

INTREPID CAPITAL CORP

Form 10QSB/A

August 29, 2003

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-QSB/A**

**Amendment No. 1**  
(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**  
(Address of principal executive offices)

**32250**  
(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

**TABLE OF CONTENTS**

Part I Financial Information

Item 1 Financial Statements

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Cash Flows

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

EX-31.1 SECTION 302 CERTIFICATION OF THE CEO

EX-31.2 SECTION 302 CERTIFICATION OF THE PAO

EX-32.1 SECTION 906 CERTIFICATION OF THE CEO

EX-32.2 SECTION 906 CERTIFICATION OF THE PAO

---

**Table of Contents**

**INTREPID CAPITAL CORPORATION AND SUBSIDIARIES**

**Index to Form 10-QSB/A, Amendment No. 1  
For the Quarter Ended June 30, 2002**

|   |       |
|---|-------|
| <b>PART I FINANCIAL INFORMATION</b>   |       |
| <b>Item 1 Financial Statements</b>  |       |
| Consolidated Balance Sheets of Intrepid Capital Corporation and Subsidiaries as of June 30, 2002 (As restated) and December 31, 2001                                  | 4     |
| Consolidated Statements of Operations of Intrepid Capital Corporation and Subsidiaries for the Three and Six Month Periods Ended June 30, 2002 (As restated) and 2001 | 5     |
| Consolidated Statements of Cash Flows of Intrepid Capital Corporation and Subsidiaries for the Six Month Periods Ended June 30, 2002 (As restated) and 2001           | 6     |
| Notes to Consolidated Financial Statements  | 7-12  |
| <b>Item 2 Management's Discussion and Analysis or Plan of Operation</b>   |       |
| Critical Accounting Policies and Estimates  | 13    |
| Acquisitions  | 14    |
| Discontinued Operations   | 14    |
| Liquidity and Capital Resources   | 14    |
| Results of Operations   | 15-18 |
| <b>PART II OTHER INFORMATION</b>  |       |
| <b>Item 1 Legal Proceedings</b>   | 18    |
| <b>Item 2 Changes in Securities and Use of Proceeds</b>   | 18    |
| <b>Item 3 Defaults upon Senior Securities</b>   | 18    |
| <b>Item 4 Submission of Matters to a Vote of Security Holders</b>   | 18    |
| <b>Item 5 Other Information</b>   | 18    |
| <b>Item 6 Exhibits and Reports on Form 8-K</b>  | 19    |
| <b>Signatures</b>   | 20    |

**Table of Contents**

*Restatement*

Intrepid Capital Corporation (the Company ) is amending its quarterly report on Form 10-QSB for the quarter ended June 30, 2002, to reflect the effects of a compensation agreement which was entered into during the second quarter of 2002 and was not fully included in the aforementioned report. The restatement for the three and six months ended June 30, 2002, as disclosed in Note (2) Restatement herein, involved i) recording additional compensation expense of \$364,000 for the three and six months ended June 30, 2002 and ii) reflecting 200,000 additional stock options as having been issued during the second quarter of 2002. The consolidated financial statements as of and for the three and six months ended June 20, 2002, are restated herein.

**Table of Contents**

## ITEM 1. FINANCIAL INFORMATION

**INTREPID CAPITAL CORPORATION AND SUBSIDIARIES**

Consolidated Balance Sheets  
June 30, 2002 and December 31, 2001  
(unaudited)

| Assets  | 2002<br>(As restated,<br>Note 2) | 2001      |
|---|----------------------------------|-----------|
| <b>Current assets:</b>  |                                  |           |
| Cash and cash equivalents   | \$ 1,479,525                     | 641,577   |
| Investments, at fair value  | 94,139                           | 81,935    |
| Accounts receivable   | 2,933,083                        | 130,504   |
| Prepaid and other assets  | 436,402                          | 164,859   |
|   | <hr/>                            | <hr/>     |
| Total current assets  | 4,943,149                        | 1,018,875 |
| Notes receivable  | 323,919                          | 323,919   |
| Equipment and leasehold improvements, net of accumulated depreciation<br>of \$285,320 in 2002 | 437,735                          | 360,348   |
| Other assets  | 16,039                           |           |
| Intangible assets, net of accumulated amortization of \$44,561 in 2002                        | 846,663                          | 891,224   |

See accompanying notes to consolidated financial statements.

**Table of Contents****INTREPID CAPITAL CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Operations  
 Three and Six month periods ended June 30, 2002 and 2001  
 (unaudited)

|  | Three months<br>ended June 30 |                  | Six months<br>ended June 30 |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | 2002                          | 2001             | 2002                        | 2001             |
|  | (As restated,<br>Note 2)      |                  | (As restated,<br>Note 2)    |                  |
| <b>Revenues:</b>   |                               |                  |                             |                  |
| Asset management fees  | \$ 810,282                    | 184,206          | 1,643,761                   | 403,899          |
| Investment banking revenues  | 4,175,699                     | 164,759          | 7,230,005                   | 266,648          |
| Commissions  | 248,201                       | 340,470          | 575,930                     | 694,155          |
| Other  | 83,176                        | 34,330           | 131,800                     | 60,268           |
|  | <u>5,317,358</u>              | <u>723,765</u>   | <u>9,581,496</u>            | <u>1,424,970</u> |
| <b>Expenses:</b>   |                               |                  |                             |                  |
| Salaries and employee benefits                                     | 3,133,134                     | 557,914          | 5,107,960                   | 1,170,072        |
| Brokerage and clearing   | 48,932                        | 64,727           | 111,454                     | 135,022          |
| Advertising and marketing  | 194,766                       | 49,206           | 315,303                     | 86,588           |
| Professional and regulatory fees                                   | 1,028,611                     | 79,823           | 1,465,828                   | 132,382          |
| Occupancy and maintenance  | 169,169                       | 89,782           | 312,352                     | 181,278          |
| Depreciation and amortization                                      | 58,952                        | 21,760           | 113,190                     | 43,409           |
| Interest expense   | 36,630                        | 17,353           | 87,925                      | 35,704           |
| Other  | 176,480                       | 66,234           | 313,944                     | 136,616          |
|  | <u>4,846,674</u>              | <u>946,799</u>   | <u>7,827,956</u>            | <u>1,921,071</u> |
| Income (loss) from continuing operations before income taxes       | 470,684                       | (223,034)        | 1,753,540                   | (496,101)        |
| Income tax expense   | 186,274                       |                  | 562,300                     |                  |
|  | <u>284,410</u>                | <u>(223,034)</u> | <u>1,191,240</u>            | <u>(496,101)</u> |
| Discontinued operations income (loss) from discontinued operations |                               | 31,445           |                             | (33,108)         |
|  | <u>284,410</u>                | <u>(191,589)</u> | <u>1,191,240</u>            | <u>(529,209)</u> |
| Dividends on preferred stock                                       | 46,147                        |                  | 46,147                      |                  |
|  | <u>238,263</u>                | <u>(191,589)</u> | <u>1,145,093</u>            | <u>(529,209)</u> |
| <b>Income (loss) per common share Basic:</b>                       |                               |                  |                             |                  |
| Income (loss) from continuing operations                           | \$ 0.07                       | (0.10)           | 0.34                        | (0.21)           |
| Discontinued operations  |                               | 0.02             |                             | (0.02)           |
|  | <u>\$ 0.07</u>                | <u>(0.08)</u>    | <u>0.34</u>                 | <u>(0.23)</u>    |

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB/A

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Net income (loss) attributable to common stockholders per share |           |           |           |           |
| Income (loss) per common share Diluted:                         |           |           |           |           |
| Income (loss) from continuing operations                        | \$ 0.06   | (0.10)    | 0.26      | (0.21)    |
| Discontinued operations   |           | 0.02      |           | (0.02)    |
| Net income (loss) attributable to common stockholders per share | \$ 0.06   | (0.08)    | 0.26      | (0.23)    |
| Basic weighted average shares outstanding                       | 3,349,183 | 2,339,944 | 3,349,183 | 2,329,528 |
| Diluted weighted average shares outstanding                     | 4,661,975 | 2,339,944 | 4,668,665 | 2,329,528 |

See accompanying notes to consolidated financial statements.



**Table of Contents****INTREPID CAPITAL CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Cash Flows  
Six months ended June 30, 2002 and 2001  
(unaudited)

|  | <b>2002</b><br><b>(As restated,</b><br><b>Note 2)</b> | <b>2001</b>      |
|--|---|------------------|
| <b>Cash flows from operating activities:</b>   |   |                  |
| Net income (loss)  | \$ 1,191,240  | (529,209)        |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |   |                  |
| Depreciation and amortization  | 113,190   | 88,671           |
| (Purchases) sales of investments, net  | (3,880)   | 7,055            |
| Net trading profits  | (8,324)   | (4,318)          |
| Change in assets and liabilities:  |   |                  |
| Accounts receivable  | (2,802,579)   | 11,262           |
| Prepaid and other assets   | (287,582)   | 175,737          |
| Accounts payable and accrued expenses  | 1,093,126   | (89,851)         |
| Taxes payable  | 139,339   |                  |
| Deferred compensation  | 215,710   |                  |
| Pension obligation   | (1,081)   |                  |
| Other liabilities  | (40,195)  | (54,064)         |
| Discontinued operations working capital changes                                      |   | 62,757           |
|  | <u>(391,036)</u>                                      | <u>(331,960)</u> |
| Cash used in investing activities purchase of equipment                              | <u>(146,016)</u>                                      | <u>(5,491)</u>   |
| <b>Cash flows from financing activities:</b>   |   |                  |
| Proceeds from notes payable  | 1,500,000   |                  |
| Principal payments on notes payable  | (125,000)   | (169,444)        |
| Advances from shareholder  |   | 262,110          |
|  | <u>1,375,000</u>                                      | <u>92,666</u>    |
| Net increase (decrease) in cash and cash equivalents                                 | 837,948   | (244,785)        |
| Cash and cash equivalents at beginning of period                                     | 641,577   | 419,616          |
| Cash and cash equivalents at end of period   | <u>\$ 1,479,525</u>                                   | <u>174,831</u>   |
| <b>Supplemental disclosure of cash flow information:</b>                             |   |                  |
| Cash paid during the period for interest   | \$ 72,865   | 29,159           |
| Cash paid during the period for income taxes   | \$ 439,000  |                  |
| <b>Supplemental disclosure of non-cash transactions:</b>                             |   |                  |
| 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.

**Table of Contents**

**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 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.

**Table of Contents**

***(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 had 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 and the Company completed its initial goodwill impairment test with no impairment noted.

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 (Loss) Per Share***

Net income (loss) 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 assumes dilutive warrants and convertible instruments to purchase shares of common stock have been exercised using the treasury stock method. Dividends and interest expense incurred on convertible instruments are added back to net income attributable to common stockholders when such instruments are dilutive.

Diluted earnings per share for the three and six months ended June 30, 2002 assumes 146,125 and 152,815 shares of common stock, respectively, have been issued upon exercise of dilutive warrants and stock options, and 1,166,666 shares of common stock have been issued in exchange for convertible preferred stock. In addition, dividends and interest incurred on convertible preferred stock of \$46,147 and \$86,900 have been added back to net income attributable to common stockholders for the three and six months ended June 30, 2002, respectively. Convertible instruments were anti-dilutive for all other periods presented.

***(e) Comprehensive Income (Loss)***

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.

**(2) Restatement**

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2002, the Company determined that the accounting effects of an employee compensation arrangement which was entered into during the second quarter of 2002 had not been properly

**Table of Contents**

reflected in its previously reported financial statements. The compensation arrangement provided for an initial cash bonus of \$300,000, a deferred cash bonus of an additional \$300,000 payable in quarterly installments of \$25,000 beginning January 1, 2003, and the issuance of an option to purchase 200,000 shares of the Company's common stock at \$2.00 per share. Of the initial bonus, \$200,000 was accrued prior to June 30, 2002 and was included in salaries and employee benefits in the Company's previously reported financial statements. The effects of the restatement to record the remaining initial cash bonus of \$100,000 and the present value of the deferred cash bonus, discounted at 5.0%, are as follows:

|   | <b>As of June 30, 2002</b>              |                    |                                       |                    |
|---|---|--------------------|---------------------------------------|--------------------|
|   | <b>As Previously Reported</b>           |                    | <b>As Restated</b>                    |                    |
|   | <b>As Previously Reported</b>           | <b>As Restated</b> | <b>As Previously Reported</b>         | <b>As Restated</b> |
| Accrued expenses                                      | \$ 1,137,844                            | 1,286,134          |                                       |                    |
| Taxes payable   | 277,659                                 | 139,339            |                                       |                    |
| Total current liabilities                             | 3,886,676                               | 3,896,646          |                                       |                    |
| Deferred compensation                                 |   | 215,710            |                                       |                    |
| Total liabilities                                     | 4,200,584                               | 4,426,264          |                                       |                    |
| Total stockholders' equity                            | 5,965,710                               | 5,740,030          |                                       |                    |
|   |   |                    |                                       |                    |
|   | <b>Three Months Ended June 30, 2002</b> |                    | <b>Six Months Ended June 30, 2002</b> |                    |
|   | <b>As Previously Reported</b>           |                    | <b>As Previously Reported</b>         |                    |
|   | <b>As Previously Reported</b>           | <b>As Restated</b> | <b>As Previously Reported</b>         | <b>As Restated</b> |
| Salaries and employee benefits                        | \$ 2,769,134                            | 3,133,134          | 4,743,960                             | 5,107,960          |
| Total expenses  | 4,482,674                               | 4,846,674          | 7,463,956                             | 7,827,956          |
| Income from continuing operations before income taxes | 834,684                                 | 470,684            | 2,117,540                             | 1,753,540          |
| Income tax expense                                    | 335,025                                 | 186,274            | 700,620                               | 562,300            |
| Net income  | 499,659                                 | 284,410            | 1,416,920                             | 1,191,240          |
| Net income attributable to common stockholders        | 453,512                                 | 238,263            | 1,370,773                             | 1,145,093          |
| Income per common share - Basic                       | 0.14                                    | 0.07               | 0.41                                  | 0.34               |
| Income per common share - Diluted                     | 0.11                                    | 0.06               | 0.31                                  | 0.26               |

There was no change to net cash flows from operating, investing and financing activities as a result of the restatement.

The Company applies the intrinsic value-based method of accounting for fixed plan stock options prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". The option issued as part of the compensation arrangement had no intrinsic value on the grant date and the option was anti-dilutive for the three and six month periods ended June 30, 2002. As a result, the option has no effect on the previously reported results of operations and no related adjustments are required.

**Table of Contents****(3) 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 \$1,225,427 and \$2,428,293 for the three and six months ended June 30, 2001, respectively. Pro forma net loss would have been \$273,955 and \$689,146 for the three and six months ended June 30, 2001, respectively. Pro forma basic and diluted net loss per share would have been \$0.08 and \$0.21 for the three and six months ended June 30, 2001, respectively.

**(4) 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.

**(5) 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 \$846,663, 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, \$70,000; and 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 Company's reporting units is summarized as follows as of June 30, 2002:

|                                |             |
|--------------------------------|-------------|
| Asset management segment       | \$3,564,898 |
| Broker-dealer services segment | 33,891      |
|                                | <hr/>       |
|                                | \$3,598,789 |
|                                | <hr/>       |

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:

**Table of Contents**

|  | Three months ended June 30       |           | Six months ended June 30         |           |
|--|----------------------------------|-----------|----------------------------------|-----------|
|  | 2002<br>(As restated,<br>note 2) | 2001      | 2002<br>(As restated,<br>note 2) | 2001      |
| Reported net income (loss)                   | \$284,410                        | (191,589) | 1,191,240                        | (529,209) |
| Add back goodwill amortization               |                                  | 18,583    |                                  | 37,166    |
| Adjusted net income (loss)                   | 284,410                          | (173,006) | 1,191,240                        | (492,043) |
| Basic net income (loss) per share            |                                  |           |                                  |           |
| Reported net income (loss) per share         | \$ 0.07                          | (0.08)    | 0.34                             | (0.23)    |
| Add back goodwill amortization               |                                  | 0.01      |                                  | 0.02      |
| Adjusted basic net income (loss) per share   | \$ 0.07                          | (0.07)    | 0.34                             | (0.21)    |
| Diluted net income (loss) per share          |                                  |           |                                  |           |
| Reported net income (loss) per share         | \$ 0.06                          | (0.08)    | 0.26                             | (0.23)    |
| Add back goodwill amortization               |                                  | 0.01      |                                  | 0.02      |
| Adjusted diluted net income (loss) per share | \$ 0.06                          | (0.07)    | 0.26                             | (0.21)    |

**(6) Notes Payable**

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

|  | 2002         | 2001      |
|--|--------------|-----------|
| Note payable to bank, principal due on or before August 31, 2002, interest at LIBOR plus 2.50% (4.34% at June 30, 2002)  | \$ 1,500,000 |           |
| Note payable to AJG Financial Services, Inc., converted into shares of the Company's Convertible Class A Preferred Stock |              | 3,500,000 |
| Subordinated convertible promissory notes payable to former shareholders of Ewing  | 200,000      | 200,000   |
| Note payable to First Florida Capital  |              | 50,000    |
| Line of credit payable to a bank   |              | 75,000    |
|  | 1,700,000    | 3,825,000 |
| Less current portion   | 1,600,000    | 3,725,000 |
|  | \$ 100,000   | 100,000   |

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.

**Table of Contents****(7) 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       |                  | Six months ended June 30         |                  |
|--|----------------------------------|------------------|----------------------------------|------------------|
|  | 2002<br>(As restated,<br>note 2) | 2001             | 2002<br>(As restated,<br>note 2) | 2001             |
| <b>Revenues:</b>                                     |                                  |                  |                                  |                  |
| Asset management segment                             | \$ 807,808                       | 186,787          | 1,648,371                        | 409,201          |
| Broker-dealer services segment                       | 4,459,370                        | 519,985          | 7,875,799                        | 998,155          |
| Corporate  | 534,582                          | 50,614           | 601,728                          | 224,308          |
| Intersegment revenues                                | (484,402)                        | (33,621)         | (544,402)                        | (206,694)        |
|  | <u>\$5,317,358</u>               | <u>723,765</u>   | <u>9,581,496</u>                 | <u>1,424,970</u> |
| <b>Net income (loss) from continuing operations:</b> |                                  |                  |                                  |                  |
| Asset management segment                             | \$ (174,977)                     | (64,809)         | (273,717)                        | (102,309)        |
| Broker-dealer services segment                       | 1,336,401                        | 11,843           | 2,378,735                        | (47,076)         |
| Corporate  | (877,014)                        | (170,068)        | (913,778)                        | (346,716)        |
|  | <u>\$ 284,410</u>                | <u>(223,034)</u> | <u>1,191,240</u>                 | <u>(496,101)</u> |

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                 | 2001             |
|--------------------------------|----------------------|------------------|
| <b>Assets:</b>                 |                      |                  |
| Asset management segment       | \$ 4,698,328         | 4,719,199        |
| Broker-dealer services segment | 4,207,588            | 343,446          |
| Other                          | 1,260,378            | 1,130,510        |
|                                | <u>\$ 10,166,294</u> | <u>6,193,155</u> |



**Table of Contents**

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/A 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/A 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 on Form 10-QSB/A 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.*

*Restatement*

Management's discussion and analysis for the three and six months ended June 30, 2002 has been revised to reflect the effects of a compensation agreement which was entered into during the second quarter of 2002. The restatement, as disclosed in Note 2 to the consolidated financial statements involved i) recording additional compensation expense of \$364,000 for the three and six months ended June 30, 2002 and ii) reflecting 200,000 additional stock options as having been issued during the second quarter of 2002.

*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.

## **Table of Contents**

### *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.

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 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

**Table of Contents**

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. 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.

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 \$1,225,427 and \$2,428,293 and pro forma net loss of \$273,955 and \$689,146 for the three and six months ended June 30, 2001, respectively.

*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, 2001, 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.

**Table of Contents**

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 \$4,846,674 for the three months ended June 30, 2002, compared to \$946,799 for the three months ended June 30, 2001, representing a 411.9% increase.

Salaries and employee benefits increased \$2,575,220, or 461.6%, to \$3,133,134. 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 \$186,274. The effective tax rate for the six months ended June 30, 2002 was 39.6%. The effective tax rate was higher than the statutory rate due to certain expenses incurred by the Company during the six month period which are non-deductible for tax purposes.

**Table of Contents**

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 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 \$7,827,956 for the six months ended June 30, 2002, compared to \$1,921,071 for the six months ended June 30, 2001, representing a 307.5% increase.

Salaries and employee benefits increased \$3,937,888, or 336.6%, to \$5,107,960. 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

**Table of Contents**

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.

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.

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 \$562,300. Total tax expense was \$702,775 prior to the change in valuation allowance of \$140,475, which is primarily attributable to revised expectations regarding the ability to utilize the Company's net operating loss carryforward. The effective tax rate for the six months ended June 30, 2002 was 32.1%. 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.

**Table of Contents**

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Company's Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

32.2 Certification of the Company's Principal Accounting 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.

**Table of Contents**

**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/ Mark F. Travis

\_\_\_\_\_  
Mark F. Travis, President and  
Chief Executive Officer

Dated: August 27, 2003



**Table of Contents**

**EXHIBIT INDEX**

31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Company's Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

32.2 Certification of the Company's Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.