|-----------|
| Other | 30,998 | 13,193 | |
| | ----- | ----- | ----- |
| Total revenues | 3,520,464 | 3,141,915 | |
| Operating expenses: | | | |
| General and administrative | 2,861,849 | 3,417,810 | |
| Provision for bad debts | 232,666 | - | |
| Departmental | 357,029 | - | |
| Depreciation and amortization | 293,605 | 66,397 | 25,8 |
| Lease rentals | 409,116 | - | |
| Property operation and maintenance | 60,139 | - | |
| | ----- | ----- | ----- |
| Total operating expenses | 4,214,404 | 3,484,207 | 25,8 |
| | ----- | ----- | ----- |
| Operating loss | (693,940) | (342,292) | (25,8 |
| Other (expense) income: | | | |
| Interest income | 15,960 | - | |
| Interest expense | (47,429) | (6,223) | (26,2 |
| Gain on sale of DCAP stores | 56,043 | - | |
| Loss on disposal of property and equipment | (252,791) | - | |
| | ----- | ----- | ----- |
| Total other (expense) income | (228,217) | (6,223) | (26,2 |
| | ----- | ----- | ----- |
| Loss before income taxes and minority interest | (922,157) | (348,515) | (52,1 |
| Provision (benefit) for income taxes | 20,336 | (68,429) | 68,4 |
| | ----- | ----- | ----- |
| Loss before minority interest | (942,493) | (280,086) | (120,5 |
| Minority interest | 12,942 | - | |
| | ----- | ----- | ----- |
| Net loss | \$ (929,551) | \$ (280,086) | \$ (120,5 |
| | ===== | ===== | ===== |
| Net loss per share: | | | |
| Basic | \$ (0.08) | | |
| | ===== | | |
| Diluted | \$ (0.08) | | |
| | ===== | | |
| Weighted average number of shares outstanding: | | | |
| Basic | 12,238,222 | | |
| | ===== | | |
| Diluted | 12,238,222 | | |
| | ===== | | |

See accompanying notes to pro forma consolidated financial statements

DCAP GROUP, INC. AND SUBSIDIARIES
AND
BARRY SCOTT COMPANIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2001

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1. To remove income tax benefit taken by Barry Scott Companies as a result of DCAP having a 100% valuation allowance.
2. Basic and Diluted pro forma income per share is based on historical weighted average number of Common Shares and equivalents of DCAP Group during the year ended December 31, 2001, adjusted for the shares issued to an investor concurrently with the acquisition.
3. To record interest expense on the indebtedness incurred in connection with the acquisition of the Barry Scott Companies.
4. Reflects amortization of intangible assets acquired in connection with the acquisition of Barry Scott Companies. The intangible assets are being amortized over a 4 year period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DCAP GROUP, INC.

Dated: November 1, 2002

By: /s/ Barry Goldstein

Barry Goldstein
Chief Executive Officer