

**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

(State or Other Jurisdiction of
Incorporation or Organization)

36-2476480

(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 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	<u>(141,976)</u>	25,354,831
Prepaid expenses and other current assets		<u>259,662</u>
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		<u>263,392</u>
Total Assets		<u>\$31,678,571</u>

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		<u>199,909</u>
Total Current Liabilities		<u>23,298,197</u>

Long-Term Debt		<u>3,771,800</u>
Other Liabilities		<u>43,388</u>
Mandatorily Redeemable Preferred Stock		<u>904,000</u>

Commitments

Stockholders' Equity:

Common Stock, \$.01 par value; 40,000,000 shares authorized; 16,277,103 shares issued		162,771
Preferred Stock, \$.01 par value; 1,000,000 shares authorized; 0 shares issued and outstanding		-
Capital in excess of par		10,582,315
Deficit		<u>(6,155,245)</u>
		4,589,841
Treasury Stock, at cost, 3,714,616 shares		<u>(928,655)</u>
Total Stockholders' Equity		<u>3,661,186</u>
Total Liabilities and Stockholders' Equity		<u>\$31,678,571</u>

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements Of Income (Unaudited)

<i>Six months ended June 30,</i>	2004	2003
Revenues:		
Commissions and fees	\$ 3,472,839	\$ 3,015,662
Premium finance revenue	<u>3,955,086</u>	<u>697,272</u>
	<u>7,427,925</u>	<u>3,712,934</u>
Operating Expenses:		
General and administrative expenses	5,390,022	2,943,162
Depreciation and amortization	210,465	74,918
Premium finance interest expense	<u>594,713</u>	<u>-</u>
Total Operating Expenses	<u>6,195,200</u>	<u>3,018,080</u>
Operating Income:	<u>1,232,725</u>	<u>694,854</u>
Other (Expense) Income:		
Interest income	5,441	4,803
Interest expense	(18,119)	(33,794)
Interest expense - mandatorily redeemable preferred stock	(22,600)	(7,792)
Gain on sale of stores	<u>-</u>	<u>89,700</u>
	<u>(35,278)</u>	<u>52,917</u>
Income Before Provision for Income Taxes	1,197,447	747,771
Provision for Income Taxes	<u>476,386</u>	<u>5,664</u>
Income from Continuing Operations	721,061	742,107
Discontinued Operations:		
(Loss) from discontinued operations	<u>-</u>	<u>(46,096)</u>
Net Income	<u>\$ 721,061</u>	<u>\$ 696,011</u>
Net Income Per Common Share:		
Basic:		
Income from continuing operations	\$ 0.06	\$ 0.06
(Loss) from discontinued operations	<u>-</u>	<u>(0.00)</u>
Net income	<u>\$ 0.06</u>	<u>\$ 0.06</u>
Diluted:		
Income from continuing operations	\$ 0.05	\$ 0.05
(Loss) from discontinued operations	<u>-</u>	<u>(0.00)</u>
Net income	<u>\$ 0.05</u>	<u>\$ 0.05</u>
Weighted Average Number of Shares Outstanding:		
Basic	<u>12,368,087</u>	<u>12,353,402</u>
Diluted	<u>16,186,742</u>	<u>13,079,072</u>

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements Of Income (Unaudited)

<i>Three months ended June 30,</i>	2004	2003
Revenues:		
Commissions and fees	\$ 1,801,022	\$ 1,554,247
Premium finance revenue	2,126,886	349,795
	<u>3,927,908</u>	<u>1,904,042</u>
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	<u>3,332,841</u>	<u>1,574,464</u>
Operating Income:	<u>595,067</u>	<u>329,578</u>
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)
	<u>(15,639)</u>	<u>(20,871)</u>
Income Before Provision for Income Taxes	579,428	308,707
Provision for Income Taxes	<u>228,678</u>	<u>809</u>
Net income	<u>\$ 350,750</u>	<u>\$ 307,898</u>
Net Income Per Common Share:		
Basic:	<u>\$ 0.03</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Weighted Average Number of Shares Outstanding:		
Basic	<u>12,452,949</u>	<u>12,353,402</u>
Diluted	<u>16,237,865</u>	<u>13,234,215</u>

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30, 2004 2003

Cash Flows from Operating Activities:		
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)
Net Cash Provided by Operating Activities	<u>1,854,289</u>	<u>214,403</u>
Cash Flows from Investing Activities:		
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
Net Cash (Used in) Provided by Investing Activities	<u>(6,326,694)</u>	<u>569,228</u>
Cash Flows from Financing Activities:		
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	-
Net Cash Provided by (Used in) Financing Activities	<u>5,584,113</u>	<u>(309,214)</u>
Net Increase in Cash and Cash Equivalents	1,111,708	474,417
Cash and Cash Equivalents, beginning of period	1,349,304	607,403
Cash and Cash Equivalents, end of period	<u>\$ 2,461,012</u>	<u>\$1,081,820</u>

See notes to condensed consolidated financial statements.

DCAP GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

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:

	Six Months Ended June 30,		Three Months Ended June 30, 2004	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
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	<u>(33,000)</u>	<u>(30,000)</u>	<u>(17,000)</u>	<u>(15,000)</u>
Pro forma net income	<u>\$688,061</u>	<u>\$666,011</u>		<u>\$333,750</u>
<u>\$292,898</u>				
Net income per share:				
Basic - as reported	\$ <u>0.06</u>	\$ <u>0.06</u>	\$ <u>0.03</u>	\$ <u>0.02</u>
Basic - pro forma	\$ <u>0.06</u>	\$ <u>0.05</u>	\$ <u>0.03</u>	\$ <u>0.02</u>
Diluted - as reported	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>0.02</u>	\$ <u>0.02</u>
Diluted - pro forma	\$ <u>0.04</u>	\$ <u>0.05</u>	\$ <u>0.02</u>	\$ <u>0.02</u>

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:

<u>Six Months Ended June 30, 2004</u>	<u>Insurance</u>	<u>Premium Finance</u>	<u>Other(1)</u>	<u>Total</u>
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.

<u>Six Months Ended June 30, 2003</u>	<u>Insurance</u>	<u>Premium Finance</u>	<u>Other(1)</u>	<u>Total</u>
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 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:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
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	<u>3,784,916</u>	<u>880,813</u>	<u>3,818,655</u>	<u>725,670</u>
Weighted Average Number of Shares Outstanding, used for computing diluted earnings per share	<u>16,237,865</u>	<u>13,234,215</u>	<u>16,186,742</u>	<u>13,079,072</u>

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

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

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.

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 June 30,	
	2004	2003
Revenue from sale of receivables	\$ 0	\$697,272
Interest and late fee revenue	3,955,086	0
Total	<u>\$3,955,086</u>	<u>\$697,272</u>

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:

- 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.
- We used \$6,326,694 in investing activities primarily due to an increase in our net finance contracts receivable of \$6,270,670
- 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.

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.

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 amended¹

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.

- 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.

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)

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

By: /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

By: /s/ Barry Goldstein
Barry Goldstein
Chief Executive Officer and
Chief Financial Officer