INTREPID CAPITAL CORP
Form 10QSB/A
September 02, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

Amendment No.1

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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	**59-3546446**
(State of Incorporation)	(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 [X]

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For the Quarter Ended September 30, 2002

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Restatement

Intrepid Capital Corporation (the Company) is amending its quarterly report on Form 10-QSB for the quarter ended September 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 nine months ended September 30, 2002, as disclosed in Note (2) Restatement herein, involved i) reducing compensation expense by $100,000 and recording additional interest expense of $3,300 for the three months ended September 30, 2003, ii) recording additional compensation expense of $264,000 and additional interest expense of $3,300 for the nine months ended September 30, 2002, and iii) 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 nine months ended September 30, 2002 are restated herein.

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ITEM 1. FINANCIAL INFORMATION

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

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

	2002 (As restated, Note 2)	**2001**
Assets		
Current assets:		
Cash and cash equivalents	$ 597,553	641,577
Investments, at fair value	86,125	81,935
Accounts receivable	218,442	130,504
Prepaid and other assets	648,153	164,859
Total current assets	1,550,273	1,018,875
Notes receivable	323,919	323,919
Equipment and leasehold improvements, net of accumulated depreciation of $321,626 in 2002 and $218,174 in 2001	480,889	360,348
Intangible assets, net of accumulated amortization of $77,981 in 2002	813,243	891,224
Goodwill, net of accumulated amortization of $7,131 in 2002 and 2001	3,598,789	3,598,789
Total assets	$ 6,767,113	6,193,155
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 387,513	209,984
Accrued expenses	677,848	651,865
Current portion of notes payable	100,000	3,725,000
Other	108,752	196,380
Total current liabilities	1,274,113	4,783,229
Deferred compensation (Note 2)	195,223	
Pension plan obligation	213,367	214,989
Notes payable, less current portion	100,000	100,000
Total liabilities	1,782,703	5,098,218
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	33,502
Treasury stock, at cost - 1,000 shares	(3,669)	(3,669)
Additional paid-in capital	3,527,018	3,616,915
Accumulated deficit	(2,072,441)	(2,551,811)
Total stockholders equity	4,984,410	1,094,937

	$ 6,767,113	6,193,155

See accompanying notes to consolidated financial statements.

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INTREPID CAPITAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
Three and Nine month periods ended September 30, 2002 and 2001
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2002 (As restated, Note 2)	2001	2002 (As restated, Note 2)	2001
Revenues:				
Asset management fees	$ 922,897	198,679	2,566,658	602,578
Investment banking revenues	257,165	74,738	7,487,170	341,386
Commissions	214,343	331,354	790,273	1,025,509
Other	32,771	15,211	164,571	75,479
Total revenues	1,427,176	619,982	11,008,672	2,044,952
Expenses:				
Salaries and employee benefits	1,290,145	455,657	6,398,105	1,625,729
Brokerage and clearing	52,551	64,866	164,005	199,888
Advertising and marketing	276,113	86,695	591,416	173,283
Professional and regulatory fees	494,059	79,994	1,959,887	212,376
Occupancy and maintenance	179,614	90,985	491,966	272,263
Depreciation and amortization	78,145	21,759	191,335	65,169
Interest expense	21,923	16,632	109,848	52,334
Other	174,100	61,383	488,044	197,999
Total expenses	2,566,650	877,971	10,394,606	2,799,041
Income (loss) from continuing operations before income taxes	(1,139,474)	(257,989)	614,066	(754,089)
Income tax expense (benefit)	(411,244)		134,696	
Income (loss) from continuing operations	(728,230)	(257,989)	479,370	(754,089)
Discontinued operations loss from discontinued operations		(311,898)		(345,007)
Net income (loss)	(728,230)	(569,887)	479,370	(1,099,096)
Dividends on preferred stock	43,750		89,897	
Net income (loss) attributable to common stockholders	$ (771,980)	(569,887)	389,473	(1,099,096)
Income (loss) per common share Basic:				
Income (loss) from continuing operations	$ (0.23)	(0.11)	0.12	(0.32)
Discontinued operations		(0.13)		(0.15)
Net income (loss) attributable to common stockholders per share	$ (0.23)	(0.24)	0.12	(0.47)
Income (loss) per common share Diluted:				

Income (loss) from continuing operations	$ (0.23)	(0.11)	0.11	(0.32)
Discontinued operations		(0.13)		(0.15)
Net income (loss) attributable to common stockholders per share	$ (0.23)	(0.24)	0.11	(0.47)
Basic weighted average shares outstanding	3,349,183	2,350,246	3,349,183	2,336,510
Diluted weighted average shares outstanding	3,349,183	2,350,246	4,617,725	2,336,510

See accompanying notes to consolidated financial statements.

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INTREPID CAPITAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Nine months ended September 30, 2002 and 2001
(unaudited)

	2002 (As restated, Note 2)	2001
Cash flows from operating activities:		
Net income (loss)	$ 479,370	(1,099,096)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	191,335	65,169
Loss on sale of discontinued operations		327,747
Gain on disposal of assets	(936)	
(Purchases) sales of investments, net	(3,880)	8,939
Net trading profits	(310)	(3,246)
Change in assets and liabilities:		
Accounts receivable	(87,938)	14,190
Prepaid and other assets	(483,294)	200,265
Accounts payable and accrued expenses	113,615	192,360
Deferred compensation	195,223	
Pension obligation	(1,622)	
Other liabilities	(87,628)	10,822
Discontinued operations working capital changes		10,720
Net cash provided by (used in) operating activities	313,935	(272,130)
Cash flows from investing activities:		
Purchase of equipment	(261,286)	(5,492)
Sale of equipment	28,327	
Net cash used in investing activities	(232,959)	(5,492)
Cash flows from financing activities:		
Proceeds from notes payable	1,500,000	
Principal payments on notes payable	(1,625,000)	(211,111)
Advances from shareholder		287,110
Net cash (used in) provided by financing activities	(125,000)	75,999
Net decrease in cash and cash equivalents	(44,024)	(201,623)
Cash and cash equivalents at beginning of period	641,577	419,616
Cash and cash equivalents at end of period	$ 597,553	217,993
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 91,463	43,422
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.

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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, 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.

(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.

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(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 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 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 nine months ended September 30, 2002 assumes 101,876 shares of common stock 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 expense incurred on convertible preferred stock of $130,650 have been added back to net income attributable to common stockholders for the nine months ended September 30, 2002. 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 nine month periods ended September 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 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, $300,000 was paid prior to September 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 present value of the deferred cash bonus, discounted at 5.0%, are as follows:

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	As Previously Reported	As Restated
Prepaid and other assets	$ 528,373	648,153
Total current assets	1,430,493	1,550,273
Total assets	6,647,333	6,767,113
Accrued expenses	605,771	677,848
Total current liabilities	1,202,036	1,274,113
Deferred compensation		195,223
Total liabilities	1,515,403	1,782,703
Total stockholders equity	5,131,930	4,984,410

	Three Months Ended September 30, 2002		Nine Months Ended September 30, 2002	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Salaries and employee benefits	$ 1,390,145	1,290,145	6,134,105	6,398,105
Interest expense	18,623	21,923	106,548	109,848
Total expenses	2,663,350	2,566,650	10,127,306	10,394,606
Income (loss) from continuing operations before taxes	(1,236,174)	(1,139,474)	881,366	614,066
Income tax expense (benefit)	(446,144)	(411,244)	254,476	134,696
Net income (loss)	(790,030)	(728,230)	626,890	479,370
Net income (loss) attributable to common Stockholders	(833,780)	(771,980)	536,993	389,473
Income (loss) per common share Basic	(0.25)	(0.23)	0.16	0.12
Income (loss) per common share Diluted	(0.25)	(0.23)	0.16	0.11

There was no net change to 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 the 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 nine month periods ended September 30, 2002. As a result, the option has no effect on the previously reported results of operations and no related adjustments are required.

(3) 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.

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(4) 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.

(5) 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 $813,243, 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 Company s reporting units is summarized as follows as of September 30, 2002:

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

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

	Three months ended September 30		Nine months ended September 30	
	2002 (As restated, note 2)	2001	2002 (As restated, note 2)	2001
Reported net income (loss)	$(728,230)	(569,887)	479,370	(1,099,096)
Add back goodwill amortization		18,584		55,750
Adjusted net income (loss)	$(728,230)	(551,303)	479,370	(1,043,346)
Basic net income (loss) per share				
Reported net income (loss) per share	$ (0.23)	(0.24)	0.12	(0.47)
Add back goodwill amortization		0.01		0.02
Adjusted basic net income (loss) per share	$ (0.23)	(0.23)	0.12	(0.45)
Diluted net income (loss) per share				
Reported net income (loss) per share	$ (0.23)	(0.24)	0.12	(0.47)
Add back goodwill amortization		0.01		0.02
Adjusted diluted net income (loss) per share	$ (0.23)	(0.23)	0.12	(0.45)

(6) Notes Payable

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

	2002	2001
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
	200,000	3,825,000
Less current portion	100,000	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 $89,897 are accrued but not paid at September 30, 2002.

(7) 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:

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	Three months ended June 30,		Six months ended June 30,	
	2002 (As restated, note 2)	2001	2002 (As restated, note 2)	2001
Revenues:				
Asset management segment	$ 917,736	197,796	2,566,107	607,155
Investment banking services segment	505,853	421,392	8,381,652	1,419,548
Corporate	63,587	69,767	665,315	225,167
Intersegment revenues	(60,000)	(68,973)	(604,402)	(206,918)
	$1,427,176	619,982	11,008,672	2,044,952
Income (loss) from continuing operations:				
Asset management segment	$ (204,881)	(50,968)	(478,598)	(153,118)
Investment banking services segment	(362,524)	(24,834)	2,032,571	(71,910)
Corporate	(160,825)	(182,187)	(1,074,603)	(529,061)
	$ (728,230)	(257,989)	479,370	(754,089)

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	1,344,193	1,130,510
	$6,767,113	6,193,155

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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 nine months ended September 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) reducing compensation expense by $100,000 and recording additional interest expense of $3,300 for the three months ended September 30, 2003, (ii)recording additional compensation expense of $264,000 and additional interest expense of $3,300 for the nine months ended September 30, 2002, and iii) 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 require a significant degree of judgment 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.

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 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 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.

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.

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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 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 $2,566,650 for the three months ended September 30, 2002, compared to $877,971 for the three months ended September 30, 2001, representing a 192.3% increase.

Salaries and employee benefits increased $834,488, or 183.1%, to $1,290,145. 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.

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 $5,291, or 31.8%, to $21,923. The increase is primarily attributable to interest on a note payable to a bank used for working capital needs associated with the FDIC contract and interest on deferred compensation arrangements.

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 $411,244 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.

Total expenses were $10,394,606 for the nine months ended September 30, 2002, compared to $2,799,041 for the nine months ended September 30, 2001, representing a 271.48% increase.

Salaries and employee benefits increased $4,772,376, or 293.6%, to $6,398,105. 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

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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 $57,514, or 109.9%, to $109,848. 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 $134,696. Total tax expense was $275,171 and was adjusted by 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 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 his 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 of the Company has 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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

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 September 30, 2002.

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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/ Mark F. Travis

Mark F. Travis, President and
Chief Executive Officer

Dated: August 27, 2003

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