INTREPID CAPITAL CORP
Form 10QSB
May 15, 2001

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

FORM 10-QSB
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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)

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

As of April 30, 2001, there were 2,318,996 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]

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-QSB
FOR THE QUARTER ENDED MARCH 31, 2001

PART I - FINANCIAL INFORMATION

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2001 and December 31, 2000

(unaudited)

ASSETS	2001
Current assets:	
Cash and cash equivalents	$ 299,944
Investments, at fair value	55,216
Accounts receivable	127,729
Inventories	78,321
Prepaid and other assets	264,859
Total current assets	826,069
Equipment and leasehold improvements, net of accumulated depreciation of $197,245 in 2001 and $171,648 in 2000	439,657
Goodwill, less accumulated amortization of $164,538 in 2001 and $145,955 in 2000	950,461
Other assets	--
Total assets	$ 2,216,187
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 164,407
Accrued expenses	313,112
Current portion of notes payable	241,572
Other	114,367
Total current liabilities	833,458
Notes payable, less current portion	505,650
Minority interest in consolidated subsidiary	44,382
Total liabilities	1,383,490
Stockholders' equity:	
Common stock, $.01 par value. Authorized 15,000,000 shares; issued 2,318,996 shares	23,190
Treasury stock, at cost - 1,000 shares	(3,669)
Additional paid-in capital	2,687,227
Accumulated deficit	(1,874,051)
Total stockholders' equity	832,697
	$ 2,216,187

See accompanying notes to consolidated financial statements.

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

Three months ended March 31, 2001 and 2000

(unaudited)

	2001
Revenues:	
Commissions	$ 353,685
Asset management fees	219,693
Investment banking revenues	101,889
Net trading profits	2,272
Resinous material sales	115,651
Dividend and interest income	12,764
Other	14,127
Total revenues	820,081
Expenses:	
Salaries and employee benefits	711,674
Brokerage and clearing	70,295
Cost of resinous material sales	57,853
Advertising and marketing	70,722
Professional and regulatory fees	57,346
Occupancy and maintenance	115,928
Depreciation and amortization	44,625
Interest expense	18,351
Other	88,989
Total expenses	1,235,783
Loss before income taxes and minority interest	(415,702)
Income tax benefit	--
Loss before minority interest	(415,702)
Minority interest	(78,082)
Net loss	$ (337,620)
Basic net loss per share	$ (0.15)
Weighted average shares outstanding	2,318,996

See accompanying notes to consolidated financial statements.

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Three months ended March 31, 2001 and 2000

(unaudited)

	2001
Cash flows from operating activities:	
Net loss	$(337,620)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	44,625
Loss on disposal of equipment	3,556
Minority interest	(78,082)
Sales of investments and securities sold, not yet purchased, net	7,055
Net trading profits	(2,272)
Deferred tax benefit	--
Change in assets and liabilities:	
Accounts receivable	343,071
Inventories	(8,973)
Prepaid and other assets	(11,973)
Accounts payable and accrued expenses	(9,752)
Other liabilities	5,535
Net cash used in operating activities	(44,830)
Cash flows from investing activities:	
Purchase of equipment	(5,492)
Proceeds from sales of equipment	3,500
Net cash used in investing activities	(1,992)
Cash flows from financing activities- principal payments on notes payable	(127,778)
Net decrease in cash and cash equivalents	(174,600)
Cash and cash equivalents at beginning of period	474,544
Cash and cash equivalents at end of period	$ 299,944
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	$ 8,861

See accompanying notes to consolidated financial statements.

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS

(A) ORGANIZATION AND BASIS OF PRESENTATION

Intrepid Capital Corporation ("ICAP") was formed on April 3,1998 for the purpose of becoming a full service investment management and consulting business. On December 16, 1998 as part of a simultaneous merger and reorganization, ICAP acquired all the outstanding shares of Enviroq Corporation ("Enviroq"), Intrepid Capital Management ("ICM") and Capital Research Corporation ("CRC") through a series of stock-for-stock and stock-for-cash exchanges with the former shareholders of each entity. ICAP is located in Jacksonville Beach, Florida and conducts its business through its three wholly owned subsidiaries.

ICM provides investment consulting and investment management services to individuals and corporations. ICM has received authority to act as an investment manager in several states to meet the needs of its customers, the majority of which are located in the southeastern United States.

CRC was a registered broker-dealer with the Securities and Exchange Commission (the "SEC") and a member of the National Association of Securities Dealers, Inc. (the "NASD") and the Securities Investor Protection Corporation (the "SIPC"). In a transaction effective on August 1, 1999, ICAP acquired all the outstanding stock of Allen C. Ewing Financial Services, Inc. ("ACEFS"). Primarily all of ACEFS' operations were conducted through its wholly owned subsidiary, Allen C. Ewing & Co., a registered broker-dealer with the SEC and a member of NASD and the SIPC. Concurrent with that transaction, ICAP contributed the assets and liabilities of ACEFS to CRC.

Subsequent to the acquisition, the operations of CRC and ACEFS were conducted through the merged entity under the name of Allen C. Ewing & Co. ("Ewing"), which retained its registered broker-dealer status. Effective December 31, 1999, CRC was no longer a registered broker-dealer.

Enviroq conducts its operations through Sprayroq, Inc. ("Sprayroq"), a 50% owned subsidiary over which Enviroq has voting control. Sprayroq is engaged in development, commercialization, manufacture and marketing of spray-applied resinous materials and in the treatment of municipal wastewater.

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2001

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. ICAP 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 ICAP's Annual Report on Form 10-KSB filed with the SEC on April 2, 2001. Except as indicated herein, there have been no significant changes from the financial data published in ICAP'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 months ended March 31, 2001 and 2000 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 ICAP and its subsidiaries ICM, Ewing, and Enviroq.

All significant intercompany balances and transactions have been eliminated in consolidation. ICAP, through its ownership in Enviroq, controls the operations and activities of Sprayroq. Minority interest is recognized for 50% of Sprayroq's equity.

(C) EARNINGS PER SHARE

Net 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. For the three months ended March 31, 2001 and 2000, ICAP had no dilutive common stock equivalents.

(D) COMPREHENSIVE INCOME

No differences between total comprehensive loss and net loss existed in the financial statements reported for the three months ended March 31, 2001 and 2000.

(2) RELATED PARTY TRANSACTION

ICM performs certain asset management functions for Intrepid Capital, L.P., an investment limited partnership of which ICM is general partner and a 1.23% equity interest owner as of March 31, 2001. For the three months ended March 31, 2001 and 2000, ICM received $10,277 and $8,944, respectively, for such services.

INTREPID CAPITAL CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2001

(3) SEGMENTS

During 2001 and 2000, ICAP operated in two principal segments, investment advisory services and broker-dealer services which includes investment banking revenues. Enviroq constitutes a separate segment. ICAP assesses and measures operating performance based upon the net income derived from each of its operating segments exclusive of the impact of corporate expenses. The revenues and net loss for each of the reportable segments are summarized as follows for the three months ended March 31, 2001 and 2000:

	2001	2000
Revenues:		
Investment advisory services segment	$ 222,414	186,565
Broker-dealer services segment	478,170	694,016
Enviroq	118,876	227,420
Corporate	173,694	151,253
Intersegment revenues	(173,073)	(149,246)
	$ 820,081	1,110,008
Net loss:		
Investment advisory services segment	$ (37,500)	(71,293)
Broker-dealer services segment	(58,919)	(3,683)
Enviroq	(94,554)	(92,170)
Corporate	(146,647)	(55,456)
	$ (337,620)	(222,602)

The total assets for each of the reportable segments are summarized as follows as of March 31, 2001 and December 31, 2000. Non-segment assets consist primarily of cash, certain investments and other assets, which are recorded at the parent company level.

	2001	2000
Assets:		

Investment advisory services segment	$ 136,280	131,655
Broker-dealer services segment	509,279	573,747
Enviroq	1,273,721	1,403,626
Other	296,907	654,856
	$ 2,216,187	2,763,884

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in this Quarterly Report on Form 10-QSB are "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, and are thus prospective in nature. Such forward-looking statements reflect management's beliefs and assumptions and are based on information currently available to management. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Intrepid Capital Corporation to differ materially from those expressed or implied in such statements. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements

Liquidity and Capital Resources

ICAP's current assets consist generally of cash, accounts receivable and prepaid and other assets, which includes a tax refund receivable of $176,263. ICAP has financed its operations with funds provided by stockholder capital and the sale of trading securities. ICAP has developed a growth strategy plan that includes both internal and external growth through acquisitions.

For the three month period ended March 31, 2001, ICAP incurred significant operating losses and negative cash flows from operations. ICAP is evaluating several options to raise capital which include the issuance of equity securities in private placements, and enhancing the operations, or the complete disposal of, Sprayroq, Inc. (Enviroq's 50% owned subsidiary). ICAP also believes that its broker-dealer services segment will generate substantial high-margin investment banking revenues during 2001. If additional funds are raised through the issuance of equity securities, the percentage of ownership of the stockholders of ICAP will be reduced. While management believes it will be able to meet its capital needs through several of the above alternatives, there can be no assurances that such transactions will take place on terms favorable to ICAP, if at all. If adequate funds are not available or terms are not suitable, ICAP's growth strategy would be significantly limited and such limitation could have an effect on ICAP's business, results of operations and financial condition.

For the three months ended March 31, 2001, net cash used in operating activities was $44,830, primarily attributable to ICAP's net loss, offset by a decrease in accounts receivable. Net cash used in investing activities was $1,992, which is primarily due to the purchase of equipment. Net cash used in financing activities was $127,778, which is due to principal payments on notes payable.

ICAP, through its subsidiary Ewing, is subject to the net capital requirements of the SEC, the NASD and other regulatory authorities. At March

31, 2001, Ewing's regulatory net capital was $116,795, which is $66,795 in excess of its minimum net capital requirement of $50,000.

Since its acquisition of Enviroq in December 1998, ICAP has been evaluating alternatives for the future of this business because of its inconsistency with ICAP's primary mission. ICAP is currently pursuing several alternatives for this business, including a possible sale of Sprayroq, Enviroq's 50% owned subsidiary that conducts primarily all of Enviroq's operations.

Results of Operations

Three Months Ended March 31, 2001 Compared to the Three Months Ended March 31, 2000

Total revenues were $820,021 for the three months ended March 31, 2001, compared to $1,110,008 for the three months ended March 31, 2000, representing a 26.1% decrease.

Commissions decreased $241,253, or 40.6%, to $353,685. 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 negative market conditions.

Asset management fees increased $35,806 or 19.5%, to $219,693. 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 $105.3 million at December 31, 2000, compared to $92.5 million at December 31, 1999. The increase in asset management fees for the three months ended March 31, 2001 relates directly to the net increase in AUM at the market close of the prior quarter. The net increase in AUM is primarily attributable to a positive net change in client assets during the three months ended December 31, 2000. AUM was $84.6 million at March 31, 2001, compared to $84.5 million at March 31, 2000. The net decrease in AUM during the three months ended March 31, 2001 is primarily attributable to a negative net change in client assets due to client movement during the three months ended March 31, 2001.

Investment banking revenues increased $81,508, or 399.9%, to $101,889. 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 an increase in mortgage loan placement services.

Net trading profits decreased $53,890, or 96.0%, to $2,272. There were $190 of realized gains and $2,082 of unrealized gains in ICAP's investment in trading securities, which includes an investment in Intrepid Capital, L.P. The decrease is primarily attributable to lower exposure in trading securities.

Resinous material sales decreased $109,536, or 48.6% to $115,651. The decrease is primarily attributable to the delay in timing of resinous material sales to repeat customers until the second quarter of 2001.

Dividend and interest income decreased $10,494, or 45.1%, to $12,764. The decrease is primarily attributable to a decrease in interest received from the lower average cash balances invested in money markets.

Total expenses were $1,235,783 for the three months ended March 31, 2001, compared to $1,466,914 for the three months ended March 31, 2000, representing a 15.8% decrease.

Salaries and employee benefits decreased $55,916, or 7.3%, to $711,674. Salaries and employee benefits represent fixed salaries, commissions paid on securities transactions and investment banking revenues, and other related employee benefits. The decrease is primarily attributable to decreased

commission expenses as a result of decreased securities transactions partially offset by increased fixed salaries.

Brokerage and clearing expenses decreased $56,813, or 44.7%, to $70,295. 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. During the quarter ended March 31, 2000, ICAP re-negotiated its clearing agreement, resulting in reduced transactional costs and decreased brokerage and clearing expenses per trade. The net decrease is primarily attributable to decreased transaction volume and reflects decreased costs as a result of the re-negotiated clearing agreement.

Cost of resinous material sales decreased $57,298, or 49.8%, to $57,853. The decrease is primarily attributable to the delay in timing of resinous material sales to repeat customers until the second quarter of 2001.

Advertising and marketing expenses decreased $11,226, or 13.7%, to $70,722. The decrease is primarily attributable to non-recurring advertising and marketing expenses related to the opening of ICAP's new headquarters in January 2000.

Professional and regulatory expenses decreased $32,685, or 36.3%, to $57,346. The decrease is primarily attributable to the elimination of Ewing's market making operations.

Other expenses decreased $12,135, or 12.0%, to $88,988 due to decreased general and administrative expenses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material legal proceedings pending against ICAP or any of its subsidiaries.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None.

SIGNATURES

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

INTREPID CAPITAL CORPORATION

By /s/ Forrest Travis

Forrest Travis, President and
Chief Executive Officer

Dated: May 14, 2001

By /s/ Michael J. Wallace

Michael J. Wallace, Chief
Accounting Officer

Dated: May 14, 2001