

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

INTREPID CAPITAL CORP  
Form 10QSB  
November 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 SEPTEMBER 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 October 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 SEPTEMBER 30, 2002

PART I -- FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Consolidated Balance Sheets of Intrepid Capital Corporation  
and Subsidiaries as of September 30, 2002 and December 31,  
2001 ..... 3

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

	Consolidated Statements of Operations of Intrepid Capital Corporation and Subsidiaries for the Three and Nine Month Periods Ended September 30, 2002 and 2001.....	4
	Consolidated Statements of Cash Flows of Intrepid Capital Corporation and Subsidiaries for the Nine Month Periods Ended September 30, 2002 and 2001.....	5
	Notes to Consolidated Financial Statements .....	6-10
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	
	Critical Accounting Policies and Estimates.....	11
	Acquisitions .....	12
	Discontinued Operations .....	12
	Liquidity and Capital Resources .....	12-13
	Results of Operations .....	13-16
ITEM 3	CONTROLS AND PROCEDURES.....	16
	PART II -- OTHER INFORMATION	
ITEM 1	LEGAL PROCEEDINGS .....	17
ITEM 2	CHANGES IN SECURITIES AND USE OF PROCEEDS .....	17
ITEM 3	DEFAULTS UPON SENIOR SECURITIES.....	17
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS .....	17
ITEM 5	OTHER INFORMATION .....	17
ITEM 6	EXHIBITS AND REPORTS ON FORM 8-K .....	17
	SIGNATURES AND CERTIFICATIONS .....	18-20

2

ITEM 1. FINANCIAL INFORMATION

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2002 and December 31, 2001

(unaudited)

	2002
ASSETS	-----
Current assets:	
Cash and cash equivalents	\$ 597,553

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Investments, at fair value	86,125
Accounts receivable	218,442
Prepaid and other assets	528,373
	-----
Total current assets	1,430,493
Notes receivable	323,919
Equipment and leasehold improvements, net of accumulated depreciation of \$321,626 in 2002 and \$218,174 in 2001	480,889
Intangible assets, less accumulated amortization of \$85,112 in 2002 and \$7,131 in 2001	4,412,032
	-----
Total assets	\$ 6,647,333
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 387,513
Accrued expenses	605,771
Current portion of notes payable	100,000
Other	108,752
	-----
Total current liabilities	1,202,036
Pension plan obligation	213,367
Notes payable, less current portion	100,000
	-----
Total liabilities	1,515,403
	-----
Stockholders' equity:	
Preferred stock, Class A, \$.01 par value. Authorized 5,000,000 shares; issued 1,166,666 shares at September 30, 2002 (aggregate liquidation preference \$3,589,897)	3,500,000
Common stock, \$.01 par value. Authorized 15,000,000 shares; issued 3,350,183 shares at September 30, 2002 and December 31, 2001	33,502
Treasury stock, at cost -- 1,000 shares	(3,669)
Additional paid-in capital	3,527,018
Accumulated deficit	(1,924,921)
	-----
Total stockholders' equity	5,131,930
	-----
	\$ 6,647,333
	=====

See accompanying notes to consolidated financial statements.

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

Three and Nine month periods ended September 30, 2002 and 2001

(unaudited)

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

	THREE MONTHS ENDED SEPTEMBER 30	
	2002	2001
	-----	-----
Revenues:		
Asset management fees	\$ 922,897	198,6
Investment banking revenues	257,165	74,7
Commissions	214,343	331,3
Other	32,771	15,2
	-----	-----
Total revenues	1,427,176	619,9
	-----	-----
Expenses:		
Salaries and employee benefits	1,390,145	455,6
Brokerage and clearing	52,551	64,8
Advertising and marketing	276,113	86,6
Professional and regulatory fees	494,059	79,9
Occupancy and maintenance	179,614	90,9
Depreciation and amortization	78,145	21,7
Interest expense	18,623	16,6
Other	174,100	61,3
	-----	-----
Total expenses	2,663,350	877,9
	-----	-----
Income (loss) from continuing operations before income taxes	(1,236,174)	(257,9
Income tax expense (benefit)	(446,144)	
	-----	-----
Income (loss) from continuing operations	(790,030)	(257,9
Discontinued operations - loss from discontinued operations	--	(311,8
	-----	-----
Net income (loss)	(790,030)	(569,8
	-----	-----
Dividends on preferred stock	43,750	
	-----	-----
Net income (loss) available to common stockholders	\$ (833,780)	(569,8
	=====	=====
Income (loss) per common share - Basic:		
Income (loss) from continuing operations	\$ (0.25)	(0.
Discontinued operations	--	(0.
	-----	-----
Net income (loss) available to common stockholders per share	\$ (0.25)	(0.
	=====	=====
Income (loss) per common share - Diluted:		
Income (loss) from continuing operations	\$ (0.25)	(0.
Discontinued operations	--	(0.
	-----	-----
Net income (loss) available to common stockholders per share	\$ (0.25)	(0.
	=====	=====
Basic weighted average shares outstanding	3,349,183	2,350,2
	=====	=====

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Diluted weighted average shares outstanding	3,349,183	2,350,2
	=====	=====

See accompanying notes to consolidated financial statements.

4

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Nine months ended September 30, 2002 and 2001

(unaudited)

	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 536,993	(1,0
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	191,335	
Loss on sale of discontinued operations	--	3
Gain on disposal of assets	(936)	
(Purchases) sales of investments, net	(3,880)	
Net trading profits	(310)	
Change in assets and liabilities:		
Accounts receivable	(87,938)	
Prepaid and other assets	(363,514)	2
Accounts payable and accrued expenses	131,435	1
Pension obligation	(1,622)	
Other liabilities	(87,628)	
Discontinued operations - working capital changes	--	
	-----	-----
Net cash provided by (used in) operating activities	313,935	(2
	-----	-----
Cash flows from investing activities:		
Purchase of equipment	(261,286)	
Sale of equipment	28,327	
	-----	-----
Net cash used in investing activities	(232,959)	
	-----	-----
Cash flows from financing activities:		
Proceeds from notes payable	1,500,000	
Principal payments on notes payable	(1,625,000)	(2
Advances from shareholder	--	2
	-----	-----
Net cash (used in) provided by financing activities	(125,000)	
	-----	-----
Net decrease in cash and cash equivalents	(44,024)	(2
Cash and cash equivalents at beginning of period	641,577	4

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

Cash and cash equivalents at end of period	\$ 597,553	2
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 91,463	
	=====	=====
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	\$ 89,897	
	=====	=====

See accompanying notes to consolidated financial statements.

5

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
September 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,

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

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 nine month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the full year.

6

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

#### (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 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

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

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 nine month period ended September 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 nine month periods ended September 30, 2002 and 2001.

7

## INTREPID CAPITAL CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements September 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. During the third quarter of 2002, the Company mutually agreed with the shareholders of the First Bank of Jacksonville to terminate the definitive merger agreement.

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 \$1,121,643 and \$3,549,936 for the three and nine months ended September 30, 2001, respectively. Pro forma net loss would have been \$660,995 and \$1,350,141 for the three and nine months ended September 30, 2001, respectively. Pro forma basic and diluted net loss per share would have been \$0.20 and \$0.40 for the three and nine months ended September 30, 2001, respectively.

### (3) RELATED PARTY TRANSACTIONS

The Company performs certain asset management functions for Intrepid Capital, L.P and during the nine months ended September 30, 2002 and 2001, received \$46,122 and \$32,248, respectively, for such services.

### (4) INTANGIBLE ASSETS

The Company has completed its initial assessment of goodwill and identifiable intangible assets. The Company has 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 and have been allocated to the asset management segment. Management has assessed the recoverability of the identifiable intangible assets and has determined there to be no impairment based on its estimates and analysis of future cash flows. Management will continue to assess the recoverability whenever events or circumstances indicate they may be impaired and monitor the future results of the asset management segment. At September 30, 2002, identifiable intangible assets amounted to



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

\$891,224, net of accumulated amortization of \$77,981. Amortization expense was \$77,981 for the nine months ended September 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 nine months ended September 30, 2002. Goodwill for each of the reportable segments is summarized as follows as of September 30, 2002:

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

8

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

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 nine month periods ended September 30, 2002 and 2001:

	THREE MONTHS ENDED SEPTEMBER 30 2002	2001	NIN
	-----	-----	---
Reported net income (loss)	\$ (790,030)	(569,887)	
Add back goodwill amortization	--	18,584	
	-----	-----	---
Adjusted net income (loss)	\$ (790,030)	(551,303)	
	=====	=====	===
Basic net income (loss) per share			
Reported net income (loss) per share	\$ (0.25)	(0.24)	
Add back goodwill amortization	--	0.01	
	-----	-----	---
Adjusted basic net income (loss) per share	\$ (0.25)	(0.23)	
	=====	=====	===
Diluted net income (loss) per share			
Reported net income (loss) per share	\$ (0.25)	(0.24)	
Add back goodwill amortization	--	0.01	
	-----	-----	---
Adjusted diluted net income (loss) per share	\$ (0.25)	(0.23)	
	=====	=====	===

#### (5) NOTES PAYABLE

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

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

	2002	2001
	-----	-----
Note payable to AJG Financial Services, Inc., converted into shares of the Company's Convertible Class A Preferred Stock	\$ --	3,500,
Subordinated convertible promissory notes payable to former shareholders of Ewing	200,000	200,
Note payable to First Florida Capital	--	50,
Line of credit payable to a bank	--	75,
	-----	-----
	200,000	3,825,
Less current portion	100,000	3,725,
	-----	-----
	\$ 100,000	100,
	=====	=====

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 \$89,897 are accrued but not paid at September 30, 2002.

9

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

(6) SEGMENTS

During 2002 and 2001, the Company operated in two principal segments, asset management and investment banking services which includes brokerage 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 nine month periods ended September 30, 2002 and 2001:

THREE MONTHS ENDED SEPTEMBER 30	
2002	2001
-----	-----

Revenues:

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

Asset management segment	\$ 917,736	197,796
Investment banking services segment	505,853	421,392
Corporate	63,587	69,767
Intersegment revenues	(60,000)	(68,973)
	-----	-----
	\$ 1,427,176	619,982
	=====	=====

Net income (loss) from continuing operations:		
Asset management segment	\$ (204,881)	(50,968)
Investment banking services segment	(424,324)	(24,834)
Corporate	(160,825)	(182,187)
	-----	-----
	\$ (790,030)	(257,989)
	=====	=====

The total assets for each of the reportable segments are summarized as follows as of September 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
	-----	-----
Assets:		
Asset management segment	\$4,801,126	4,719,199
Investment banking services segment	621,794	343,446
Other	1,224,413	1,130,510
	-----	-----
	\$6,647,333	6,193,155
	=====	=====

10

### 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 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

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

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 require a significant degree of estimates based on management's assumptions regarding future cash flows, account retention, expected profit margins, and applicable discount rates and are subject to uncertainty and may differ significantly from actual results under different assumptions or conditions.

The Company has completed its initial assessment of goodwill and identifiable intangible assets. Management has assessed the recoverability of the identifiable intangible assets and has determined there to be no impairment based on its estimates and analysis of future cash flows. Management will continue to assess the recoverability whenever events or circumstances indicate they may be impaired and monitor the future results of the asset management segment. In addition, the Company will periodically review goodwill and intangible assets for impairment in accordance with existing accounting pronouncements and has set an annual impairment test date of December 31. 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.

11

### 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. During the third quarter of 2002, the Company mutually agreed with the shareholders of the First Bank of Jacksonville to terminate the definitive merger agreement.

### 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

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

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 \$1,054,714 for the nine months ended September 30, 2001. The loss from discontinued operations for Enviroq was \$345,007 for the nine months ended September 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 investment banking services segment will continue to generate high-margin

12

investment banking revenues during the remainder of 2002 and into 2003 based on existing prospects and contracts in place.

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 nine months ended September 30, 2002, revenues earned from the FDIC contract were \$7,178,581 which includes reimbursable pass-through costs occurring after the contract termination date. At September 30, 2002, receivables from the FDIC account for approximately 56% of the Company's accounts receivable.

For the nine months ended September 30, 2002, net cash provided by operating activities was \$313,935, primarily attributable to the Company's net income for the period. Net cash used in investing activities was \$232,959, which is due to the purchase of equipment. Net cash used in financing activities was \$125,000, which is primarily due to principal payments on 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 September 30, 2002, Ewing's regulatory net capital was \$179,771, which is \$129,771 in excess of its minimum net capital requirement of \$50,000.

### 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 \$1,121,643 and \$3,549,936 and pro forma net loss of \$660,995 and \$1,350,141 for the three and nine months ended September 30, 2001, respectively.

The company experienced a loss from operations for the three months ended September 30, 2002. The loss is primarily attributable to the Company's focus on growing asset management fees in the investment management segment through the hiring of new sales professionals and an ongoing advertising and marketing campaign and to significantly decreased investment banking revenues during the period.

The Company has invested and plans to continue to focus and invest in both the asset management and investment banking segments. ICM has several portfolio styles, ranked by independent sources, in the top percentile of all asset managers for both performance and risk control. The Company is investing in human capital through the hiring of six asset management sales professionals and four investment banking professionals and has sales promotion efforts, through advertising and marketing, aimed at branding and broadening the Company's investment management and investment banking market share and presence.

Subsequent to September 30, 2002, ICM was selected by one of the nation's top securities firms as a top-tier asset manager for use by their more than 7,300 brokers in more than 700 offices throughout the world. In a further effort to focus on asset management and investment banking, the Company exited the retail brokerage operations in October 2002 through the termination of the six employees involved exclusively with the retail brokerage operations and is only maintaining the brokerage operations that aid the investment banking business.

Although the Company is currently experiencing operational losses and is expected to during the fourth quarter of 2002 as a result of its investments, management projects the investments will justify the current expenses through significant increases in its asset management and investment banking revenues in 2003.

13

### Three Months Ended September 30, 2002 Compared to the Three Months Ended September 30, 2001

Total revenues were \$1,427,176 for the three months ended September 30, 2002, compared to \$619,982 for the three months ended September 30, 2001, representing a 130.2% increase.

Asset management fees increased \$724,218, or 364.5%, to \$922,897. Asset management fees represent revenue earned by ICM 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 \$452.1 million at June 30, 2002, compared to \$79.3 million at June 30, 2001. The increase in asset management fees for the three months ended September 30, 2002

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

relates primarily to the increase in AUM as a result of the acquisition of ICC in December 2001. AUM was \$458.2 million at September 30, 2002, compared to \$74.1 million at September 30, 2001.

Investment banking revenues increased \$182,427, or 244.1%, to \$257,165. 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 46% of total investment banking revenue for the period.

Commissions decreased \$117,011, or 35.3%, to \$214,343. 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 \$17,560, or 115.4%, to \$32,771. 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 \$2,663,350 for the three months ended September 30, 2002, compared to \$877,971 for the three months ended September 30, 2001, representing a 203.4% increase.

Salaries and employee benefits increased \$934,488, or 205.1%, to \$1,390,145. 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 the acquisition of ICC employees and to salaries and employee benefits associated with several newly hired regional ICM sales professionals.

Brokerage and clearing expenses decreased \$12,315, or 19.0%, to \$52,551. 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 \$189,418, or 218.5%, to \$276,113. 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 top-tier investment performance.

14

Professional and regulatory expenses increased \$414,065, or 517.6%, to \$494,059. The increase is primarily attributable to the legal and other costs associated with the FDIC contract.

Occupancy and maintenance expenses increased \$88,629, or 97.4%, to \$179,614. 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 \$1,991, or 12.0%, to \$18,623. The increase is

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

primarily attributable to interest on a note payable to a bank used for working capital needs associated with the FDIC contract.

Other expenses increased \$112,717, or 183.6%, to \$174,100. 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 benefit was \$446,144 and is primarily attributable to the Company's operating loss for the period. The effective tax rate for the three months ended September 30, 2002 was 36.1%.

Nine Months Ended September 30, 2002 Compared to the Nine Months Ended September 30, 2001

Total revenues were \$11,008,672 for the nine months ended September 30, 2002, compared to \$2,044,952 for the nine months ended September 30, 2001, representing a 438.3% increase.

Asset management fees increased \$1,964,080, or 325.9%, to \$2,566,658. 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, \$475.5 and \$452.1 million at December 31, 2001, March 31, 2002 and June 30, 2002, respectively, compared to \$105.3, \$84.6 and \$79.3 million at December 31, 2000, March 31, 2001 and June 30, 2001, respectively. The increase in asset management fees for the nine months ended September 30, 2002 relates primarily to the increase in AUM as a result of the acquisition of ICC in December 2001. AUM was \$458.2 million at September 30, 2002, compared to \$74.1 million at September 30, 2001.

Investment banking revenues increased \$7,145,784, or 2,093.2%, to \$7,487,170. 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 96% of total investment banking revenue for the period.

Commissions decreased \$235,236, or 22.9%, to \$790,273. 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 \$89,092, or 118.0%, to \$164,571. 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.

15

Total expenses were \$10,127,306 for the nine months ended September 30, 2002, compared to \$2,799,041 for the nine months ended September 30, 2001, representing a 261.8% increase.

Salaries and employee benefits increased \$4,508,376, or 277.3%, to \$6,134,105. Salaries and employee benefits represent fixed salaries, commissions paid on securities transactions and investment banking revenues, temporary



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

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 \$35,883, or 18.0%, to \$164,005. 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 \$418,133, or 241.3%, to \$591,416. 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 top-tier investment performance.

Professional and regulatory expenses increased \$1,747,511, or 822.8%, to \$1,959,887. The increase is primarily attributable to the legal and other costs associated with the FDIC contract.

Occupancy and maintenance expenses increased \$219,703, or 80.7%, to \$491,966. 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 \$54,214, or 103.6%, to \$106,548. 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 and to interest on a note payable to a bank used for working capital needs associated with the FDIC contract.

Other expenses increased \$290,045, or 146.5%, to \$488,044. 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 \$254,476. Total tax expense was \$394,951 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 nine months ended September 30, 2002 was 28.9%. The effective tax rate was lower than the statutory rate due to a change in valuation allowance of \$140,475.

### ITEM 3. CONTROLS AND PROCEDURES

Based on their evaluation of the Company's disclosure controls and procedures as of a date within 90 days of the filing of this Report, the President and Chief Executive Officer and the Chief Financial Officer of the Company have concluded that such controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect such controls subsequent to the date of their evaluation.

## PART II -- OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Edgar Filing: INTREPID CAPITAL CORP - Form 10QSB

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 September 30, 2002.

17

SIGNATURES AND CERTIFICATIONS

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: November 14, 2002

By /s/ Michael J. Wallace

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

Dated: November 14, 2002

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

I, Forrest Travis, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Intrepid Capital Corporation;
  2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
  3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
  4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
    - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
    - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- 18
- (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
  5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
  6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

Date: November 14, 2002

/s/ Forrest Travis

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

I, Michael Wallace, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Intrepid Capital Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

19

- (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    - (b) any fraud, whether or not material, that involves management or

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

other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Michael J. Wallace

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

20

### 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.

21