

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

INTREPID CAPITAL CORP  
Form 10QSB  
August 14, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB  
(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

OR

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 333-66859

INTREPID CAPITAL CORPORATION  
(Exact name of Registrant as specified in its Charter)

DELAWARE  
(State of Incorporation)

59-3546446  
(I.R.S. Employer Identification No.)

3652 SOUTH THIRD STREET, SUITE 200, JACKSONVILLE BEACH, FLORIDA 32250  
(Address of principal executive offices) (Zip Code)

(904) 246-3433  
(Registrant's telephone number)

N/A  
(Former name, former address and former fiscal year, if changed since last  
report)

As of July 31, 2002, there were 3,350,183 shares of Common Stock, \$0.01  
par value per share, outstanding, and 1,000 shares of Common Stock issued and  
held in treasury.

Transitional Small Business Disclosure Format (check one): Yes  No

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-QSB  
FOR THE QUARTER ENDED JUNE 30, 2002

PART I - FINANCIAL INFORMATION

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

ITEM 1

FINANCIAL STATEMENTS

Consolidated Balance Sheets of Intrepid Capital Corporation and Subsidiaries as of June 30, 2002 and December 31, 2001.....

Consolidated Statements of Operations of Intrepid Capital Corporation and Subsidiaries for the Three and Six Month Periods Ended June 30, 2002 and 2001.....

Consolidated Statements of Cash Flows of Intrepid Capital Corporation and Subsidiaries for the Six Month Periods Ended June 30, 2002 and 2001.....

Notes to Consolidated Financial Statements.....

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Critical Accounting Policies and Estimates.....

Acquisitions.....

Discontinued Operations.....

Liquidity and Capital Resources.....

Results of Operations.....

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS.....

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS.....

ITEM 3 DEFAULTS UPON SENIOR SECURITIES.....

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....

ITEM 5 OTHER INFORMATION.....

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K.....

SIGNATURES.....

ITEM 1. FINANCIAL INFORMATION

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
June 30, 2002

ASSETS	2002
	-----
Current assets:	
Cash and cash equivalents	\$ 1,479,525
Investments, at fair value	94,139
Accounts receivable	2,933,083

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Prepaid and other assets	436,402
	-----
Total current assets	4,943,149
Notes receivable	323,919
Equipment and leasehold improvements, net of accumulated depreciation of \$285,320 in 2002 and \$218,174 in 2001	437,735
Other assets	16,039
Intangible assets, less accumulated amortization of \$51,692 in 2002 and \$7,131 in 2001	4,445,452
	-----
Total assets	\$ 10,166,294
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 714,988
Accrued expenses	1,137,844
Current portion of notes payable	1,600,000
Taxes payable	277,659
Other	156,185
	-----
Total current liabilities	3,886,676
Pension plan obligation	213,908
Notes payable, less current portion	100,000
	-----
Total liabilities	4,200,584
	-----
Stockholders' equity:	
Preferred stock, Class A, \$.01 par value. Authorized 5,000,000 shares; issued 1,166,666 shares at June 30, 2002	3,500,000
Common stock, \$.01 par value. Authorized 15,000,000 shares; issued 3,350,183 shares at June 30, 2002 and December 31, 2001	33,502
Treasury stock, at cost - 1,000 shares	(3,669)
Additional paid-in capital	3,570,769
Accumulated deficit	(1,134,892)
	-----
Total stockholders' equity	5,965,710
	-----
	\$ 10,166,294
	=====

See accompanying notes to consolidated financial statements.

3

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

Three and Six month periods ended June 30, 2002 and 2001

(unaudited)

THREE MONTHS  
ENDED JUNE 30  
2002 2001

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

	-----	-----
Revenues:		
Asset management fees	\$ 810,282	184,206
Investment banking revenues	4,175,699	164,759
Commissions	248,201	340,470
Other	83,176	34,330
	-----	-----
Total revenues	5,317,358	723,765
	-----	-----
Expenses:		
Salaries and employee benefits	2,769,134	557,914
Brokerage and clearing	48,932	64,727
Advertising and marketing	194,766	49,206
Professional and regulatory fees	1,028,611	79,823
Occupancy and maintenance	169,169	89,782
Depreciation and amortization	58,952	21,760
Interest expense	36,630	17,353
Other	176,480	66,234
	-----	-----
Total expenses	4,482,674	946,799
	-----	-----
Income (loss) from continuing operations before income taxes	834,684	(223,034)
Income tax expense	335,025	--
	-----	-----
Income (loss) from continuing operations	499,659	(223,034)
Discontinued operations - income (loss) from discontinued operations	--	31,445
	-----	-----
Net income (loss)	499,659	(191,589)
	-----	-----
Dividends on preferred stock	46,147	--
	-----	-----
Net income (loss) available to common stockholders	\$ 453,512	(191,589)
	=====	=====
Income (loss) per common share - Basic:		
Income (loss) from continuing operations	\$ 0.14	(0.10)
Discontinued operations	--	0.02
	-----	-----
Net income (loss) available to common stockholders per share	\$ 0.14	(0.08)
	=====	=====
Income (loss) per common share - Diluted:		
Income (loss) from continuing operations	\$ 0.11	(0.10)
Discontinued operations	--	0.02
	-----	-----
Net income (loss) available to common stockholders per share	\$ 0.11	(0.08)
	=====	=====
Basic weighted average shares outstanding	3,349,183	2,339,944
	=====	=====

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Diluted weighted average shares outstanding	4,661,975	2,339,944
	=====	=====

See accompanying notes to consolidated financial statements.

4

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Six months ended June 30, 2002 and 2001

(unaudited)

	2002
	-----
Cash flows from operating activities:	
Net income (loss)	\$ 1,416,920
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	113,190
(Purchases) sales of investments, net	(3,880)
Net trading profits	(8,324)
Change in assets and liabilities:	
Accounts receivable	(2,802,579)
Prepaid and other assets	(287,582)
Accounts payable and accrued expenses	990,983
Taxes payable	277,659
Pension obligation	(1,081)
Other liabilities	(86,342)
Discontinued operations - working capital changes	--
	-----
Net cash used in operating activities	(391,036)
	-----
Cash used in investing activities -	
purchase of equipment	(146,016)
	-----
Cash flows from financing activities:	
Proceeds from notes payable	1,500,000
Principal payments on notes payable	(125,000)
Advances from shareholder	--
	-----
Net cash provided by financing activities	1,375,000
	-----
Net increase (decrease) in cash and cash equivalents	837,948
Cash and cash equivalents at beginning of period	641,577
	-----
Cash and cash equivalents at end of period	\$ 1,479,525
	=====

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	\$ 72,865 =====
Cash paid during the period for income taxes	\$ 439,000 =====
Supplemental disclosure of non-cash transactions:	
Preferred stock issued to AJG upon conversion of AJG Note	\$ 3,500,000 =====
Preferred stock dividends accrued but not paid	\$ 46,147 =====

See accompanying notes to consolidated financial statements.

5

### INTREPID CAPITAL CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements June 30, 2002

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS

##### (A) ORGANIZATION AND BASIS OF PRESENTATION

Intrepid Capital Corporation (the "Company"), incorporated in 1998, is a Florida-based financial services holding company that conducts its business through its two wholly-owned subsidiaries: Intrepid Capital Management, Inc. ("ICM") and Allen C. Ewing & Co. ("Ewing").

ICM, a registered investment advisor, manages equity, fixed-income, and balanced portfolios for public and private companies, labor unions, endowments, foundations, and high net worth individuals and families. ICM has received authority to act as an investment manager in several states to meet the needs of its customers throughout the United States.

Ewing is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and a member of the National Association of Securities Dealers, Inc. ("NASD") and the Securities Investor Protection Corporation ("SIPC").

In a transaction effective December 31, 2001, the Company acquired all of the outstanding stock of ICC Investment Advisors, Inc., the operations of which were conducted through its wholly-owned subsidiary, The Investment Counsel Company ("ICC"). Subsequent to the acquisition, ICC was merged with and into ICM.

In a transaction effective October 30, 2001, the Company discontinued its resinous material operations formerly conducted through Enviroq Corporation ("Enviroq") by selling all of the issued and outstanding capital stock of Sprayroq, Inc., Enviroq's 50% owned subsidiary. Enviroq remains a wholly-owned subsidiary of the Company to hold the promissory notes received in connection with the sale, but conducts no operations currently, as its operations consisted solely of its investment in Sprayroq, Inc.

The interim financial information included herein is unaudited. Certain information and footnote disclosures normally included in the financial

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

statements have been condensed or omitted pursuant to the rules and regulations of the SEC. The Company believes that the disclosures made herein are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-KSB filed with the SEC on April 1, 2002. Except as indicated herein, there have been no significant changes from the financial data published in the Company's Annual Report. In the opinion of management, such unaudited information reflects all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the unaudited information. The results of operations for the three and six month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the full year.

6

### (B) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries: ICM, Ewing and Enviroq. Results of operations of acquired companies are included from the date of acquisition forward in accordance with purchase accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

### (C) INTANGIBLE ASSETS

Intangible assets consists of goodwill and separately identifiable intangible assets.

Goodwill consists of excess purchase price over net tangible assets and identifiable intangible assets acquired in purchase acquisitions. Goodwill has historically been amortized over the period estimated to benefit from the acquired assets, which was 15 years. The Company adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141") effective July 1, 2001 and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142") effective January 1, 2002. Accordingly, goodwill is no longer amortized effective January 1, 2002.

Identifiable intangible assets acquired in purchase acquisitions are separately identified in accordance with FAS 141. Management has preliminarily assessed identifiable intangible assets to have finite lives of 10 years. Identifiable intangible assets are amortized using accelerated methods over the estimated useful lives of the identifiable intangible assets.

Management assesses the recoverability of goodwill and identifiable intangible assets whenever events or circumstances indicate they may be impaired. Additionally, with the adoption of FAS 142, goodwill will be tested for impairment at least annually.

### (D) EARNINGS PER SHARE

Net income per share of common stock is computed based upon the weighted average number of common shares and share equivalents outstanding during the period. Stock warrants and convertible instruments, when dilutive, are included as share equivalents. Diluted earnings per share for the three and six month periods

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

ended June 30, 2002 assumes dilutive warrants and convertible instruments to purchase shares of common stock have been exercised using the treasury stock method.

### (E) COMPREHENSIVE INCOME

No differences between total comprehensive income (loss) and net income (loss) existed in the financial statements reported for the three and six month periods ended June 30, 2002 and 2001.

7

### INTREPID CAPITAL CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements June 30, 2002

### (2) ACQUISITIONS

On March 27, 2002, the Company entered into an agreement to acquire 100% of the common stock of First Bank of Jacksonville. The consummation of the acquisition is subject to the satisfaction of certain conditions, including customary regulatory approvals and the willingness of First Bank of Jacksonville and its majority shareholder to extend the date after which they may terminate the merger agreement, which is currently September 1, 2002.

The following unaudited pro forma financial information presents the consolidated results of operations as if the purchase of ICC had occurred on January 1, 2001. Pro forma total revenues would have been \$2,428,293 for the six months ended June 30, 2001. Pro forma net loss would have been \$689,146 for the six months ended June 30, 2001. Pro forma basic and diluted net loss per share would have been \$0.21 for the six months ended June 30, 2001.

### (3) RELATED PARTY TRANSACTIONS

The Company performs certain asset management functions for Intrepid Capital, L.P and during the six months ended June 30, 2002 and 2001, received \$34,313 and \$21,012, respectively, for such services.

### (4) INTANGIBLE ASSETS

The Company has preliminarily determined that certain identifiable intangible assets exist which are attributable to the estimated fair value of investment management contracts and customer relationships which were acquired through the purchase of ICC. Such assets have been allocated to the asset management segment. The Company continues to assess its allocation of the ICC purchase price with regard to identifiable intangible assets and expects to complete the final allocation during the third quarter of 2002. At June 30, 2002, identifiable intangible assets preliminarily amounted to \$891,224, net of accumulated amortization of \$44,561. Amortization expense was \$44,561 for the six months ended June 30, 2002 and the Company estimates the annual aggregate amortization expense for this and succeeding years to be approximately: 2002, \$111,000; 2003, \$114,000; 2004, \$97,000; 2005, \$82,000; 2006, and \$70,000; 2007, \$59,000.

There were no changes in the carrying amount of goodwill during the six months ended June 30, 2002. Goodwill for each of the reportable segments is summarized as follows as of June 30, 2002:



Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Asset management segment	\$ 3,564,898
Broker-dealer services segment	33,891
	-----
	\$ 3,598,789
	=====

Prior to the Company's adoption of FAS 142, goodwill was amortized. The following table summarizes and presents adjusted net income (loss) to exclude goodwill amortization expense recognized for the three and six month periods ended June 30, 2002 and 2001:

8

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
June 30, 2002

	THREE MONTHS ENDED 2002	JUNE 30 2001	SIX MONTHS 2002
	-----	-----	-----
Reported net income (loss)	\$ 499,659	(191,589)	1,416,
Add back goodwill amortization	-	18,583	
	-----	-----	-----
Adjusted net income (loss)	\$ 499,659	(173,006)	1,416,
	=====	=====	=====
Basic net income (loss) per share			
Reported net income (loss) per share	\$ 0.14	(0.08)	0
Add back goodwill amortization	-	0.01	
	-----	-----	-----
Adjusted basic net income (loss) per share	\$ 0.14	(0.07)	0
	=====	=====	=====
Diluted net income (loss) per share			
Reported net income (loss) per share	\$ 0.11	(0.08)	0
Add back goodwill amortization	-	0.01	
	-----	-----	-----
Adjusted diluted net income (loss) per share	\$ 0.11	(0.07)	0
	=====	=====	=====

(5) NOTES PAYABLE

The notes payable at June 30, 2002 and December 31, 2001 consist of the following:

Note payable to bank, principal due on or before August 31, 2002,

2002

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

interest at LIBOR plus 2.50% (4.34% at June 30, 2002)	\$ 1,500,0
Note payable to AJG Financial Services, Inc., converted into shares of the Company's Convertible Class A Preferred Stock	
Subordinated convertible promissory notes payable to former shareholders of Ewing	200,0
Note payable to First Florida Capital	
Line of credit payable to a bank	
	----- 1,700,0
Less current portion	----- 1,600,0
	----- \$ 100,0 =====

On March 29, 2002, the note payable to AJG Financial Services, Inc. ("AJG") was converted into 1,166,666 shares of the Company's Convertible Class A Preferred Stock. The Company's Convertible Class A Preferred Stock issued to AJG is a cumulative pay-in-kind preferred stock with a par value of \$0.01 and a stated value of \$3.00 per share, and each share is convertible into one share of the Company's common stock. Dividends are to be paid semi-annually in cash or Convertible Class A Preferred Stock at an annual rate of 5%. Dividends of \$46,147 are accrued but not paid at June 30, 2002.

9

### INTREPID CAPITAL CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements June 30, 2002

(6) SEGMENTS

During 2002 and 2001, the Company operated in two principal segments, asset management and broker-dealer services which includes investment banking revenues. The operations of Enviroq formerly constituted a separate operating segment which have been reclassified as discontinued operations. The Company assesses and measures operating performance based upon the net income (loss) derived from each of its operating segments, exclusive of the impact of corporate expenses.

The revenues and net income (loss) for each of the reportable segments are summarized as follows for the three and six month periods ended June 30, 2002 and 2001:

	THREE MONTHS ENDED JUNE 30 2002	2001	SIX MON 2002
	-----	-----	-----
Revenues:			
Asset management segment	\$ 807,808	186,787	1,648

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Broker-dealer services segment	4,459,370	519,985	7,875
Corporate	534,582	50,614	601
Intersegment revenues	(484,402)	(33,621)	(544)
	-----	-----	-----
	\$ 5,317,358	723,765	9,581
	=====	=====	=====
Net income (loss) from continuing operations:			
Asset management segment	\$ (174,977)	(64,809)	(273)
Broker-dealer services segment	1,551,650	11,843	2,604
Corporate	(877,014)	(187,968)	(913)
	-----	-----	-----
	\$ 499,659	(240,934)	1,416
	=====	=====	=====

The total assets for each of the reportable segments are summarized as follows as of June 30, 2002 and December 31, 2001. Non segment assets consist primarily of cash, certain investments and other assets, which are recorded at the parent company level.

		2002
		-----
Assets:		
Asset management segment	\$	4,698,328
Broker-dealer services segment		4,207,588
Other		1,260,378
		-----
	\$	10,166,294
		=====

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that statements in this Quarterly Report on Form 10-QSB that are forward-looking statements represent management's belief and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes", "intends", "may", "should", "anticipates", "expected", "estimated", "projected" or comparable terminology, or by discussion of strategies or trends. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements, by their nature, involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report on Form 10-QSB and those described from time to time in the Company's other filings with the SEC and the risk that the underlying assumptions made by management in this Quarterly Report

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

on Form 10-QSB are not, in fact, correct. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

### Critical Accounting Policies and Estimates

The discussion and analysis of the Company's financial condition and results of operations are based on the Company's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

The Company has a significant amount of goodwill and identifiable intangible assets recorded on its financial statements. The Company's identifiable intangible assets consist of investment management contracts and customer relationships. Management's allocation of purchase price to these identifiable intangible assets requires estimates about the amount and useful lives of identifiable intangible assets acquired. These estimates are based on management's assumptions regarding future cash flows, account retention, expected profit margins, and applicable discount rates. These estimates are subject to uncertainty and may differ significantly from actual results under different assumptions or conditions.

In addition, the Company will periodically review goodwill and intangible assets for impairment in accordance with existing accounting pronouncements. Such review will involve the Company's estimation of segment cash flows, future performance and other variables, which will require a significant amount of judgment by the Company's management.

### Acquisitions

On December 31, 2001, the Company acquired 100% of the outstanding capital stock of ICC and has accounted for this transaction under the purchase method of accounting. ICC, which was merged with and into ICM on June 30, 2002, is expected to significantly enhance the Company's asset management segment in many areas including improved distribution capabilities, increased asset management revenues, and increased efficiencies through economies of scale.

11

On March 27, 2002, the Company entered into an agreement to acquire 100% of the common stock of First Bank of Jacksonville. The consummation of the acquisition is subject to the satisfaction of certain conditions, including customary regulatory approvals and the willingness of First Bank of Jacksonville and its majority shareholder to extend the date after which they may terminate the merger agreement, which is currently September 1, 2002.

### Discontinued Operations

On October 30, 2001, the Company sold its ownership of Sprayroq, Inc., Enviroq's 50% owned subsidiary. Enviroq's operations consisted solely of its investment in Sprayroq, Inc., and the Company has reported its operations as discontinued for all periods presented. Enviroq conducts no operations currently, but remains a wholly-owned subsidiary of the Company to hold the interest bearing promissory notes received in connection with the sale. Revenues

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

from Enviroq were \$588,018 for the six months ended June 30, 2001. The loss from discontinued operations for Enviroq was \$33,108 for the six months ended June 30, 2001.

### Liquidity and Capital Resources

The Company's current assets consist generally of cash, money market funds and accounts receivable. The Company has financed its operations with funds provided by stockholder capital, proceeds from notes payable, and the disposal of Sprayroq, Inc. The Company has developed and is implementing a growth strategy plan that includes both internal growth and external growth through acquisitions.

In connection with the acquisition of ICC, the Company financed the cash portion of the transaction through a loan from AJG, a Delaware corporation and wholly-owned subsidiary of Arthur J. Gallagher & Co., a publicly-traded Delaware corporation (NYSE: AJG), pursuant to the terms and conditions of an Investment Agreement, a Convertible Note Agreement, a Convertible Note, an Option Agreement, a Registration Rights Agreement and a Standstill Agreement, each dated as of December 31, 2001 between the Company and AJG (collectively, the "Loan Documents"). Pursuant to the Loan Documents and the exhibits thereto, among other things, AJG loaned the Company \$3,500,000 to finance the cash portion of the transaction, as well as the costs and expenses associated with the acquisition and for the Company's working capital needs. In exchange, the Company issued a convertible promissory note in favor of AJG which was due on or before April 30, 2002, bore interest at 5% per annum, and could be converted on or prior to maturity into Class A Cumulative Convertible Pay-In-Kind Preferred Stock of the Company. On March 29, 2002, the loan was converted into 1,166,666 shares of the Company's Class A Cumulative Convertible Pay-In-Kind Preferred Stock.

The Company believes the acquisition of ICC and subsequent merger with and into ICM provides the Company a much broader distribution platform for asset management services, branding, and the ability to consolidate back-office asset management functions. The Company opened a new office in Charlotte, North Carolina and hired three investment services professionals to help broaden the Company's investment management and investment banking services and presence in the Southeast. The Company believes that its broker-dealer services segment will continue to generate high-margin investment banking revenues during the remainder of 2002 based on other existing contracts in place. The Company also believes that its new strategic partnership with AJG will provide additional capital for future strategic opportunities.

The Company and the Federal Deposit Insurance Corporation ("FDIC") entered into an agreement to manage the loan asset portfolio of Hamilton Bank, N.A., a national bank located in Miami, Florida, for which the FDIC is acting as receiver (the "FDIC contract") from January 2002 through June 2002. For the six months ended June 30, 2002, revenues earned from the FDIC contract were \$7,060,282.

12

At June 30, 2002, receivables from the FDIC account for approximately 98% of the Company's accounts receivable.

For the six months ended June 30, 2002, net cash used in operating activities was \$391,036, primarily attributable to the Company's net income for the period offset by significant increases in accounts receivable as a result of the FDIC contract. Net cash used in investing activities was \$146,016, which is due to the purchase of equipment. Net cash provided by financing activities was \$1,375,000, which is primarily due to proceeds from notes payable.

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

The Company, through its subsidiary Ewing, is subject to the net capital requirements of the SEC, the NASD and other regulatory authorities. At June 30, 2002, Ewing's regulatory net capital was \$105,834, which is \$41,213 in excess of its minimum net capital requirement of \$64,621.

### Results of Operations

If the purchase of ICC had occurred on January 1, 2001, the consolidated results of operations would have reflected pro forma total revenues of \$2,428,292 and pro forma net loss of \$557,085 for the six months ended June 30, 2001.

Three Months Ended June 30, 2002 Compared to the Three Months Ended June 30, 2001

Total revenues were \$5,317,358 for the three months ended June 30, 2002, compared to \$723,765 for the three months ended June 30, 2001, representing a 634.7% increase.

Asset management fees increased \$626,076, or 339.9%, to \$810,282. Asset management fees represent revenue earned by ICM and ICC for investment advisory services. The fees earned are generally a function of the overall fee rate charged to each account and the level of Assets Under Management ("AUM"). Quarterly management fees are billed on the first day of each quarter based on each account value at the market close of the prior quarter. AUM was \$475.5 million at March 31, 2002, compared to \$84.6 million at March 31, 2001. The increase in asset management fees for the three months ended June 30, 2002 relates primarily to the increase in AUM as a result of the acquisition of ICC in December 2001. AUM was \$452.1 million at June 30, 2002, compared to \$79.3 million at June 30, 2001. The net decrease in AUM during the three months ended June 30, 2002 is primarily attributable to the investment performance and market conditions during the period.

Investment banking revenues increased \$4,010,940, or 2,434.4%, to \$4,175,699. Investment banking revenues represent fees earned by Ewing for providing investment banking services to clients on corporate finance matters, including mergers and acquisitions and the issuance of capital stock to the public. Such revenues are dependent on the timing of services provided and are normally received upon consummation of the underlying transaction. The increase is primarily attributable to the FDIC contract, which accounts for approximately 97% of total investment banking revenue for the period.

Commissions decreased \$92,269, or 27.1%, to \$248,201. Commissions represent revenue earned by Ewing from securities transactions conducted on behalf of customers, including sales of mutual fund shares and variable annuities. The decrease is primarily attributable to decreased transaction volume as a result of the termination of several independent registered representatives during December 2001 and to volatile market conditions.

Other income increased \$48,846, or 142.3%, to \$83,176. The increase is primarily attributable to an increase in interest received from the higher average cash balances invested in money markets and to re-negotiated fee arrangements for investment-related recordkeeping services.

Total expenses were \$4,482,674 for the three months ended June 30, 2002, compared to \$964,699 for the three months ended June 30, 2001, representing a 364.7% increase.

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Salaries and employee benefits increased \$2,211,220, or 396.3%, to \$2,769,134. Salaries and employee benefits represent fixed salaries, commissions paid on securities transactions and investment banking revenues, temporary staffing costs, and other related employee benefits. The increase is primarily attributable to bonuses and temporary staffing costs associated with the FDIC contract, to the acquisition of ICC employees, to severance packages related to the integration of ICM and ICC, and to salaries and employee benefits associated with several newly hired regional ICM sales professionals.

Brokerage and clearing expenses decreased \$15,795, or 24.4%, to \$48,932. Brokerage and clearing expenses represent the securities transaction and other costs paid to the clearing broker-dealer, and are related to commission revenue earned by Ewing. The net decrease is primarily attributable to decreased transaction volume.

Advertising and marketing expenses increased \$145,560, or 295.8%, to \$194,766. The increase is primarily attributable to the travel and entertainment expenses associated with new regional sales professionals and an increase in ICM's advertising and marketing expenses associated with a new advertising and marketing campaign aimed to attract prospective clients and to inform them of ICM's excellent investment performance.

Professional and regulatory expenses increased \$948,788, or 1,188.6%, to \$1,028,611. The increase is primarily attributable to the legal and other costs associated with the FDIC contract.

Occupancy and maintenance expenses increased \$79,387, or 88.4%, to \$169,169. The increase is primarily attributable to the acquisition of ICC in December 2001 and to the opening of the Company's new office located in Charlotte, North Carolina.

Interest expense increased \$19,277, or 111.1%, to \$36,630. The increase is primarily attributable to interest on a note payable to a bank used for working capital needs associated with the FDIC contract.

Other expenses increased \$110,246, or 166.4%, to \$176,480. The increase is primarily attributable to the acquisition of ICC in December 2001 and to the opening of the Company's new office located in Charlotte, North Carolina.

Income tax expense was \$335,025. The effective tax rate for the six months ended June 30, 2002 was 40.14%. The effective tax rate was higher than the statutory rate due to a decrease in deferred tax assets of \$42,185.

Six Months Ended June 30, 2002 Compared to the Six Months Ended June 30, 2001

Total revenues were \$9,581,496 for the six months ended June 30, 2001, compared to \$1,424,970 for the six months ended June 30, 2001, representing a 572.4% increase.

Asset management fees increased \$1,239,862, or 307.0%, to \$1,643,761. Asset management fees represent revenue earned by ICM and ICC for investment advisory services. The fees earned are generally a function of the overall fee rate charged to each account and the level of AUM. Quarterly management fees are billed on the first day of each quarter based on each account value at the market close of the prior quarter. AUM was \$458.4 and \$475.5 million at December 31, 2001 and March 31, 2002, respectively, compared to \$105.3 and \$84.6 million at December 31, 2000 and March 31, 2001, respectively. The increase in asset management fees for the six months ended June 30, 2002 relates

## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

14

primarily to the increase in AUM as a result of the acquisition of ICC in December 2001. AUM was \$452.1 million at June 30, 2002, compared to \$79.3 million at June 30, 2001.

Investment banking revenues increased \$6,963,357, or 2,611.4%, to \$7,230,005. Investment banking revenues represent fees earned by Ewing for providing investment banking services to clients on corporate finance matters, including mergers and acquisitions and the issuance of capital stock to the public. Such revenues are dependent on the timing of services provided and are normally received upon consummation of the underlying transaction. The increase is primarily attributable to the FDIC contract, which accounts for approximately 98% of total investment banking revenue for the period.

Commissions decreased \$118,225, or 17.0%, to \$575,930. Commissions represent revenue earned by Ewing from securities transactions conducted on behalf of customers, including sales of mutual fund shares and variable annuities. The decrease is primarily attributable to decreased transaction volume as a result of the termination of several independent registered representatives during December 2001 and to volatile market conditions.

Other income increased \$71,532, or 118.7%, to \$131,800. The increase is primarily attributable to an increase in interest received from the higher average cash balances invested in money markets and to re-negotiated fee arrangements for investment-related recordkeeping services.

Total expenses were \$7,463,956 for the six months ended June 30, 2002, compared to \$1,956,870 for the six months ended June 30, 2001, representing a 281.4% increase.

Salaries and employee benefits increased \$3,573,888, or 305.4%, to \$4,743,960. Salaries and employee benefits represent fixed salaries, commissions paid on securities transactions and investment banking revenues, temporary staffing costs, and other related employee benefits. The increase is primarily attributable to bonuses and temporary staffing costs associated with the FDIC contract, to the acquisition of ICC employees, to severance packages related to the integration of ICM and ICC, and to salaries and employee benefits associated with several newly hired regional ICM sales professionals.

Brokerage and clearing expenses decreased \$23,568, or 17.5%, to \$111,454. Brokerage and clearing expenses represent the securities transaction and other costs paid to the clearing broker-dealer, and are related to commission revenue earned by Ewing. The net decrease is primarily attributable to decreased transaction volume.

Advertising and marketing expenses increased \$228,715, or 264.1%, to \$315,303. The increase is primarily attributable to the travel and entertainment expenses associated with new regional sales professionals and an increase in ICM's advertising and marketing expenses associated with a new advertising and marketing campaign aimed to attract prospective clients and to inform them of ICM's excellent investment performance.

Professional and regulatory expenses increased \$1,333,446, or 1,007.3%, to \$1,465,828. The increase is primarily attributable to the legal and other costs associated with the FDIC contract.

Occupancy and maintenance expenses increased \$131,074, or 72.3%, to \$312,352. The increase is primarily attributable to the acquisition of ICC in December 2001 and to the opening of the Company's new office located in Charlotte, North Carolina.



## Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Interest expense increased \$52,221, or 146.3%, to \$87,925. The increase is primarily attributable to interest on the AJG note prior to its conversion into shares of the Company's Class A Cumulative Convertible Pay-In-Kind Preferred Stock.

15

Other expenses increased \$177,328, or 129.8%, to \$313,944. The increase is primarily attributable to the acquisition of ICC in December 2001 and to the opening of the Company's new office located in Charlotte, North Carolina.

Income tax expense was \$700,620. Total tax expense was \$841,095 and was adjusted by the change in valuation allowance of \$140,475, which is primarily attributable to the Company's net operating loss carryforward. The effective tax rate for the six months ended June 30, 2002 was 33.09%. The effective tax rate was lower than the statutory rate due to a change in valuation allowance of \$140,475.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

There are no legal proceedings pending, or to the Company's knowledge, threatened against the Company or any of its subsidiaries.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

#### ITEM 5. OTHER INFORMATION

None.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits:

99.1 Certification of the Company's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of the Company's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

##### (b) Reports on Form 8-K:

The Company did not file any Current Reports on Form 8-K during the quarter ended June 30, 2002.

16

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTREPID CAPITAL CORPORATION

By /s/ Forrest Travis

-----  
Forrest Travis, President and  
Chief Executive Officer

Dated: August 14, 2002

By /s/ Michael J. Wallace

-----  
Michael J. Wallace, Chief  
Financial Officer

Dated: August 14, 2002

17

EXHIBIT INDEX

- 99.1 Certification of the Company's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of the Company's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

18