

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**  
SEC Accession No. **0001021771-04-000116**

([HTML Version](#) on [secdatabase.com](#))

### FILER

#### **DCAP GROUP INC/**

CIK: **33992** | IRS No.: **362476480** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-01665** | Film No.: **04970939**  
SIC: **6411** INSURANCE AGENTS, BROKERS & SERVICE

| Mailing Address          | Business Address         |
|--------------------------|--------------------------|
| 90 MERRICK AVE 9TH FLOOR | 90 MERRICK AVE           |
| 90 MERRICK AVE 9TH FLOOR | 90 MERRICK AVE 9TH FLOOR |
| EAST MEADOW NY 11554     | EAST MEADOW NY 11554     |
|                          | 5167946300               |

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

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2004  
-----

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-1665

DCAP GROUP, INC.  
-----

(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware  
-----

36-2476480  
-----

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S Employer  
Identification No.)

1158 Broadway, Hewlett, NY 11557  
-----

(Address of Principal Executive Offices)

(516) 374-7600  
-----

(Issuer's Telephone Number, Including Area Code)

-----  
(Former Name, Former Address and Former Fiscal Year, if Changed  
Since Last Report)

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  
-- --

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

Check whether the registrant filed all documents and reports required 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 ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 12,562,487 shares as of July 31 2004.

Transitional Small Business Disclosure Format (check one): Yes No X  
-- --

INDEX

DCAP GROUP, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION  
-----

Item 1. Financial Statements  
-----

Condensed Consolidated Balance Sheet - June 30, 2004 (Unaudited)

Condensed Consolidated Statements of Income - Six months ended June 30, 2004 and 2003 (Unaudited)

Condensed Consolidated Statements of Income - Three months ended June 30, 2004 and 2003 (Unaudited)

Condensed Consolidated Statements of Cash Flows - Six months ended June 30, 2004 and 2003 (Unaudited)

Notes to Condensed Consolidated Financial Statements - Six months ended June 30, 2004 and 2003 (Unaudited)

Item 2. Management's Discussion and Analysis or Plan of Operation

Item 3. Controls and Procedures

PART II. OTHER INFORMATION  
-----

Item 1. Legal Proceedings

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

Forward-Looking Statements  
-----

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 6 of our Annual Report on Form 10-KSB for the year ended December 31, 2003 under "Factors That May Affect Future Results and Financial Condition".

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new

information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

DCAP GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet (Unaudited)

June 30, 2004

Assets

Current Assets:

|  |              |              |
|--|--------------|--------------|
| Cash and cash equivalents  |              | \$ 2,461,012 |
| Accounts receivable, net of allowance for<br>doubtful accounts of \$62,000 |              | 1,464,512    |
| Finance contracts receivable   | \$27,684,745 |              |
| Less: Deferred Interest  | (2,187,938)  |              |
| Less: Allowance for doubtful accounts                                      | (141,976)    | 25,354,831   |

|   |  |         |
|---|--|---------|
| Prepaid expenses and other current assets |  | 259,662 |
|---|--|---------|

|                      |  |            |
|----------------------|--|------------|
| Total Current Assets |  | 29,540,017 |
|----------------------|--|------------|

|                             |  |           |
|-----------------------------|--|-----------|
| Property and Equipment, net |  | 398,659   |
| Goodwill                    |  | 1,171,551 |
| Other Intangibles, net      |  | 304,952   |
| Deposits and Other Assets   |  | 263,392   |

|              |  |              |
|--------------|--|--------------|
| Total Assets |  | \$31,678,571 |
|--------------|--|--------------|

Liabilities and Stockholders' Equity

Current Liabilities:

|                                       |  |              |
|---------------------------------------|--|--------------|
| Revolving credit line                 |  | \$14,379,076 |
| Accounts payable and accrued expenses |  | 1,082,518    |
| Premiums payable                      |  | 7,037,301    |
| Current portion of long-term debt     |  | 125,000      |
| Income taxes payable                  |  | 474,393      |
| Other current liabilities             |  | 199,909      |

|                           |  |            |
|---------------------------|--|------------|
| Total Current Liabilities |  | 23,298,197 |
|---------------------------|--|------------|

|                |  |           |
|----------------|--|-----------|
| Long-Term Debt |  | 3,771,800 |
|----------------|--|-----------|

|                   |  |        |
|-------------------|--|--------|
| Other Liabilities |  | 43,388 |
|-------------------|--|--------|

|  |  |         |
|--|--|---------|
| Mandatorily Redeemable Preferred Stock |  | 904,000 |
|--|--|---------|

Commitments

Stockholders' Equity:

|   |  |             |
|---|--|-------------|
| Common Stock, \$.01 par value; 40,000,000 shares authorized;<br>16,277,103 shares issued          |  | 162,771     |
| Preferred Stock, \$.01 par value; 1,000,000 shares authorized;<br>0 shares issued and outstanding |  | -           |
| Capital in excess of par  |  | 10,582,315  |
| Deficit   |  | (6,155,245) |

|   |  |           |
|---|--|-----------|
| Treasury Stock, at cost, 3,714,616 shares |  | 4,589,841 |
|   |  | (928,655) |

|  |              |
|--|--------------|
| Total Stockholders' Equity                 | 3,661,186    |
|  | -----        |
| Total Liabilities and Stockholders' Equity | \$31,678,571 |
|  | =====        |

-----  
See notes to condensed consolidated financial statements.

4

DCAP GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements Of Income (Unaudited)

| Six months ended June 30,                                    | 2004         | 2003         |
|--|--------------|--------------|
| -----  |              |              |
| Revenues:  |              |              |
| Commissions and fees   | \$ 3,472,839 | \$ 3,015,662 |
| Premium finance revenue                                      | 3,955,086    | 697,272      |
|  | -----        | -----        |
|  | 7,427,925    | 3,712,934    |
| Operating Expenses:  |              |              |
| General and administrative expenses                          | 5,390,022    | 2,943,162    |
| Depreciation and amortization                                | 210,465      | 74,918       |
| Premium finance interest expense                             | 594,713      | -            |
|  | -----        | -----        |
| Total Operating Expenses                                     | 6,195,200    | 3,018,080    |
|  | -----        | -----        |
| Operating Income:  | 1,232,725    | 694,854      |
|  | -----        | -----        |
| Other (Expense) Income:                                      |              |              |
| Interest income  | 5,441        | 4,803        |
| Interest expense   | (18,119)     | (33,794)     |
| Interest expense - mandatorily redeemable<br>preferred stock | (22,600)     | (7,792)      |
| Gain on sale of stores                                       | -            | 89,700       |
|  | -----        | -----        |
|  | (35,278)     | 52,917       |
|  | -----        | -----        |
| Income Before Provision for Income Taxes                     | 1,197,447    | 747,771      |
| Provision for Income Taxes                                   | 476,386      | 5,664        |
|  | -----        | -----        |
| Income from Continuing Operations                            | 721,061      | 742,107      |
| Discontinued Operations:                                     |              |              |
| (Loss) from discontinued operations                          | -            | (46,096)     |
|  | -----        | -----        |
| Net Income   | \$ 721,061   | \$ 696,011   |
|  | =====        | =====        |
| Net Income Per Common Share:                                 |              |              |
| Basic:   |              |              |
| Income from continuing operations                            | \$ 0.06      | \$ 0.06      |
| (Loss) from discontinued operations                          | -            | (0.00)       |
|  | -----        | -----        |
| Net income   | \$ 0.06      | \$ 0.06      |
|  | =====        | =====        |
| Diluted:   |              |              |
| Income from continuing operations                            | \$ 0.05      | \$ 0.05      |
| (Loss) from discontinued operations                          | -            | (0.00)       |
|  | -----        | -----        |
| Net income   | \$ 0.05      | \$ 0.05      |

|  |            |            |
|--|------------|------------|
| Weighted Average Number of Shares Outstanding: |            |            |
| Basic  | 12,368,087 | 12,353,402 |
|  | =====      | =====      |
| Diluted  | 16,186,742 | 13,079,072 |
|  | =====      | =====      |

-----  
See notes to condensed consolidated financial statements.

5

DCAP GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements Of Income (Unaudited)

| Three months ended June 30,                               | 2004         | 2003         |
|---|--------------|--------------|
|   | -----        | -----        |
| Revenues:   |              |              |
| Commissions and fees                                      | \$ 1,801,022 | \$ 1,554,247 |
| Premium finance revenue                                   | 2,126,886    | 349,795      |
|   | -----        | -----        |
|   | 3,927,908    | 1,904,042    |
| Operating Expenses:                                       |              |              |
| General and administrative expenses                       | 2,905,987    | 1,535,865    |
| Depreciation and amortization                             | 107,982      | 38,599       |
| Premium finance interest expense                          | 318,872      | -            |
|   | -----        | -----        |
| Total Operating Expenses                                  | 3,332,841    | 1,574,464    |
| Operating Income:   | -----        | -----        |
|   | 595,067      | 329,578      |
| Other (Expense) Income:                                   |              |              |
| Interest income   | 3,751        | 3,455        |
| Interest expense  | (8,090)      | (16,534)     |
| Interest expense - mandatorily redeemable preferred stock | (11,300)     | (7,792)      |
|   | -----        | -----        |
|   | (15,639)     | (20,871)     |
| Income Before Provision for Income Taxes                  | 579,428      | 308,707      |
| Provision for Income Taxes                                | 228,678      | 809          |
| Net income  | -----        | -----        |
|   | \$ 350,750   | \$ 307,898   |
|   | =====        | =====        |
| Net Income Per Common Share:                              |              |              |
| Basic:  | \$ 0.03      | \$ 0.02      |
|   | =====        | =====        |
| Diluted   | \$ 0.02      | \$ 0.02      |
|   | =====        | =====        |
| Weighted Average Number of Shares Outstanding:            |              |              |
| Basic   | 12,452,949   | 12,353,402   |
|   | =====        | =====        |
| Diluted   | 16,237,865   | 13,234,215   |
|   | =====        | =====        |

## DCAP GROUP, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

| Six months ended June 30,   | 2004                | 2003               |
|---|---------------------|--------------------|
| <b>Cash Flows from Operating Activities:</b>                                      |                     |                    |
| Net income  | \$ 721,061          | \$ 696,011         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                    |
| Depreciation and amortization   | 210,465             | 74,918             |
| Bad debt expense  | -                   | 27,029             |
| Amortization of warrants  | 29,400              | -                  |
| Gain on sale of stores  | -                   | (89,700)           |
| Changes in operating assets and liabilities:                                      |                     |                    |
| Decrease (increase) in assets:  |                     |                    |
| Accounts receivable   | 331,848             | (375,923)          |
| Prepaid expenses and other current assets   | (144,494)           | (44,945)           |
| Deposits and other assets   | (18,174)            | (1,954)            |
| Increase (decrease) in liabilities:   |                     |                    |
| Premium payable   | 507,082             | -                  |
| Accounts payable and accrued expenses   | (245,011)           | (60,091)           |
| Income taxes payable  | 474,393             | -                  |
| Other current liabilities   | (12,281)            | (10,942)           |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>1,854,289</b>    | <b>214,403</b>     |
| <b>Cash Flows from Investing Activities:</b>                                      |                     |                    |
| Increase in finance contracts receivable - net                                    | (6,270,670)         | -                  |
| Decrease in notes and other receivables - net                                     | 8,234               | 38,752             |
| Purchase of property and equipment  | (64,258)            | (71,868)           |
| Business acquisitions   | -                   | (39,039)           |
| Proceeds from disposition of discontinued subsidiary                              | -                   | 500,000            |
| Proceeds from sale of stores  | -                   | 141,383            |
| <b>Net Cash (Used in) Provided by Investing Activities</b>                        | <b>(6,326,694)</b>  | <b>569,228</b>     |
| <b>Cash Flows from Financing Activities:</b>                                      |                     |                    |
| Principal payments on long-term debt  | (21,878)            | (309,214)          |
| Proceeds from revolving credit line   | 35,130,245          | -                  |
| Payments on revolving credit line   | (29,719,251)        | -                  |
| Proceeds from exercise of warrants  | 194,997             | -                  |
| <b>Net Cash Provided by (Used in) Financing Activities</b>                        | <b>5,584,113</b>    | <b>(309,214)</b>   |
| <b>Net Increase in Cash and Cash Equivalents</b>                                  | <b>1,111,708</b>    | <b>474,417</b>     |
| Cash and Cash Equivalents, beginning of period                                    | 1,349,304           | 607,403            |
| <b>Cash and Cash Equivalents, end of period</b>                                   | <b>\$ 2,461,012</b> | <b>\$1,081,820</b> |

See notes to condensed consolidated financial statements.

1. The Condensed Consolidated Balance Sheet as of June 30, 2004, the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2004 and 2003 and the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and 2003 have been prepared by us without audit. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly in all material respects our financial position as of June 30, 2004, results of operations for the three and six months ended June 30, 2004 and 2003 and cash flows for the six months ended June 30, 2004 and 2003. This report should be read in conjunction with our Annual Report on Form 10-KSB for the year ended December 31, 2003.

The results of operations and cash flows for the six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year.

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 we have a majority voting interest or voting control. All significant intercompany accounts and transactions have been eliminated.

- b. Revenue recognition  
-----

We recognize commission revenue from insurance policies at the beginning of the contract period (except for those commissions that are receivable annually, which we recognize on a ratable basis) and on automobile club dues equally over the contract period. Franchise fee revenue is recognized when substantially all of our contractual requirements under the franchise agreement are completed. Refunds of commissions on the cancellation of insurance policies are reflected at the time of cancellation.

Prior to July 14, 2003, premium financing fee revenue was earned based upon the origination of premium finance contracts sold by agreement to third parties. The contract fee gave consideration to an estimate as to the collectability of the loan amount. Periodically, actual results were compared to estimates previously recorded, and adjusted accordingly.

On July 14, 2003, we changed our business model with respect to our premium finance operations from selling finance contracts to third parties to internally financing those contracts. To accomplish this, we obtained a credit facility and commenced recording interest and fee-based revenue over the life of each loan (generally 9 to 10 months) and expenses of operating a finance company, such as servicing, bad debts and interest expense.

Thus, rather than recording a one-time fee per contract (as we did prior to July 14, 2003), we are now recording income and expense over the life of each contract, as well as receivables and payables relating to the operations of a premium finance company. We are using the interest method to recognize interest income over the life of each loan in accordance with Statement of Financial Accounting Standard No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

Delinquency fees are earned when collected. Upon completion of collection efforts, after cancellation of the underlying insurance policies, any uncollected earned interest or fees are charged off.

- c. Website Development Costs  
-----



Technology and content costs are generally expensed as incurred, except for certain costs relating to the development of internal-use software, including those relating to operating our website, that are capitalized and depreciated over two years. A total of \$12,945 and \$23,549 in such costs was incurred during the six months ended June 30, 2004 and 2003, respectively.

d. Stock Options  
-----

We have elected the disclosure only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("FASB 123") in accounting for our employee stock options. Accordingly, no compensation expense has been recognized. Had we recorded compensation expense for the stock options based on the fair value at the grant date for awards in the six and three months ended June 30, 2004 and 2003 consistent with the provisions of SFAS 123, our net income and net income per share would have been adjusted as follows:

<TABLE>  
<CAPTION>

|  | Six Months Ended<br>June 30, |           | Three Months Ended<br>June 30, 2004 |           |
|--|------------------------------|-----------|-------------------------------------|-----------|
|  | 2004                         | 2003      | 2004                                | 2003      |
| <S>  | <C>                          | <C>       | <C>                                 | <C>       |
| Net income, as reported  | \$721,061                    | \$696,011 | \$350,750                           | \$307,898 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects | (33,000)                     | (30,000)  | (17,000)                            | (15,000)  |
| Pro forma net income   | \$688,061                    | \$666,011 | \$333,750                           | \$292,898 |
| Net income per share:  |                              |           |                                     |           |
| Basic - as reported  | \$ 0.06                      | \$ 0.06   | \$ 0.03                             | \$ 0.02   |
| Basic - pro forma  | \$ 0.06                      | \$ 0.05   | \$ 0.03                             | \$ 0.02   |
| Diluted - as reported  | \$ 0.05                      | \$ 0.05   | \$ 0.02                             | \$ 0.02   |
| Diluted - pro forma  | \$ 0.04                      | \$ 0.05   | \$ 0.02                             | \$ 0.02   |

</TABLE>

e. Reclassifications  
-----

Certain reclassifications have been made to the consolidated financial statements for the six months ended June 30, 2003 to conform with the classifications used for the six months ended June 30, 2004.

3. Business Segments:  
-----

We currently have two reportable business segments: Insurance and Premium Finance. 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 Premium Finance segment offers property and casualty policyholders loans to finance the policy premiums.

In December 2002, we disposed of our Hotel segment as part of a settlement agreement. Accordingly, the segment information shown in the following table excludes the activity of this segment for the six months ended June 30, 2004 and 2003.

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

| Six Months Ended<br>June 30, 2004         | Insurance   | Premium<br>Finance | Other(1)  | Total       |
|---|-------------|--------------------|-----------|-------------|
| Revenues from external customers          | \$3,472,839 | \$3,955,086        | \$ -      | \$7,427,925 |
| Interest income                           | 5,441       | -                  | -         | 5,441       |
| Interest expense                          | 39,536      | 594,713            | 1,183     | 635,432     |
| Depreciation and amortization             | 84,648      | 111,528            | 14,289    | 210,465     |
| Segment profit (loss) before income taxes | 817,976     | 965,963            | (586,492) | 1,197,447   |
| Segment profit (loss)                     | 490,786     | 579,577            | (349,302) | 721,061     |
| Segment assets                            | 3,565,414   | 26,754,589         | 1,358,568 | 31,678,571  |

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

| Six Months Ended<br>June 30, 2003         | Insurance   | Premium<br>Finance | Other(1)  | Total       |
|---|-------------|--------------------|-----------|-------------|
| Revenues from external customers          | \$3,015,662 | \$697,272          | \$ -      | \$3,712,934 |
| Interest income                           | 1,223       | -                  | 3,580     | 4,803       |
| Interest expense                          | 41,586      | -                  | -         | 41,586      |
| Depreciation and amortization             | 74,138      | 780                | -         | 74,918      |
| Segment profit (loss) before income taxes | 626,487     | 525,266            | (403,982) | 747,771     |
| Segment profit (loss)                     | 626,487     | 525,266            | (409,646) | 742,107     |
| Segment assets                            | 3,236,120   | 209,038            | 924,000   | 4,369,158   |

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

#### 4. Sale of Stores

During the six months ended June 30, 2003, we sold two of our retail offices (part of our Insurance segment) for cash consideration aggregating \$141,383 and a note receivable of approximately \$97,000. The sale of the two offices resulted in a gain of \$89,700. The assets of these stores included accounts receivable of approximately \$85,000, goodwill with a

10

carrying amount of \$50,000, and fixed assets with a carrying amount of approximately \$10,000. In addition, concurrently with the sale, the purchasers entered into franchise agreements with us.

#### 5. Net Income Per Share

Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options and warrants and conversion of mandatorily redeemable preferred stock.

The reconciliation is as follows:

<TABLE>  
<CAPTION>

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2004                           | 2003       | 2004                         | 2003       |
| <S>  | <C>                            | <C>        | <C>                          | <C>        |
| Weighted Average Number of Shares Outstanding  | 12,452,949                     | 12,353,402 | 12,368,087                   | 12,353,402 |
| Effect of Dilutive Securities, common stock equivalents                                      | 3,784,916                      | 880,813    | 3,818,655                    | 725,670    |
| Weighted Average Number of Shares Outstanding, used for computing diluted earnings per share | 16,237,865                     | 13,234,215 | 16,186,742                   | 13,079,072 |

</TABLE>

Net income available to common shareholders for the computation of diluted earnings per share is computed as follows:

<TABLE>  
<CAPTION>

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2004                           | 2003      | 2004                         | 2003      |
| <S>  | <C>                            | <C>       | <C>                          | <C>       |
| Net Income   | \$350,750                      | \$307,898 | \$721,061                    | \$696,011 |
| Interest Expense on Dilutive Convertible Preferred Stock                   | 11,300                         | -         | 22,600                       | -         |
| Net Income Available to Common Shareholders for Diluted Earnings Per Share | \$362,050                      | \$307,898 | \$743,661                    | \$696,011 |

</TABLE>

## 6. Exercise of Warrants

During the six months ended June 30, 2004, warrants were exercised for the purchase of 113,633 common shares at an exercise price of \$1.10 per share and 95,452 common shares at an exercise price of \$.73 per share.

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

### Overview

We operate 25 storefronts, including 19 Barry Scott locations acquired through our August 2002 acquisition of Barry Scott Companies, Inc., and five Atlantic Insurance locations acquired through our May 2003 acquisition of

substantially all the assets of AIA Acquisition Corp. We also have 42 franchised DCAP locations.

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

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

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

#### Critical Accounting Policies

Our consolidated financial statements include accounts of DCAP Group, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our consolidated financial statements and related notes. In preparing these financial statements, our management has utilized information available including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome, as anticipated by our management in formulating its estimates inherent in these financial statements, might not materialize. However, application of the critical accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses.

#### Commission and fee income

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

12

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

Automobile club dues are recognized equally over the contract period.

#### Finance income, fees and receivables

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

#### Allowance for finance receivable losses

Losses on finance receivables include an estimate of future credit losses on premium finance accounts. Credit losses on premium finance accounts occur when the unearned premiums received from the insurer upon cancellation of a financed policy are inadequate to pay the balance of the premium finance loan amount, which includes accrued interest. The majority of these shortfalls result in the write-off of such interest. We review historical trends of such losses relative to finance receivable balances to develop estimates of future losses.

However, actual write-offs may differ materially from the write-off estimates that we used.

#### Goodwill and intangible assets

The carrying value of goodwill was initially reviewed for impairment as of January 1, 2002, and is reviewed annually or whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. If the fair value of the operations to which goodwill relates is less than the carrying amount of those operations, including unamortized goodwill, the carrying amount of goodwill is reduced accordingly with a charge to expense. Based on our most recent analysis, we believe that no impairment of goodwill exists at June 30, 2004.

#### Stock-based compensation

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

#### Results of Operations

Our operating income for the six months ended June 30, 2004 was \$1,232,725, an increase of 77% over the results for the comparable 2003 period of \$694,854.

During the six months ended June 30, 2004, revenues from our insurance-related operations were \$3,472,839, an increase of 15% over the revenues for the comparable 2003 period of \$3,015,662. The increase was generally due to the revenues of our Atlantic Insurance stores whose assets were acquired

effective May 1, 2003.

Premium finance revenues for the six months ended June 30, 2004 totaled \$3,955,086, an increase of 467% over the comparable 2003 period of \$697,272 (see table):

|                                  | Six Months Ended<br>June 30, |                  |
|----------------------------------|------------------------------|------------------|
|                                  | 2004                         | 2003             |
| Revenue from sale of receivables | \$ 0                         | \$697,272        |
| Interest and late fee revenue    | 3,955,086                    | 0                |
| <b>Total</b>                     | <b>\$3,955,086</b>           | <b>\$697,272</b> |

During the six months ended June 30, 2003, we recognized premium finance revenue from the sale of premium finance receivables to a third party and recorded a one-time fee per contract. On July 14, 2003, we obtained an \$18,000,000 two-year line of credit from Manufacturers and Traders Trust Co. to finance our premium finance operations. Concurrently, we obtained \$3,500,000 in funding from a private placement of subordinated debt and warrants to support our premium finance operations. We then began utilizing these credit facilities and commenced recording interest and fee-based revenue over the life of each loan and the expenses of operating a finance company, such as servicing, bad debts and interest expense. Thus, rather than recording a one-time fee per

contract, we are recording income and expense over the life of each contract.

Effective November 2003, we began providing premium finance services to our Barry Scott locations (following the expiration of a requirement that the locations use another provider), and in March 2004 we began providing premium finance services to our Atlantic Insurance offices.

Our selling, general and administrative expenses for the six months ended June 30, 2004 were \$2,446,860 more than for the six months ended June 30, 2003. This increase was primarily due to the expenses of our Atlantic Insurance stores whose assets were acquired effective May 1, 2003, and the expenses of operating a finance company, as discussed above, which we commenced on July 14, 2003.

Our depreciation and amortization expense for the six months ended June 30, 2004 was \$135,547 more than for the six months ended June 30, 2003. This increase was primarily the result of our recording amortization of costs associated with obtaining the financing discussed above.

As a result of the change in our premium finance business in July 2003 as discussed above, we incurred premium finance interest expense during the six months ended June 30, 2004, while none was incurred during the six months ended June 30, 2003.

In May 2003, we issued redeemable preferred shares in connection with the acquisition of the assets of AIA Acquisition Corp. and incurred interest expense of \$22,600 during the six months ended June 30, 2004 as compared to \$7,792 during the six months ended June 30, 2003.

During the six months ended June 30, 2003, we sold two of our stores resulting in a gain of \$89,700. No such sales occurred during the six months ended June 30, 2004.

During the six months ended June 30, 2004, our provision for income taxes was \$476,386 as opposed to \$5,664 for the six months ended June 30, 2003. This was due to the utilization of net operating loss carryforwards for the six months ended June 30, 2003. No net operating loss carryforwards were available for the six months ended June 30, 2004.

Our insurance-related operations, on a stand-alone basis, generated a net profit before income taxes of \$817,976 during the six months ended June 30, 2004 as compared to a net profit before income taxes of \$626,487 during the six months ended June 30, 2003. This increase was primarily the result of an increase in commission revenue. Our premium finance operations, on a stand-alone basis, generated a net profit before income taxes of \$965,963 during the six months ended June 30, 2004 as compared to a net profit before income taxes of \$525,266 during the six months ended June 30, 2003. The increase was primarily due to increased profits resulting from the change in our business model as discussed above. Loss before income taxes from corporate-related items not allocable to reportable segments was \$586,492 during the six months ended June 30, 2004 as compared to \$403,982 during the six months ended June 30, 2003. This increase was primarily due to the \$89,700 gain on sale of stores during the six months ended June 30, 2003 while no sale of stores occurred during the six months ended June 30, 2004, and increased compensation expenses during the 2004 period.

In January 2003, we discontinued the operations of the International Airport Hotel in San Juan, Puerto Rico. During the six months ended June 30, 2003, this discontinued operation generated a net loss of \$46,096. There were no such operations during the six months ended June 30, 2004.

#### Liquidity and Capital Resources

As of June 30, 2004, we had \$2,461,012 in cash and cash equivalents and working capital of \$6,241,820. As of December 31, 2003, we had \$1,349,304 in cash and cash equivalents and working capital of \$5,168,694.

During the six months ended June 30, 2004, our cash and cash equivalents

increased by \$1,111,708. This was due to the following:

- o Net cash provided by operating activities was \$1,854,289 primarily due our net income for the period of \$721,061, plus a decrease in accounts receivable of \$331,848 and an increase in premiums payable of \$507,082 and taxes payable of \$474,393.
- o We used \$6,326,694 in investing activities primarily due to an increase in our net finance contracts receivable of \$6,270,670
- o Net cash provided by financing activities was \$5,584,113 primarily due to proceeds of \$35,130,245 from our revolving credit line from Manufacturers and Traders Trust Co. for premium finance purposes, offset by payments of \$29,719,251 on the revolving line.

Liquidity at June 30, 2004 was sufficient, in the opinion of management, to meet our cash requirements for the 12 month period ending June 30, 2005.

#### Off-Balance Sheet Arrangements

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

15

#### Item 3. CONTROLS AND PROCEDURES

-----

Our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2004 in alerting him in a timely manner to material information required to be included in our SEC reports. In addition, no change in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

16

#### PART II. OTHER INFORMATION

-----

#### Item 1. LEGAL PROCEEDINGS

-----

None

#### Item 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY

-----

SECURITIES

-----

Between April 26, 2004 and May 27, 2004, holders of Class A warrants exercised their warrants for the purchase of an aggregate of 113,633 shares of common stock at an exercise price of \$1.10 per share.

Effective June 2, 2004, the holder of a placement agent warrant exercised his warrant for the purchase of 95,452 shares of common stock at an exercise price of \$0.73 per share.

The above offering of shares was exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) thereof as a transaction not involving any public offering. We reached this determination based upon the following: (i) representations or other information available to us to the effect that each of the purchasers was either an "accredited investor" or had such knowledge and experience in financial and business matters that it or he was capable of evaluating the merits and risks of an investment in the shares of common stock, each acquired the shares for its or his own account and each had access to information regarding us; (ii) the certificates representing the shares bear a restrictive legend permitting transfer only upon the registration of the shares or pursuant to an exemption from such registration requirements; and (iii) the offering and sale of the shares was not done by any form of general solicitation or general advertising.

Item 3. DEFAULTS UPON SENIOR SECURITIES  
-----

None

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

None

Item 5. OTHER INFORMATION  
-----

None

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

(a) Exhibits  
-----

3(a) Certificate of Incorporation, as amended(1)

3(b) By-laws, as amended

-----  
1 Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended September 30, 2002 and incorporated herein by reference.

17

10 Amendment No. 2, dated as of June 29, 2004 (but effective as of January 1, 2004), to Employment Agreement, dated as of May 10, 2001, by and between DCAP Group, Inc. and Barry Goldstein

31 Rule 13a-14(a)/15d-14(a) Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

No Current Report on Form 8-K was filed by us during the quarter ended June 30, 2004.

18

SIGNATURES



-----

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

DCAP GROUP, INC.

Dated: August 12, 2004

By: /s/ Barry Goldstein

-----  
Barry Goldstein  
President, Chairman of the Board,  
Chief Executive Officer, Chief  
Financial Officer and Treasurer  
(Principal Executive, Financial and  
Accounting Officer)

DCAP GROUP, INC.

BY-LAWS

ARTICLE I

OFFICES

Section 1. The principal office of the corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle.

Section 2. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders shall be held at such time and place as may be fixed from time to time by the board of directors of the corporation.

Section 2. Annual meetings of stockholders shall be held for the election of directors of the corporation. At such annual meeting, the stockholders shall elect a board of directors by a plurality vote (as provided in Section 10 of this Article II), and shall transact such other business as may properly be brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by, at the direction of or upon authority granted by the board of directors, (b) otherwise brought before the meeting by, at the direction of or upon authority granted by the board of directors, or (c) subject to Section 12 hereof, otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be received at the principal executive offices of the corporation not less than 60 days nor more than 90 days prior to the date which is one year from the date of the mailing of the corporation's Proxy Statement for the prior year's annual meeting of stockholders. If during the prior year the corporation did not hold an annual meeting, or if the date of the meeting for which a stockholder intends to submit a proposal has changed more than 30 days from the date of the meeting in the prior year, then such notice must be received a reasonable time before the corporation mails the Proxy Statement for the current year.

A stockholder's notice to the secretary must set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief

description of the business desired to be

brought before the annual meeting, and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Notwithstanding anything in the By-Laws to the contrary, but subject to Section 12 hereof, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 2. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 2, and, if he should so determine, he shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted.

Section 3. Written notice of the annual meeting shall be given to each stockholder entitled to vote thereat not less than ten nor more than sixty days before the date of the meeting.

Section 4. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every election of directors, a complete list of the stockholders entitled to vote at said election, arranged in alphabetical order, showing the address and number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, during ordinary business hours, for a period of at least ten days prior to the election, either at a place within the city, town or village where the election is to be held and which place shall be specified in the notice of the meeting, or, if not specified, at the place where said meeting is to be held, and the list shall be produced and kept at the time and place of election during the whole time thereof, and subject to the inspection of any stockholder who may be present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, shall be called by the secretary of the corporation at the request in writing of a majority of the entire board of directors. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. Written notice of a special meeting of stockholders, stating the time, place and purposes thereof, shall be given to each stockholder entitled to vote thereat, not less ten nor more than sixty days before the date fixed for the meeting.

Section 7. Business transacted at any special meeting of stockholders shall

be limited to the purposes stated in the notice.

Section 8. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. In addition,

2

whether or not a quorum is then present, the Chairman of the Board of the corporation shall have the power and authority to adjourn any meeting of stockholders at any time prior to or during such meeting for any reason without notice other than announcement at the meeting. At any such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 9. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of a statute, the by-laws or the certificate of incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 10. Except as provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted on after three years from its date, unless the proxy provides for a longer period. At all elections of directors of the corporation, each stockholder having voting power shall be entitled to exercise the right of cumulative voting as provided in the certificate of incorporation.

Section 11. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken in connection with any corporate action by any provisions of the statutes or of the certificate of incorporation, the meeting and vote of stockholders may be dispensed with, if all the stockholders who would have been entitled to vote upon the action if such meeting were held shall consent in writing to such corporate action being taken unless such action has been authorized by the board of directors, in which event such action may be taken by the written consent of the holders of not less than a majority of the shares of capital stock entitled to vote upon such action.

Section 12. Only persons who are nominated in accordance with the procedures set forth in this Section 12 shall be qualified for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote for the election of directors at the meeting who complies with the procedures set forth in this Section 12. In order for persons nominated to the board of directors, other than those persons nominated by or at the direction of the board of directors, to be qualified to serve on the board of directors, such nomination shall be made pursuant to timely notice in writing to the secretary of the corporation. To be timely, a stockholder's notice must be received at the principal executive offices of the corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that, in the event that less than 70 days' notice of the date of the meeting is given to stockholders and public disclosure of the meeting date, pursuant to a press release, is either not made or is made less than 70 days prior to the meeting date, then notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the earlier of (a) the day on which such notice of the date of the meeting was mailed to stockholders or (b) the day on which such public disclosure was made.

A stockholder's notice to the secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the corporation which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitation of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended from time to time (including, without limitation, such documentation as is required by Regulation 14A to confirm that such person is a bona fide nominee); and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the corporation's books, of such stockholder and (ii) the class and number of shares of the corporation which are beneficially owned by such stockholder. At the request of the board of directors, any person nominated by the board of directors for election as a director shall furnish to the secretary of the corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be qualified for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 12. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with procedures prescribed by the By-Laws, and, if he

should so determine, he shall so declare to the meeting, and the defective nomination shall be disregarded.

### ARTICLE III

#### DIRECTORS

Section 1. The number of directors which shall constitute the whole board shall be fixed from time to time by the board of directors of the corporation. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 2 of this Article, and each director elected shall hold office until his successor is elected and qualified. Directors need not be stockholders.

In the event a director shall fail to attend, either in person or by conference telephone, at least two-thirds (2/3) of all meetings of the board of directors of the corporation during any completed calendar year (commencing with the year 2003), then, effective with January 1 of the following year, he shall thereupon be deemed to have resigned as a director unless the board of directors, by vote of a majority of the remaining directors, shall determine that all excess absences were excusable.

Section 2. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner displaced.

Section 3. The business of the corporation shall be managed by its board of directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by

4

statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

#### MEETINGS OF THE BOARD OF DIRECTORS

Section 4. The board of directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 5. The first meeting of each newly elected board of directors shall be held immediately following the close of the annual meeting of stockholders at the place of the holding of said annual meeting. No notice of any such meeting shall be necessary to the newly elected directors in order legally to constitute

the meeting, provided a quorum shall be present. In the event such meeting is not held at such time and place, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

Section 6. Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

Section 7. Special meetings of the board of directors may be called by the chairman of the board or the president on one (1) day's notice to each director, either personally, by overnight mail, by telegram, by e-mail, by telecopier or by telephone. For purposes hereof, one (1) day's notice shall be satisfied by the delivery of such notice as shall result in the director receiving notice by 5:00 p.m., New York City time, on the day immediately preceding the date of the meeting (provided that the time of the meeting is no earlier than 8:00 a.m., New York City time).

Section 8. At all meetings of the board, a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors; provided, however, that, in the event the number of directors in office is less than four, any action to be taken by the Board of Directors shall require the affirmative vote of all of the directors then in office, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 9. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent thereto is signed by all members of the board or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the board or committee.

#### COMMITTEES OF DIRECTORS

Section 10. The board of directors, by resolution adopted by a majority of the entire board, may designate from among its members an executive committee

and other committees, which committees shall serve at the pleasure of the board of directors. The board of directors may designate one or more directors as alternate members of any such committee, who may replace any absent member or members of such committee. The board of directors, by resolution adopted by a majority of the entire board, may remove a member of any such committee with or without cause. To the extent provided in said resolution and to the extent permitted by the laws of the State of Delaware, each such committee shall have and may exercise the powers of the board of directors.

Section 11. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

#### COMPENSATION OF DIRECTORS

Section 12. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors and such salary or other compensation as directors, as the board by resolution may determine. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

#### ARTICLE IV

##### NOTICES

Section 1. Notices to directors and stockholders shall be sent as permitted by applicable law and these by-laws.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the certificate of incorporation or of these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated herein, shall be deemed equivalent thereto.

#### ARTICLE V

##### OFFICERS

Section 1. The officers of the corporation shall be chosen by the board of directors and shall be a chairman of the board, a president, a secretary and a treasurer. The board of directors may also choose one or more vice-presidents, assistant secretaries and assistant treasurers. Two or more offices may be held by the same person.



Section 2. The board of directors, at its first meeting after each annual meeting of stockholders, shall choose a chairman of the board, a president, a secretary and a treasurer, none of whom need be a member of the board.

Section 3. The board of directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Section 4. The salaries of all officers of the corporation shall be fixed by the board of directors.

Section 5. The officers of the corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the entire board of directors. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

#### CHAIRMAN OF THE BOARD

Section 6. The chairman of the board of directors shall have general supervision and control over the finances of the corporation, subject to the control of the board of directors; shall preside at all meetings of the board of directors and stockholders; shall be ex-officio a member of all standing committees; and shall perform such other duties as from time to time may be assigned to him by the board of directors.

#### PRESIDENT

Section 7. The president shall have general supervision and control over the day-to-day business and management of the corporation, subject to the control of the board of directors, and shall see that all orders and resolutions of the board are carried into effect.

#### VICE-PRESIDENTS

Section 8. The vice-president, or if there shall be more than one, the vice-presidents in the order determined by the board of directors, shall, in the absence or disability of the president, perform the duties and exercise the powers of the president and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

#### SECRETARY AND ASSISTANT SECRETARIES

Section 9. The secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the

stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation and, when authorized by the board of directors, affix the same to any instrument requiring it and, when so affixed, it shall be attested by his signature or by the signature of an assistant secretary.

Section 10. The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the board of directors, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

#### TREASURER AND ASSISTANT TREASURERS

Section 11. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books and belongings to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

Section 12. He shall disburse the funds of the corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render to the president and the board of directors, at its regular meetings, or when the board of directors so requires, an account of all his transactions as treasurer and of the financial condition of the corporation.

Section 13. If required by the board of directors, he shall give the corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of his office and for the restoration to the corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation.

Section 14. The assistant treasurer, or if there shall be more than one, the assistant treasurers in the order determined by the board of directors, shall, in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

## ARTICLE VI

### CERTIFICATE OF STOCK

Section 1. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by, the chairman of the board, the president or a vice-president and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation, certifying the number of shares owned by him in the corporation.

8

Section 2. Where a certificate is signed (a) by a transfer agent or an assistant transfer agent or (b) by a transfer clerk acting on behalf of the corporation and a registrar, the signature of any such chairman of the board, president, vice-president, treasurer, assistant treasurer, secretary or assistant secretary may be facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation, whether because of death, resignation or otherwise, before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation.

### LOST CERTIFICATES

Section 3. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

### TRANSFERS OF STOCK

Section 4. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the

duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

#### CLOSING OF TRANSFER BOOKS

Section 5. The board of directors may close the stock transfer books of the corporation for a period not exceeding fifty days preceding the date of any meeting of stockholders or the date for payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect or for a period of not exceeding fifty days in connection with obtaining the consent of stockholders for any purpose. In lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date, which date shall not be more than sixty nor less than ten days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or entitled to receive payment of any such

9

dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

#### REGISTERED STOCKHOLDERS

Section 6. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

#### ARTICLE VII

## GENERAL PROVISIONS

### DIVIDENDS

Section 1. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

### ANNUAL STATEMENT

Section 3. The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

10

### CHECKS

Section 4. All checks or demand for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

### FISCAL YEAR

Section 5. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

### SEAL

Section 6. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

### INDEMNIFICATION

Section 7. The corporation shall to the full extent permitted by Section 145 of the Delaware General Corporation Law, as amended from time to time, indemnify all persons whom it may indemnify pursuant thereto. The indemnifications authorized hereby shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under or through any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in the official capacity of those seeking indemnification and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such persons. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of Section 145.

## ARTICLE VIII

### AMENDMENTS

Section 1. These by-laws may be altered or repealed (a) at any regular meeting of the stockholders or of the board of directors, (b) at any special meeting of the stockholders or of the board of directors if notice of such alteration or repeal be contained in the notice of such special meeting or (c) by unanimous written consent of the stockholders or board of directors.

AMENDMENT NO. 2, dated as of June 29, 2004 (but effective as of January 1, 2004), to EMPLOYMENT AGREEMENT, dated as of May 10, 2001 (the "Amendment"), by and between DCAP GROUP, INC., a Delaware corporation (the "Company"), and BARRY GOLDSTEIN (the "Employee").

#### RECITALS

WHEREAS, the Company and the Employee are parties to an Employment Agreement dated as of May 10, 2001 (as amended, the "Employment Agreement") which sets forth the terms and conditions upon which the Employee is employed by the Company and upon which the Company compensates the Employee.

WHEREAS, the Company and the Employee desire to amend the Employment Agreement to provide for an increase of the Employee's salary effective January 1, 2004.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

1. Pursuant to Section 4.2 of the Employment Agreement, the parties agree that, effective January 1, 2004, the Employee's salary for the remainder of the term of the Employment Agreement shall be Three Hundred Fifty Thousand Dollars (\$350,000).
2. Except as amended hereby, the Employment Agreement shall continue in full force and effect in accordance with its terms.
3. This Amendment shall be governed by, and interpreted and construed in accordance with, the laws of the State of New York, excluding choice of law principles thereof. In the event any clause, section or part of this Amendment shall be held or declared to be void, illegal or invalid for any reason, all other clauses, sections or parts of this Amendment which can be effected without such void, illegal or invalid clause, section or part shall nevertheless continue in full force and effect.
4. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.
5. Signatures hereon which are transmitted via facsimile shall be deemed original signatures.
6. The Employee acknowledges that he has been represented by counsel or has been afforded an opportunity to be represented by counsel in connection with this Amendment. Accordingly, any rule or law or any legal decision that would require the interpretation of any claimed ambiguities in this Amendment against the party that drafted it has no application and is expressly waived by the

Employee. The provisions of this Amendment shall be interpreted in a reasonable manner to give effect to the intent of the parties hereto.

Remainder of page intentionally left blank. Signature page follows.

IN WITNESS WHEREOF, the Company and the Employee have executed this Amendment as of the date first above written.

DCAP GROUP, INC.

By: /s/ Morton L. Certilman

-----  
Morton L. Certilman, Secretary

/s/ Barry Goldstein

-----  
Barry Goldstein



## CERTIFICATION

I, Barry Goldstein, certify that:

1. I have reviewed this Form 10-QSB of DCAP Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15-(e)) for the small business issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit

committee of the small business issuer's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 12, 2004

/s/ Barry Goldstein

-----  
Barry Goldstein,  
Chief Executive Officer and  
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of DCAP Group, Inc. (the "Company") on Form 10-QSB for the period ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-QSB fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12 2004

/s/ Barry Goldstein

-----  
Barry Goldstein  
Chief Executive Officer and  
Chief Financial Officer