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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A
AMENDMENT NO. 1

CURRENT REPORT

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

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

DCAP GROUP, INC.

(Exact name of Registrant as specified in charter)

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

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

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

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

(a) Financial Statements of Businesses Acquired.

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

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

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

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

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

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

(b) Pro Forma Financial Information.

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

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

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

(c) Exhibits.

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

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(1) Previously filed.

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

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

Independent Auditor's Report

We have audited the accompanying consolidated balance sheets of Barry Scott Companies, Inc. and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

August 26, 2002 A.W. Guthman & Company

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

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

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See accompanying notes to financial statements.

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

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

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

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

See accompanying notes to financial statements.

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

NOTE 1 - ORGANIZATION

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

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

Parent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Principles of Consolidation

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

Use of Estimates

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

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

Fixed Assets

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

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

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

Commission Income

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

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

Income Taxes

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

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

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

NOTE 3 - PURCHASE LIABILITIES

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

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

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

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

NOTE 3 - PURCHASE LIABILITIES (CONT'D)

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

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

NOTE 4 - NOTE PAYABALE

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

NOTE 5 - RELATED PARTIES

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

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

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

NOTE 5 - RELATED PARTIES (CONT'D)

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

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

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

NOTE 6 - EMPLOYEE BENEFITS

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

NOTE 7 - LEASE COMMITMENTS

Office Space

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

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

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

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

NOTE 7 - LEASE COMMITMENTS (CONT'D)

Office Equipment

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

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

NOTE 8 - CONTINGENCIES

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

NOTE 9 - SUBSEQUENT EVENT

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

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

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

Independent Auditor's Report

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

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

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

October 11, 2002 A.W. Guthman & Company

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

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

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements.

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

NOTE 1 - ORGANIZATION

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Principles of Consolidation

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

Use of Estimates

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

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

Fixed Assets

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

Description	Amount

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

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

Commission Income

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

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

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

Income Taxes

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

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

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

NOTE 3 - PURCHASE LIABILITIES

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

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

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

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

NOTE 3 - PURCHASE LIABILITIES (CONT'D)

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

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

NOTE 4 - NOTE PAYABALE

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

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

NOTE 5 - RELATED PARTIES

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

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

NOTE 5 - RELATED PARTIES (CONT'D)

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

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

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

NOTE 6 - EMPLOYEE BENEFITS

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

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

NOTE 7 - LEASE COMMITMENTS

Office Space

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

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

NOTE 7 - LEASE COMMITMENTS (CONT'D)

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

Office Equipment

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

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

NOTE 8 - CONTINGENCIES

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

NOTE 9 - SUBSEQUENT EVENT

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

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PRO FORMA FINANCIAL STATEMENTS

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

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

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

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

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

JUNE 30, 2002
(Unaudited)

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

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

See accompanying notes to pro forma consolidated financial statements

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

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

JUNE 30, 2002

1. To record amount received from an investor (1,000,000 shares at $.50 per share) used to purchase Barry Scott Companies concurrently with the acquisition.

2. To record the purchase price of $850,000 for Barry Scott Companies acquisition consisting of $325,000 in cash with the balance of $525,000 bearing interest at 5% per annum and the elimination of the historical equity capitalization of Barry Scott Companies in accordance with the purchase method of accounting.

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

3. Represents items not assumed by purchaser.

4. To record estimated remaining contingent obligation in connection with a

previous acquisition by Barry Scott Companies.

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

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

SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

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

	=========
Weighted average number of shares outstanding:	
Basic	11,353,402
	==========
Diluted	11,429,673
	==========

See accompanying notes to pro forma consolidated financial statements

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

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2002

1. To remove income tax provision on Barry Scott Companies based upon the utilization of net operating loss carryforwards of DCAP Group, Inc.

2. Basic and Diluted pro forma income per share is based on historical weighted average number of Common Shares and equivalents of DCAP Group during the six months ended June 30, 2002, adjusted for the shares issued to an investor concurrently with the acquisition.

3. To record six months of interest expense on the indebtedness incurred in connection with the acquisition of Barry Scott Companies.

4. Reflects amortization of intangible assets acquired in connection with the acquisition of Barry Scott Companies. The intangible assets are being amortized over a 4 year period.

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

YEAR ENDED DECEMBER 31, 2001
(Unaudited)

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

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

See accompanying notes to pro forma consolidated financial statements

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

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2001

1. To remove income tax benefit taken by Barry Scott Companies as a result of DCAP having a 100% valuation allowance.

2. Basic and Diluted pro forma income per share is based on historical weighted average number of Common Shares and equivalents of DCAP Group during the year ended December 31, 2001, adjusted for the shares issued to an investor concurrently with the acquisition.

3. To record interest expense on the indebtedness incurred in connection with the acquisition of the Barry Scott Companies.

4. Reflects amortization of intangible assets acquired in connection with the acquisition of Barry Scott Companies. The intangible assets are being amortized over a 4 year period.

SIGNATURES

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

DCAP GROUP, INC.

Dated: November 1, 2002

By: /s/ Barry Goldstein

Barry Goldstein
Chief Executive Officer