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DCAP GROUP INC/
Form 8-K/A
July 25, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A
AMENDMENT NO. 1

CURRENT REPORT

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

Date of Report: May 28, 2003
(Date of earliest event reported)

DCAP GROUP, INC.

(Exact name of Registrant as specified in charter)

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

1158 Broadway, Hewlett, New York 11557

(Address of principal executive offices) (Zip Code)

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

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

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(a) Financial Statements of Businesses Acquired.

- (i) Balance Sheet of AIA Acquisition Corp. ("AIA") at December 31, 2002.
- (ii) Statement of Operations and Retained Earnings of AIA for the year ended December 31, 2002.
- (iii) Statement of Cash Flows of AIA for the year ended December 31, 2002.
- (iv) Balance Sheet of AIA at March 31, 2003.
- (v) Statements of Operations and Retained Earnings of AIA for the three months ended March 31, 2003 and 2002.
- (vi) Statements of Cash Flows of AIA for the three months ended March 31, 2003 and 2002.

(b) Pro Forma Financial Information.

- (i) Pro Forma Condensed Consolidated Balance Sheet of the Registrant as of March 31, 2003.
- (ii) Pro Forma Condensed Consolidated Statement of Operations of the Registrant for the three months ended March 31, 2003.
- (iii) Pro Forma Condensed Consolidated Statement of Operations of the Registrant for the fiscal year ended December 31, 2002.

(c) Exhibits.

| Exhibit No. | Description |
|-------------|--|
| 2.1 | Asset Purchase Agreement dated May 28, 2003 by and among AIA-DCAP Corp., DCAP Group, Inc. and AIA Acquisition Corp.1 |
| 4.1 | Certificate of Designations of Series A Preferred Stock.1 |
| 99.1 | Financing and Security Agreement dated July 10, 2003 by and between |

1 Previously filed.

- Manufacturers and Traders Trust Company and Payments Inc.
- 99.2 Grid Note dated July 10, 2003 in the principal amount of \$18,000,000 issued by Payments Inc. to Manufacturers and Traders Trust Company.
- 99.3 Security Agreement dated July 10, 2003 by DCAP Group, Inc, DCAP Management Corp., AIA-DCAP Corp., Aard-Vark Agency, Ltd., Barry Scott Agency, Inc., Barry Scott Companies, Inc., Barry Scott Acquisition Corp., Baron Cycle, Inc., Blast Acquisition Corp., Dealers Choice Automotive Planning, Inc., IAH, Inc. and Intandem Corp. for the benefit of Manufacturers and Traders Trust Company.

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- 99.4 Pledge, Assignment and Security Agreement dated July 10, 2003 by DCAP Group, Inc. for the benefit of Manufacturers and Traders Trust Company.
- 99.5 Pledge, Assignment and Security Agreement dated July 10, 2003 by Blast Acquisition Corp. for the benefit of Manufacturers and Traders Trust Company.
- 99.6 Unit Purchase Agreement dated as of July 2, 2003 by and among DCAP Group, Inc. and the purchasers named therein.
- 99.7 Security Agreement dated as of July 10, 2003 by and among Payments Inc. and the secured parties named therein.
- 99.8 Pledge Agreement dated as of July 10, 2003 by and among DCAP Group, Inc. and the pledgees named therein.
- 99.9 Form of Secured Subordinated Promissory Note dated July 10, 2003 issued by DCAP Group, Inc. with respect to aggregate principal indebtedness of \$3,500,000.
- 99.10 Form of Warrant dated July 10, 2003 for the purchase of an aggregate of 525,000 shares of common stock of DCAP Group, Inc.
- 99.11 Registration Rights Agreement dated July 10, 2003 by and among DCAP Group, Inc. and the purchasers named therein.

AIA ACQUISITION CORP.
Financial Statements
&
Accountants' Report
For The Year Ended December 31, 2002

AIA ACQUISITION CORP.
Audited Financial Statements
For the Year Ended December 31, 2002

TABLE OF CONTENTS

| | Page |
|-------------------------------|------|
| | ---- |
| Independent Auditors' Report | 1 |
| Balance Sheet | 2 |
| Statement of Operations | 3 |
| Statement of Cash Flows | 4 |
| Notes to Financial Statements | 5 |

Board of Directors
AIA Acquisition Corp.
Philadelphia, PA

Independent Auditors' Report

We have audited the accompanying Balance Sheet of AIA Acquisition Corp., Inc., as of December 31, 2002 and the related statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIA Acquisition Corp., as of December 31, 2002, the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

March 27, 2003

A.W. Guthman & Company

AIA ACQUISITION CORP.
Balance Sheet
As of December 31, 2002

2002

ASSETS

CURRENT

Cash

Accounts Receivable

Commissions Receivable (Note 2)

Other Current Assets

\$ 35

87

122

26

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| | |
|---|----------|
| TOTAL CURRENT ASSETS | 271 |
| NON-CURRENT | |
| Rental Security Deposits | 7 |
| Deferred Charges | 15 |
| Fixed Assets, Less Accumulated Depreciation (Note 2) | 264 |
| Goodwill (Note 2) | 528 |
| TOTAL NON-CURRENT ASSETS | 816 |
| TOTAL ASSETS | \$ 1,087 |
| LIABILITIES AND SHAREHOLDERS EQUITY | |
| CURRENT LIABILITIES | |
| Accounts Payable | \$ 96 |
| Advances from Officers (Note 3) | 80 |
| Mortgage Note Payable - current portion (Note 3) | |
| Auto Loan Payable - current portion (Note 3) | 2 |
| TOTAL CURRENT LIABILITIES | 180 |
| LONG-TERM LIABILITIES | |
| Mortgage Note Payable - less current portion (Note 3) | 29 |
| Auto Loan Payable - less current portion (Note 3) | 11 |
| Notes Payable - Shareholders (Note 3) | 275 |
| TOTAL LONG-TERM LIABILITIES | 316 |
| SHAREHOLDERS EQUITY | |
| Capital Stock | 346 |
| Additional Paid-in Capital | 1,025 |
| Retained Earnings | (780) |
| TOTAL SHAREHOLDERS EQUITY | 591 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 1,087 |

See accompanying notes to financial statements.

-2-

AIA ACQUISITION CORP.
Statement of Operations and Retained Earnings
For the Year Ended December 31, 2002

| | |
|----------------------|------------|
| INCOME | |
| Commissions (Note 2) | \$ 1,105,1 |
| Fees and Services | 107,2 |
| Miscellaneous | 8,4 |

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| | |
|---------------------------------------|---------|
| TOTAL INCOME | 1,220,8 |
| EXPENSES | |
| Salaries and Fringe Benefits | 607,6 |
| Rent | 92,2 |
| Consulting Fees (Note 5) | 131,9 |
| Legal and Professional Fees | 24,7 |
| Advertising | 103,9 |
| Office Supplies | 52,2 |
| Telephone and Utilities | 63,8 |
| Information Processing | 41,1 |
| Postage and Delivery | 19,7 |
| Insurance | 40,9 |
| Equipment Rental | 11,1 |
| Travel and Entertainment | 14,1 |
| Repairs and Maintenance | 15,3 |
| Depreciation and Amortization | 52,3 |
| Interest | 40,2 |
| Banking and Credit Card Fees | 14,3 |
| State and Local Taxes | 4,0 |
| | ----- |
| TOTAL EXPENSES | 1,330,1 |
| | ----- |
| NET LOSS | (109,3) |
| RETAINED EARNINGS - Beginning of Year | (670,9) |
| | ----- |
| RETAINED EARNINGS - End of Year | (780,2) |
| | ===== |

See accompanying notes to financial statements.

-3-

AIA ACQUISITION CORP.
Statement of Cash Flows
For the Year Ended December 31, 2002

OPERATING ACTIVITIES

Net Loss

Adjustments to reconcile Net Loss to

Cash Used in Operating Activities:

Depreciation

Amortization

Changes in Operating Assets and Liabilities:

Increase in Accounts Receivable

Decrease in Commissions Receivable

Increase in Prepaid Expenses

Increase in Employee Loans Receivable

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Decrease in Accounts Payable

NET CASH USED IN OPERATING ACTIVITIES

INVESTING ACTIVITIES

Increase in Deferred Marketing & Development Costs
Increase in Rental Security Deposits
Acquisition of Transportation Equipment
Acquisition of Computer & Office Equipment
Capitalized Building Improvements

NET CASH USED IN INVESTING ACTIVITIES

FINANCING ACTIVITIES

Proceeds from Officer Advances
Reduction in Mortgage Note Payable
Increase in Loans for Transportation Equipment

NET CASH PROVIDED BY FINANCING ACTIVITIES

NET DECREASE IN CASH

CASH - Beginning of Year

CASH - End of Year

See accompanying notes to financial statements.

-4-

AIA ACQUISITION CORP.
Notes to Financial Statements
For the Year Ended December 31, 2002

NOTE 1 ORGANIZATION

AIA Acquisition Corp., an insurance agency, is a closely-held corporation organized under the laws of the state of Pennsylvania. The Company, which maintains all of its sales offices in eastern Pennsylvania, derives substantially all of its income from commissions and service fees associated with the sale of auto, homeowners and commercial insurance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Also affected are the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Fixed Assets

Fixed Assets are recorded at cost and depreciated over their estimated useful lives based on methods and rates also allowable for tax purposes. Such assets were comprised of the following as of December 31, 2002:

| Fixed Asset Category | Amount |
|----------------------------------|------------|
| Building & Building Improvements | \$ 161,785 |
| Leasehold Improvements | 22,176 |
| Computers & Other Equipment | 122,914 |
| Furniture & Fixtures | 107,694 |
| Software | 7,860 |
| Auto | 20,040 |
| | ----- |
| Total Gross Fixed Assets | 442,469 |
| Less Accumulated Depreciation | (178,417) |
| | ----- |
| Net Book Value | \$ 264,052 |
| | ===== |

-5-

AIA ACQUISITION CORP.
Notes to Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Organization Costs

Organization costs which became fully expensed in 2002, were amortized over a sixty month period on a straight-line basis.

Goodwill

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Goodwill, recorded when the Company was acquired in 1997, represents the difference between the acquisition price and the fair value of the assets purchased.

Commission Income

Commission income is recognized when policies become effective and substantially all required services have been performed. Commissions receivable at year end represent management's estimate of the uncollected commissions on policies written less estimated return commissions on canceled policies.

NOTE 3 - NOTES PAYABLE

The Company's auto, purchased in 2002, was financed with a bank loan of \$15,365 at 4.74% per annum and payable in sixty monthly installments of \$288.12 commencing September, 2002 and the final payment due in August, 2007.

In 1997 the Company purchased a building for \$40,000 and financed \$34,000 of the purchase price with a mortgage note. The mortgage note, which is payable in monthly installments of \$328.11, assumes an interest rate of 10% per annum. A final balloon payment of all outstanding principal and interest is due on October 1, 2004

From 1997 the Company's initial capitalization included loans from various shareholders and related parties totaling \$275,000. In exchange for such loans, the lenders were issued promissory notes requiring quarterly interest payments at 12% per annum. In February 2003, such notes were retired and exchanged for new notes requiring quarterly payment of interest only through June 30, 2007, when principal and any unpaid interest are due in full.

In 2002, two of the Company's officers made advances totaling \$80,000 and accruing interest at 9% per annum. In February, 2003, the advances were repaid.

-6-

AIA ACQUISITION CORP.
Notes to Financial Statements
For the Year Ended December 31, 2002

NOTE 4 - INCOME TAXES

The Company, a Subchapter S corporation, is not subject to federal income taxes and none have been provided. Pennsylvania state and local income taxes have been estimated and provided for in the Statement of Operations.

NOTE 5 - RELATED PARTIES

Consulting fees as reported in the Statement of Operations, were paid to a corporation wholly-owned by the Company's president for financial and managerial services rendered. The president is a relative of three of the Company's shareholders. See Note 3 for details on shareholder loans to the Company.

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NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Company's minimum lease commitment for rental of its administrative and sales offices is as follows:

| Year | Amount |
|------|----------|
| ---- | ----- |
| 2003 | \$14,400 |
| 2004 | 3,600 |

NOTE 7 - SUBSEQUENT EVENTS

The Company has agreed to sell substantially all of its assets to DCAP Group, Inc. A publicly held corporation, DCAP Group owns, operates and/or franchises seventy-three "storefront" insurance agencies in New York and New Jersey. The sales price will be equal to 69% of the Company's commission income for the twelve month period ended December 31, 2002. Additional amounts are due based on the collection of accounts and commissions receivable and the value of prepaid assets and security deposits at closing. Furthermore, future cash amounts not to exceed \$335,000 may be realized based on the operating performance of the acquired assets, computed and payable annually over a five year period.

-7-

AIA ACQUISITION CORP.
Financial Statements
and
Accountants' Report
For the Three Month Periods Ended March 31, 2003 and 2002

AIA ACQUISITION CORP.
Reviewed Financial Statements
For the Three Month Periods Ended March 31, 2003 and 2002

TABLE OF CONTENTS

| | Page |
|---|------|
| | ---- |
| Independent Auditors' Report | 1 |
| Balance Sheet | 2 |
| Statements of Operations and Retained Earnings | 3 |

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| | |
|-------------------------------|---|
| Statements of Cash Flows | 4 |
| Notes to Financial Statements | 5 |

Board of Directors
AIA Acquisition Corp.
Philadelphia, PA

Independent Auditors' Report

We have reviewed the balance sheet of AIA Acquisition Corp., as of March 31, 2003 and the related statements of operations, retained earnings and cash flows for the three month periods ended March 31, 2003 and 2002. These financial statements are the responsibility of the Company's management.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

June 27, 2003

A.W. Guthman & Company

AIA ACQUISITION CORP. Balance Sheet As of March 31, 2003

ASSETS

CURRENT

Cash

Accounts Receivable

Commissions Receivable (Note 2)

Other Current Assets

\$ 14

40

122

27

TOTAL CURRENT ASSETS

204

NON-CURRENT

Rental Security Deposits

7

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| | |
|---|----------|
| Deferred Charges | 15 |
| Fixed Assets, Less Accumulated Depreciation (Note 2) | 252 |
| Goodwill (Note 2) | 528 |
| | ----- |
| TOTAL NON-CURRENT ASSETS | 804 |
| | ----- |
| TOTAL ASSETS | \$ 1,009 |
| | ===== |
| LIABILITIES AND SHAREHOLDERS EQUITY | |
| CURRENT LIABILITIES | |
| Accounts Payable | \$ 39 |
| Advances from Officers (Note 3) | 20 |
| Mortgage Note Payable - current portion (Note 3) | |
| Auto Loan Payable - current portion (Note 3) | 2 |
| | ----- |
| TOTAL CURRENT LIABILITIES | 63 |
| LONG-TERM LIABILITIES | |
| Mortgage Note Payable - less current portion (Note 3) | 29 |
| Auto Loan Payable - less current portion (Note 3) | 10 |
| Notes Payable - Shareholders (Note 3) | 342 |
| | ----- |
| TOTAL LONG-TERM LIABILITIES | 382 |
| SHAREHOLDERS EQUITY | |
| Capital Stock | 346 |
| Additional Paid-in Capital | 1,025 |
| Retained Earnings | (808) |
| | ----- |
| TOTAL SHAREHOLDERS EQUITY | 56 |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 1,009 |
| | ===== |

See accompanying notes to financial statements.

-2-

AIA ACQUISITION CORP.
 Statements of Operations and Retained Earnings
 For the Three Month Periods Ended March 31, 2003 and 2002

| | |
|----------------------|------------|
| | 2003 |
| | ----- |
| INCOME | |
| Commissions (Note 2) | \$ 276,465 |
| Fees and Services | 21,844 |
| | - |
| | ----- |
| TOTAL INCOME | 298,309 |

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| | |
|---|--------------|
| EXPENSES | |
| Salaries and Fringe Benefits | 164,736 |
| Rent | 20,923 |
| Consulting Fees (Note 5) | 29,175 |
| Legal and Professional Fees | 6,520 |
| Advertising | 24,707 |
| Office Supplies | 10,264 |
| Telephone and Utilities | 16,599 |
| Information Processing | 10,847 |
| Postage and Delivery | 5,053 |
| Insurance | 8,194 |
| Equipment Rental | 2,489 |
| Travel and Entertainment | 1,966 |
| Repairs and Maintenance | 1,760 |
| Depreciation and Amortization | 11,351 |
| Interest | 10,347 |
| Banking and Credit Card Fees | 1,450 |
| State and Local Taxes | - |
| | ----- |
| TOTAL EXPENSES | 326,381 |
| | ----- |
| NET LOSS | (28,072) |
| RETAINED EARNINGS - Beginning of Period | (780,277) |
| | ----- |
| RETAINED EARNINGS - End of Period | \$ (808,349) |
| | ===== |

See accompanying notes to financial statements.

-3-

AIA ACQUISITION CORP.
 Statements of Cash Flows
 For the Three Month Periods Ended March 31, 2003 and 2002

OPERATING ACTIVITIES

| | |
|--|------|
| Net Loss | \$ (|
| Adjustments to reconcile Net Loss to | |
| Cash Used in Operating Activities: | |
| Depreciation and Amortization | |
| Changes in Operating Assets and Liabilities: | |
| Decrease in Accounts Receivable | |
| Increase in Prepaid Expenses | |
| Decrease in Employee Loans Receivable | |

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| | |
|--|----|
| Decrease in Accounts Payable | (|
| NET CASH USED IN OPERATING ACTIVITIES | (|
| INVESTING ACTIVITIES | |
| Increase in Security Deposits | |
| Increase in Deferred Marketing and Development Costs | |
| Acquistion of Fixed Assets | |
| NET CASH USED BY INVESTING ACTIVITIES | |
| FINANCING ACTIVITIES | |
| Reduction in Officer Advances Payable | (|
| Reduction in Mortgage Note Payable | |
| Reduction in Loans for Transportation Equipment | |
| Increase in Shareholder Loans Payable | |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | |
| NET DECREASE IN CASH | (|
| CASH - Beginning of Period | |
| CASH - End of Period | \$ |

See accompanying notes to financial statements.

-4-

AIA ACQUISITION CORP.
Notes to Financial Statements
For the Three Month Periods Ended March 31, 2003 and 2002

NOTE 1 - ORGANIZATION

AIA Acquisition Corp., an insurance agency, is a closely-held corporation organized under the laws of the state of Pennsylvania. The Company, which maintains all of its sales offices in eastern Pennsylvania, derives substantially all of its income from commissions and service fees associated with the sale of auto, homeowners and commercial insurance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Also affected are the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates.

Fixed Assets

Fixed Assets are recorded at cost and depreciated over their estimated useful lives based on methods and rates also allowable for tax purposes. Such assets were comprised of the following as of March 31, 2003:

| Fixed Asset Category | Amount |
|----------------------------------|------------|
| ----- | ----- |
| Building & Building Improvements | \$ 161,785 |
| Leasehold Improvements | 22,176 |
| Computers & Other Equipment | 122,914 |
| Furniture & Fixtures | 107,694 |
| Software | 7,860 |
| Auto | 20,040 |
| | ----- |
| Total Gross Fixed Assets | 442,469 |
| Less Accumulated Depreciation | (189,767) |
| | ----- |
| Net Book Value | \$ 252,702 |
| | ===== |

-5-

AIA ACQUISITION CORP.
Notes to Financial Statements
For the Three Month Periods Ended March 31, 2003 and 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill

Goodwill, recorded when the Company was acquired in 1997, represents the difference between the acquisition price and the fair value of the assets purchased.

Commission Income

Commission income is recognized when policies become effective and substantially all required services have been performed. Commissions receivable as of March 31, 2003 represent management's estimate of the uncollected commissions on

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policies written less estimated return commissions on canceled policies.

NOTE 3 - NOTES PAYABLE

The Company's auto, purchased in 2002, was financed with a bank loan of \$15,365 at 4.74% per annum and payable in sixty monthly installments of \$288.12 commencing September, 2002 and the final payment due in August, 2007.

In 1997 the Company purchased a building for \$40,000 and financed \$34,000 of the purchase price with a mortgage note. The mortgage note, which is payable in monthly installments of \$328.11, assumes an interest rate of 10% per annum. A final balloon payment of all outstanding principal and interest is due on October 1, 2004.

From 1997 the Company's initial capitalization included loans from various shareholders and related parties totaling \$275,000. In exchange for such loans, the lenders were issued promissory notes requiring quarterly interest payments at 12% per annum. In February 2003, such notes were retired and exchanged for new notes totaling \$342,500, requiring quarterly payment of interest only through June 30, 2007, when principal and any unpaid interest are due in full.

-6-

AIA ACQUISITION CORP.

Notes to Financial Statements

For the Three Month Periods Ended March 31, 2003 and 2002

NOTE 4 - INCOME TAXES

The Company, a Subchapter S corporation, is not subject to federal income taxes and none have been provided. Pennsylvania state and local income taxes have been estimated and provided for in the Statement of Operations.

NOTE 5 - RELATED PARTIES

Consulting fees as reported in the Statement of Operations, were paid to a corporation wholly-owned by the Company's president for financial and managerial services rendered. The president is a relative of three of the Company's shareholders. See Note 3 for details on shareholder loans to the Company.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Company's minimum lease commitment for rental of its administrative and sales offices is as follows:

| Year | Amount |
|------|----------|
| 2003 | \$14,400 |
| 2004 | 3,600 |

NOTE 7 - SUBSEQUENT EVENTS

The Company has agreed to sell substantially all of its assets to DCAP Group,

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Inc. A publicly held corporation, DCAP Group owns, operates and/or franchises seventy-three "storefront" insurance agencies in New York and New Jersey. The sales price will be equal to 69% of the Company's commission income for the twelve month period ended December 31, 2002. Additional amounts are due based on the collection of accounts and commissions receivable and the value of prepaid assets and security deposits at closing. Furthermore, future cash amounts not to exceed \$335,000 may be realized based on the operating performance of the acquired assets, computed and payable annually over a five year period.

-7-

PRO FORMA FINANCIAL STATEMENTS

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

A Pro Forma Condensed Consolidated Balance Sheet is provided as of March 31, 2003, giving effect to the Acquisition as though it had been consummated on that date. Pro Forma Condensed Consolidated Statements of Operations are provided for the three months ended March 31, 2003 and the year ended December 31, 2002, giving effect to the Acquisition as though it had occurred on January 1, 2002.

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

The pro forma condensed consolidated financial statements presented as of March 31, 2003 and for the three months then ended, and for the fiscal year ended December 31, 2002, are derived from the separate historical consolidated financial statements of the Registrant and AIA and should be read in conjunction with the audited and unaudited consolidated financial statements of the Registrant (included in its Annual Report on Form 10-KSB for the year ended December 31, 2002 and Quarterly Report on Form 10-QSB for the period ended March 31, 2003) and AIA (contained elsewhere herein.)

DCAP GROUP, INC. AND SUBSIDIARIES
AND
AIA ACQUISITION CORP.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

MARCH 31, 2003

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(Unaudited)

| | Historical | | P Adjustment |
|--|---------------|--------------------|-----------------|
| | DCAP Group | AIA Acquisition | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$1,206,394 | \$ 14,537 | \$ (14,537) |
| Accounts receivable | 763,475 | 162,500 | |
| Notes receivable | 54,571 | | |
| Prepaid expenses and other assets | 146,312 | 27,391 | (9,553) |
| | | | (25,000) |
| | | | |
| Total current assets | 2,170,752 | 204,428 | (49,090) |
| PROPERTY AND EQUIPMENT, net | 212,128 | 252,702 | (166,636) |
| OTHER ASSETS: | | | |
| Goodwill | 569,382 | 528,695 | (528,696) |
| | | | 510,797 |
| | | | 38,000 |
| Other intangibles, net | 268,513 | | 150,000 |
| Deposits and other assets | 26,929 | 23,479 | (15,679) |
| Note receivable | 55,309 | | |
| | | | |
| Total other assets | 920,133 | 552,174 | 154,422 |
| | | | |
| | \$3,303,013 | \$1,009,304 | (\$61,304) |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 576,859 | \$ 39,764 | (\$39,764) |
| | | | 13,000 |
| Current portion of long-term debt | 13,986 | 3,767 | (3,767) |
| Current portion of capital lease obligations | 47,847 | | |
| Deferred revenue | 66,417 | | |
| Debentures payable | 154,200 | | |
| Note payable - shareholders | | 20,000 | (20,000) |
| | | | |
| Total current liabilities | 859,309 | 63,531 | (50,531) |
| LONG TERM DEBT | 691,662 | 382,722 | (382,722) |
| CAPITAL LEASE OBLIGATIONS | 31,013 | | |
| DEFERRED REVENUE | 24,591 | | |
| MANDATORILY REDEEMABLE STOCK | | | 935,000 |
| STOCKHOLDERS' EQUITY | | | |
| Common stock | 160,680 | 346,400 | (346,400) |

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| | | | |
|----------------------------|-------------|-------------|-------------|
| Capital in excess of par | 10,242,409 | 1,025,000 | (1,025,000) |
| Deficit | (7,777,996) | (808,349) | 1,082,552 |
| | | | (274,203) |
| | ----- | ----- | ----- |
| Treasury stock | 2,625,093 | 563,051 | (563,051) |
| | (928,655) | | |
| | ----- | ----- | ----- |
| Total stockholders' equity | 1,696,438 | 563,051 | (563,051) |
| | | | |
| | \$3,303,013 | \$1,009,304 | (\$61,304) |
| | ===== | ===== | ===== |

See accompanying notes to pro forma condensed consolidated financial statements

DCAP GROUP, INC. AND SUBSIDIARIES
AND
AIA ACQUISITION CORP.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

MARCH 31, 2003

1. To record the estimated purchase price of \$935,000 for the acquisition of AIA consisting of 935 shares of the Registrant's Series A preferred stock, par value .01 per share, valued at \$935,000 and the elimination of the historical equity capitalization of AIA in accordance with the purchase method of accounting. The Series A Preferred Stock carries a 5% dividend, is convertible into Common Stock of the Registrant at a conversion price of \$.50 per share and is redeemable on April 30, 2007 (or sooner under certain circumstances.)

The goodwill and intangible assets acquired are valued at \$548,796 and \$150,000, respectively. Intangible assets represent customer lists obtained from AIA and will be amortized over an estimated useful life of four years. The amount of goodwill may be increased based upon additional amounts which may be payable if certain earning measures are attained. On an ongoing basis, the Registrant will evaluate the carrying value of goodwill versus the discounted cash benefit expected to be realized from the performance of the underlying operations and adjust for any impairment in value.

2. Represents items not assumed by purchaser.
3. To record estimated transaction costs in connection with the acquisition of AIA.

DCAP GROUP, INC. AND SUBSIDIARIES
AND
AIA ACQUISITION CORP.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2003
(Unaudited)

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| | Historical | | Pr Adjustment |
|---|---------------|--------------------|------------------|
| | DCAP Group | AIA Acquisition | |
| Revenues: | | | |
| Commissions and fees | \$1,461,415 | \$298,309 | (\$6,123) |
| Premium finance revenue | 347,477 | | |
| Total revenues | 1,808,892 | 298,309 | (6,123) |
| Operating expenses: | | | |
| General and administrative | 1,407,299 | 304,683 | (14,683) |
| | | | 3,864 |
| | | | (29,175) |
| Depreciation and amortization | 36,317 | 11,351 | (1,782) |
| | | | 9,375 |
| Total operating expenses | 1,443,616 | 316,034 | (32,401) |
| Operating income (loss) | 365,276 | (17,725) | 26,278 |
| Other (expense) income | | | |
| Interest income | 1,348 | | |
| Interest expense | (17,260) | (10,347) | 928 |
| | | | 9,419 |
| Interest expense - mandatorily redeemable stock | | | (11,688) |
| Gain on sale of stores | 89,700 | | |
| Total other (expense) income | 73,788 | (10,347) | (1,341) |
| Income (loss) before income taxes | 439,064 | (28,072) | 24,937 |
| Provision for income taxes | 4,855 | | 0 |
| Income (loss) from continuing operations | 434,209 | (28,072) | 24,937 |
| Discontinued operations: | | | |
| (Loss) from discontinued operations | (46,096) | | |
| Net income (loss) | \$388,113 | (\$28,072) | \$24,937 |
| Net income per share: | | | |
| Basic and diluted: | | | |
| Income from continuing operations | \$0.03 | | |
| (Loss) from discontinued operations | \$0.00 | | |
| Net income | \$0.03 | | |
| Weighted average number of shares outstanding: | | | |
| Basic | 12,353,402 | | |

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Diluted

12,923,929

See accompanying notes to pro forma condensed consolidated financial statements

DCAP GROUP, INC. AND SUBSIDIARIES
AND
AIA ACQUISITION CORP.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2003

1. To remove operations of excluded store (Elmwood).
2. To remove expenses of building and auto not transferred.
3. To record rent payments to be made on building to be leased and lease payments on auto to be leased.
4. To remove interest expense on liabilities not assumed.
5. To record amortization of intangible assets acquired in connection with the acquisition of AIA. The intangible assets are being amortized over a four year period.
6. To remove consulting expenses which will not be payable in the future.
7. To record dividend on Series A Preferred Stock. The Series A Preferred Stock carries a 5% dividend, is convertible into Common Stock of the Registrant at a conversion price of \$.50 per share and is redeemable on April 30, 2007 (or sooner under certain circumstances.)
8. No tax provision has been recorded on the Pro Forma adjustments based upon the utilization of net operating loss carryforwards of the Registrant.

DCAP GROUP, INC. AND SUBSIDIARIES
AND
AIA ACQUISITION CORP.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2002
(Unaudited)

| Historical | | P |
|------------|-----------------|------------|
| DCAP Group | AIA Acquisition | Adjustment |

Revenues:

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| | | | |
|---|-------------|-------------|------------|
| Commissions and fees | \$2,473,921 | \$1,220,837 | (\$41,708) |
| Premium finance revenue | 1,309,808 | | |
| | | | |
| Total revenues | 3,783,729 | 1,220,837 | (41,708) |
| Operating expenses: | | | |
| General and administrative | 2,875,063 | 1,233,511 | (70,012) |
| | | | 15,457 |
| | | | (131,955) |
| Depreciation and amortization | 135,882 | 52,337 | (7,130) |
| | | | 37,500 |
| | | | |
| Total operating expenses | 3,010,945 | 1,285,848 | (156,140) |
| Operating income | 772,784 | (65,011) | 114,432 |
| Other (expense) income | | | |
| Interest income | 2,460 | | |
| Interest expense | (64,299) | (40,241) | 3,416 |
| | | | 36,825 |
| Interest expense - mandatorily redeemable stock | | | (46,750) |
| | | | |
| Total other (expense) income | (61,839) | (40,241) | (6,509) |
| Income (loss) before income taxes and minority interest | 710,945 | (105,252) | 107,923 |
| Provision for income taxes | 10,534 | 4,079 | 0 |
| Income (loss) before minority interest | 700,411 | (109,331) | 107,923 |
| Minority interest | 1,936 | | |
| Income (loss) from continuing operations | 698,475 | (109,331) | 107,923 |
| Discontinued operations: | | | |
| Income from discontinued operations | 34,612 | | |
| Gain on disposition of discontinued subsidiary | 312,920 | | |
| Net income (loss) | \$1,046,007 | (\$109,331) | \$107,923 |
| Net income per share: | | | |
| Basic and diluted: | | | |
| Income from continuing operations | \$0.06 | | |
| Income from discontinued operations | \$0.03 | | |
| | | | |
| Net income | \$0.09 | | |
| Weighted average number of shares outstanding: | | | |
| Basic | 11,695,868 | | |
| Diluted | 12,037,194 | | |

See accompanying notes to pro forma condensed consolidated financial s

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DCAP GROUP, INC. AND SUBSIDIARIES
AND
AIA ACQUISITION CORP.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2002

1. To remove operations of excluded store (Elmwood).
2. To remove expenses of building and auto not transferred.
3. To record rent payments to be made on building to be leased and lease payments on auto to be leased.
4. To remove interest expense on liabilities not assumed.
5. To record amortization of intangible assets acquired in connection with the acquisition of AIA. The intangible assets are being amortized over a four year period.
6. To remove consulting expenses which are duplicative and will not be payable in the future.
7. To record dividend on Series A Preferred Stock. The Series A Preferred Stock carries a 5% dividend, is convertible into Common Stock of the Registrant at a conversion price of \$.50 per share and is redeemable on April 30, 2007 (or sooner under certain circumstances.)
8. No tax provision has been recorded on the Pro Forma adjustments based upon the utilization of net operating loss carryforwards of the Registrant.

SIGNATURES

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

DCAP GROUP, INC.

Dated: July 25, 2003

By: /s/ Barry Goldstein

Barry Goldstein
Chief Executive Officer