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 September 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 November 13, 1998: 8,231,800 shares of common stock

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

September 30, 1998
(Unaudited)
ASSETS

<TABLE>

<S>	<C>
Current Assets:	
Cash and cash equivalents	$3,580,567

Accounts receivable, less allowance for doubtful accounts of $15,500	1,500,200
Inventories	36,149
Prepaid expenses and other current assets	168,384
Total current assets	5,285,300
Property and equipment, net of accumulated depreciation of $361,247	549,701
Security deposits and other non-current assets	34,238
Total assets	$5,869,239
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$843,944
Accrued expenses and other current liabilities	941,554
Total current liabilities	1,785,498
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	(3,591,973)
Less common stock held in treasury, at cost, 266,667 shares	(90,000)
Total shareholders' equity	4,083,741
Total liabilities and shareholders' equity	$5,869,239

</TABLE>

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

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED September 30, 1998	September 30, 1997
<S>	<C>	<C>
Revenue from operations	$3,230,990	$3,412,788
Costs of revenue (principally charges incurred at repair facilities for services)	2,687,637	2,801,553
Gross profit	543,353	611,235
Operating expenses	1,088,102	730,718
Loss from operations	(544,749)	(119,483)
Other income (expense):		
Interest and other income	42,846	11,047
Other expenses	(550)	(6,663)
Total other income	42,296	4,384
Loss from continuing operations	(502,453)	(115,099)
Discontinued operations (Note 3):		
Loss from operations of discontinued division (no income tax benefit)	-	(256,511)
Net loss	($502,453)	($371,610)
Basic and diluted loss per share:		
Continuing operations	($0.06)	($0.02)
Discontinued operations	-	(0.04)
Net loss	($0.06)	($0.06)

</TABLE>

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

INSERT TABLE

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED September 30, 1998	NINE MONTHS ENDED September 30, 1997
<S>	<C>	<C>
Revenue from operations	$11,000,168	$10,289,922
Costs of revenue (principally charges incurred at repair facilities for services)	9,161,989	8,508,593
Gross profit	1,838,179	1,781,329
Operating expenses	3,155,800	2,011,747
Loss from operations	(1,317,621)	(230,418)
Other income (expense):		
Interest and other income	192,887	31,985
Other expenses	(7,615)	(8,393)
Total other income	185,272	23,592
Loss from continuing operations	(1,132,349)	(206,826)
Discontinued operations (Note 3):		
Loss from operations of discontinued division (no income tax benefit)	-	(926,709)
Net loss	($1,132,349)	($1,133,535)
Basic and diluted loss per share:		
Continuing operations	($0.14)	($0.03)
Discontinued operations	-	(0.15)
Net loss	($0.14)	($0.18)

</TABLE>

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

FIRST PRIORITY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	NINE MONTHS ENDED September 30, 1998	NINE MONTHS ENDED September 30, 1997
Cash flows from operating activities:		
Net loss	($1,132,349)	($1,133,535)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	103,358	58,967
Provision for bad debts	--	11,000
Changes in assets and liabilities		
Accounts receivable	104,066	68,248
Inventories	25,493	140,280
Prepaid expenses and other current assets	(29,108)	275,836
Security deposit and other non-current assets	7,090	19,575
Accounts payable and accrued expenses	143,902	(20,468)
Total adjustments	354,801	545,438
Net cash used in operating activities	(777,548)	(588,097)
Cash flows used in investing activities, additions to property and equipment	(195,749)	(380,455)
Cash flows from financing activities:		
Repayment under line of credit financing	--	(600,000)
Proceeds from bank loan	--	150,000
Principal payments on bank loan	--	(20,835)
Proceeds from note receivable in connection with the exercise of warrants	100,000	--

Proceeds from issuance of common stock	1,000,000	1,800,000
Net cash provided by financing activities	1,100,000	1,429,186
Net increase in cash and cash equivalents	126,703	460,613
Cash and cash equivalents at beginning of period	3,453,864	683,503
Cash and cash equivalents at end of period	$3,580,587	$1,144,116

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 September 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 nine months ended September 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 nine month periods ended September 30, 1998 and 1997, there was no dilutive effect from stock options and warrants.

Weighted average number of shares were 8,231,800 and 6,411,420 in the three months ended September 30, 1998 and September 30, 1997, respectively and 8,186,0102 and 6,133,944 for the nine months ended September 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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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 $3,230,990, as compared to $3,412,788 for the three months ended September 30, 1998 and 1997, respectively, representing a decrease of $181,798, or 5.3%. For the nine months ended September 30, 1998 revenues from services were $11,000,168 as compared to $10,289,922 for the same period in 1997, representing an increase of $710,246 or 6.9%. The direct cost of services related to such revenue (principally charges from automotive repair facilities) was $2,687,637 and $2,801,553 for the three month periods ended September 30, 1998 and 1997, respectively, resulting in a decrease of $113,916 or 4.1%. The direct cost of services for the nine months ended September 30, 1998 and 1997, respectively were $9,161,989 and $8,508,593 representing an increase of $653,396 or 7.7%. Revenues from automotive management are sensitive to the vehicle accident rate. During the third quarter of 1998 the vehicle accident rate decreased due to moderate weather conditions throughout most of the United States. The gross profit percentage was relatively stable at 16.8% and 16.7% for the three and nine months ended September 30, 1998, respectively, as compared to 17.9% and 17.3% for the same periods of 1997.

Total operating expenses were $1,088,102 for the three months ended September 30, 1998, as compared to $730,718 for the three months ended September 30, 1997, representing an increase of $357,384 or 48.9%. For the nine months ended September 30, 1998, total operating expenses were $3,155,800, an increase of $1,144,053 or 56.9% from total operating expenses of $2,011,747 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 Program business group (discussed below), 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 and current business areas.

Interest and other income was $42,846 and $192,887 for the three and nine months ended September 30, 1998, as compared to $11,047 and $31,985 for the same periods in 1997, representing an increase of $31,799 and $160,902, 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 recorded as other income.

As a result of the foregoing, the net loss from continuing operations for the three months ended September 30, 1998 was $502,453 ($.06 per share) as compared to a net loss from continuing operations of $115,099 ($.02 per share) for the comparable

three months in 1997. For the nine months ended September 30, 1998, net loss from continuing operations was $1,132,349 ($.14 per share) as compared to a net loss from continuing operations of $206,826 ($.03 per share) for the nine months ended September 30, 1997.

Direct Repair Program

In 1992 the Company began developing the business of providing automotive appraisal and collision repair services for insurance companies. The automobile insurance industry is experiencing massive changes as it moves in the direction of a APPO@ or AHMO@ type environment, similar to that of the health industry. The Company believes that its presence in this market and provision of such services to insurance companies will be an important source of revenue for the Company because of the high volume of collision repair referrals that insurance companies can provide. The Company believes it is uniquely positioned to take advantage of the need for such services by insurance companies. The Company has entered into agreements with insurance companies whereby such insurance companies have agreed to utilize the Company for appraisal and repair services. In order to accommodate the anticipated growth of this division, the Company entered into a leasing agreement with a call center located in Florida and has staffed and trained subcontracted personnel to telemarket the Direct Repair Program (ADRP@). The Company has also hired a President and Vice President of Operations and Marketing to coordinate the growth in this division. The Company has updated its technology and systems capabilities for this DRP with a resoundingly favorable response from other participants in the claims management industry. [See Forward-Looking Statements and Cautionary Factors].

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 nine months ended September 30, 1998. Discontinued operations resulted in a loss of $256,511 and $926,709 for the three and nine months ended September 30, 1997 ($.04 and $.15 per share), respectively. Inventories are being decreased through returns to manufacturers and suppliers.

Liquidity and Capital Resources

As of September 30, 1998, the Company had cash and cash equivalents of $3,580,567 and working capital was $3,499,802. The Company=s operating activities used $777,548 of cash in the nine months of 1998 as compared to the same period of 1997 where operating activities used $588,097 of cash. As discussed above, the Company has experienced increases in its operating costs in order to develop the technology systems and professional staff for the Company to offer to its customers

and clients a state of the art total vehicle managed care program.

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

Year 2000 Compliance

The Company has two computer systems and software products coded to accept only two digit entries to represent years. For example, the year A1998@ would be represented by A98.@ These systems and products will need to be able to accept four digit entries to distinguish years beginning with 2000 from prior years. As a result, systems and products that do not accept four digit year entries will be replaced to comply with such AYear 2000@ requirements. The Company believes that its internal systems are Year 2000 compliant or will be replaced in connection with previously planned changes to information systems prior to the need to comply with Year 2000 requirements without material cost or expense. The anticipated costs of any Year 2000 modifications are based on management=s best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to the availability or cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties. In addition, there can be no assurance that Year 2000 compliance problems will not be revealed in the future which could have a material adverse affect on the Company=s business, financial condition and results of operations. Many of the Company=s customers and suppliers may be affected by Year 2000 issues that may require them to expend significant resources to modify or replace their existing systems. This may result in those customers having reduced funds to purchase the Company=s products or in those suppliers experiencing difficulties in producing or shipping key components to the Company on a timely basis or at all.

Forward Looking Statements - Cautionary Factors

Certain information contained herein includes information that is forward looking. The matters referred to in forward-looking statements may be affected by the risks and uncertainties involved in the Company's business. These forward-looking statements are qualified in their entirety by the cautionary statements contained in the Company's 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: November 16, 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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