U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-21467

FIRST PRIORITY GROUP, INC

(Exact name of small business issuer as specified in its charter)

New York	11-2750412
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

51 East Bethpage Road
Plainview, New York 11803

(Address of principal executive offices)

(516) 694-1010

(Issuer's telephone number)

Check whether the issuer (1) has 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 ___

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 6, 1998: 8,231,800 shares of common stock

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Transitional Small Business Format (check one)

Yes[ ] No[X]

Part I Financial Information

Item 1. Financial Statements

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

June 30, 1998
(Unaudited)

<TABLE>
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ASSETS

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Current Assets:	
Cash and cash equivalents	$3,931,566
Accounts receivable, less allowance for doubtful accounts of $15,500	1,558,379
Inventories	35,588
Prepaid expenses and other current assets	114,167
Total current assets	5,639,700
Property and equipment, net of accumulated depreciation of $324,336	525,494
Security deposits and other non-current assets	27,738
Total assets	$6,192,932

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$810,106
Accrued expenses and other current liabilities	796,632
Total current liabilities	1,606,738
Shareholders' equity:	
Common stock, $.015 par value, authorized 20,000,000 shares; issued 8,498,467 shares	127,477
Additional paid-in capital	7,638,237
Deficit	(3,089,520)
	4,676,194
Less common stock held in treasury, at cost, 266,667 shares	(90,000)
Total shareholders' equity	4,586,194
Total liabilities and shareholders' equity	$6,192,932

</TABLE>

The accompanying notes are an integral part of these financial statements.

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unauditied)

<TABLE>
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	THREE MONTHS ENDED June 30, 1998	THREE MONTHS ENDED June 30, 1997
<S>	<C>	<C>
Revenue from operations	$3,751,677	$3,197,844
Costs of revenue (principally charges incurred at repair facilities for services)	3,115,360	2,628,802
Gross profit	636,317	569,042
Operating expenses	1,089,414	663,699
Loss from operations	(453,097)	(94,657)
Other income (expense):		
Interest and other income	98,691	15,983
Other expenses	(294)	(1,730)
Total other income	98,397	14,253
Loss from continuing operations	(354,700)	(80,404)
Discontinued operations (Note 3):		
Loss from operations of discontinued division (no income tax benefit)	-	(328,463)
Net loss	($354,700)	($408,867)
Basic and diluted loss per share:		
Continuing operations	($0.04)	($0.01)
Discontinued operations	-	(0.06)
Net loss	($0.04)	($0.07)

</TABLE>

The accompanying notes are an integral part of these financial statements.

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unauditied)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED June 30, 1998	SIX MONTHS ENDED June 30, 1997
<S>	<C>	<C>
Revenue from operations	$7,769,178	$6,877,134
Costs of revenue (principally charges incurred at repair facilities for services)	6,474,352	5,707,040
Gross profit	1,294,826	1,170,094

Operating expenses	2,067,698	1,281,029
Loss from operations	(772,872)	(110,935)
Other income (expense):		
Interest and other income	150,041	20,938
Other expenses	(7,065)	(1,730)
Total other income	142,976	19,208
Loss from continuing operations	(629,896)	(91,727)
Discontinued operations (Note 3):		
Loss from operations of discontinued division (no income tax benefit)	-	(670,198)
Net loss	($629,896)	($761,925)
Basic and diluted loss per share:		
Continuing operations	($0.08)	($0.02)
Discontinued operations	-	(0.11)
Net loss	($0.08)	($0.13)

</TABLE>

The accompanying notes are an integral part of these financial statements.

FIRST PRIORITY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED June 30, 1998	June 30, 1997
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	($629,896)	($761,925)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	66,446	36,918
Provision for bad debt		28,000
Changes in assets and liabilities		
Accounts receivable	45,887	(390,943)
Inventories	26,054	96,006
Prepaid expenses and other current assets	25,109	81,890
Security deposit and other non-current asset	13,590	19,575
Accounts payable and accrued expenses	(34,858)	991,346
Total adjustments	142,228	862,792
Net cash provided by (used in) operating activities	(487,668)	100,867
Cash flows from investing activities,		

additions to property and equipment	(134,630)	(322,798)
Cash flows from financing activities:		
Repayment under line of credit financing	-	(600,000)
Proceeds from bank loan	-	150,000
Principal payments on bank loan	-	(8,334)
Proceeds from note receivable in connection with the exercise of warrants	100,000	-
Proceeds from issuance of common stock	1,000,000	400,000
Net cash provided by (used in) financing activities	1,100,000	(58,334)
Net increase (decrease) in cash and cash equivalents	477,702	(280,265)
Cash and cash equivalents at beginning of period	3,453,864	683,503
Cash and cash equivalents at end of period	$3,931,566	$403,238

</TABLE>

The accompanying notes are an integral part of these financial statements.

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. UNAUDITED FINANCIAL STATEMENTS

The information contained in the condensed consolidated financial statements for the period ended June 30, 1998 is unaudited, but includes all adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair presentation of the financial position and the results of operations for these periods.

The financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Company's annual statements and notes. These financial statements should be read in conjunction with the Company's annual financial statement as reported in its most recent annual report on Form 10-KSB.

2. BUSINESS OF THE COMPANY

The Company, a New York corporation formed on June 28, 1985, is engaged in automotive fleet management and administration of automotive repairs for businesses, insurance companies and members of affinity groups.

The Company's office is located at 51 East Bethpage Road, Plainview, New York 11803 and its telephone number is (516) 694-1010.

3. DISCONTINUED OPERATIONS

In September 1996, the Company's FPG Direct division began to market consumer goods through direct mailing efforts to credit card customers of major oil companies and retail department stores. During the second quarter of 1997, the Company decided to discontinue its FPG Direct division. While the division has not participated in any new promotions since June 1997, it is continuing to collect receivables and return surplus inventory. The Company does not expect to incur any additional losses during the remaining phase out period.

4. RESULTS OF OPERATIONS

The unaudited results of operations for the six months ended June 30, 1998 are not necessarily indicative of the results to be expected for the full year.

5. EARNINGS PER SHARE

Basic earnings (loss) per share is computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if common stock equivalents,

such as stock options and warrants, were exercised. During the six month periods ended June 30, 1998 and 1997, there was no dilutive effect from stock options and warrants.

Weighted average number of shares were 8,231,800 and 6,018,681 in the three months ended June 30, 1998 and June 30, 1997, respectively and 8,162,739 and 5,951,655 for the six months ended June 30, 1998 and 1997, respectively.

6. ISSUANCE OF COMMON STOCK

In December 1997 the Company issued a Notice of Redemption to the holders of the warrants issued as part of the August 1997 private placement. In January 1998 the remaining warrant holder from the August 1997 private placement, exercised its right to purchase 500,000 additional shares of common stock at $2.00, permitting the Company to raise an additional $1,000,000.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company was served with a summons and complaint filed by Philip M. Panzera in United States District Court (Eastern District, NY) alleging that the Company wrongfully terminated his employment on January 29, 1998 pursuant to an employment agreement dated November 14, 1997 (the "Employment Agreement") and wrongfully converted Mr. Panzera's personal property. Mr. Panzera is seeking monetary damages in excess of $1 million. Mr. Panzera held the position in the Company of Senior Vice President, Chief Financial Officer for the period of November 17, 1997 through January 29, 1998. The Company has recently answered this complaint and denied all of Mr. Panzera's allegations stating that the Company properly terminated Mr. Panzera for cause pursuant to the Employment Agreement. Additionally, the Company has filed a counterclaim against Mr. Panzera alleging, among other things, that Mr. Panzera fraudulently induced the Company to enter into the Employment Agreement by making false representations concerning his educational background, employment history, experience and skills. The Company is seeking monetary damages of no less than $1 million. The Company believes that Mr. Panzera's claim is without merit and intends to vigorously defend this suit.

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

Results of Operations

Automotive Management

Revenues from services of the automotive management operations were $3,751,677, as compared to $3,197,844 for the three months ended June 30, 1998 and 1997, respectively, representing an increase of $553,833, or 17.3%. For the six months ended June 30, 1998 revenues from services were $7,769,178 as compared to $6,877,134 for the same period in 1997, representing an increase of $892,044 or 13.0%. The increased revenues reflect the Company's continued success in increasing the amount of business it is conducting with continuing customers, as well adding new customers to its base of business. The direct cost of services related to such revenue (principally charges from automotive repair facilities) was $3,115,360 and $2,628,802 for the three month periods ended June 30, 1998 and 1997, respectively, resulting in an increase of $486,558 or 18.5%. The direct cost of services for the six months ended June 30, 1998 and 1997, respectively were $6,474,352 and $5,707,040 representing an increase of $767,312 or 13.4%. The gross profit percentage was relatively stable at 17.0% and 16.7% for the three and six months ended June 30, 1998, respectively, as compared to 17.8% and 17.0% for the same periods of 1997.

Total operating expenses were $1,089,414 for the three months ended June 30, 1998, as compared to $663,699 for the three months ended June 30, 1998, representing an increase of $425,715 or 64.1%. For the six months ended June 30, 1998, total operating expenses were $2,067,698, an increase of $786,669 or 61.4% from total operating expenses of $1,281,029 for the same period of 1997. The increase

in operating expenses is primarily attributable to increased payroll and related expenses specifically associated with hiring additional staff for the anticipated growth of the Direct Repair Programs ("DRP") business groups, the development of an information technology department, as well as increases in other general and administrative expenses required to service the Company's group automotive management operations. The Company relocated its corporate headquarters in April 1997, more than doubling the Company's office space. As a result, rent and utility expenses more than doubled. These expenditures have positioned the Company for rapid growth in new business areas.

Interest and other income was $98,691 and $150,041 for the three and six months ended June 30, 1998, as compared to $15,983 and $20,938 for the same periods in 1997, representing an increase of $82,708 and $129,103, respectively. The increase is primarily attributable to larger average cash balances available during 1998 which have been invested in short-term cash equivalents as well as the proceeds of a $40,000 settlement of a lawsuit received in June 1998.

As a result of the foregoing, the net loss from continuing operations for the three months ended June 30, 1998 was $354,700 ($.04 per share) as compared to a net loss of $80,404 ($.01 per share) for the comparable three months in 1997. For the six months ended June 30, 1998, net loss from continuing operations was $629,896 ($.08 per share) as compared to a net loss of $91,727 ($.02 per share) for the six months ended June 30, 1997.

FPG Direct (Discontinued operations)

In September of 1996, the Company commenced a new line of business, under the name FPG Direct. FPG Direct marketed consumer goods to the credit card base of customers of oil companies and retail department stores through direct mailing efforts throughout the United States. The division was discontinued during the second quarter of 1997.

This division posted no results that affected the Condensed Consolidated Statements of Operations for the six months ended June 30, 1998. Discontinued operations resulted in a loss of $328,643 and $670,198 for the three and six months ended June 30, 1997 ($.06 and $.11 per share), respectively. Inventories are being decreased through returns to manufacturers and suppliers.

Liquidity and Capital Resources

As of June 30, 1998, the Company had cash and cash equivalents of $3,931,566 and working capital was $4,032,962. The Company's operating activities used $487,668 of cash in the six months of 1998 as compared to the same period of 1997 where operating activities generated $100,867 of cash. As discussed above, the Company has experienced increases in its operating costs in order to accommodate the anticipated growth of the Company as it explores and enters into new business.

The Company believes that its present cash position will enable the Company to continue to support its operations for the short and longer term.

Other Matters

On March 8, 1998, the Company signed a letter of intent to acquire substantially all of the assets owned by an individual doing business as Body Shop Video's Business Development Group. The parties were unable to consummate a final agreement; therefore, discussions have been discontinued.

Forward Looking Statements - Cautionary Factors

Except for the historical information and statements contained in this Report, the matters and items set forth in this Report are forward looking statements that involve uncertainties and risks some of which are discussed at appropriate points in the Report and are detailed in the Company's Annual Report on Form 10-KSB for the year ended December 31, 1997.

Part II Other Information

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

27 Financial Data Schedules

(b) Reports on Form 8-K

None

SIGNATURES

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

FIRST PRIORITY GROUP, INC.

Date: August 14, 1998

By: /s/ Barry Siegel

Barry Siegel
Chairman of the Board
of Directors, Chief Executive Officer
Treasurer, Secretary and Principal
Financial and Accounting Officer

Index of Exhibits

Exhibit No.	Description
27	Financial Data Schedule

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