INTERCEPT GROUP INC
Form 10-Q
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002.

Or

[ ] TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _______ , 19__ .

Commission file number : 01-14213

InterCept, Inc.
(Exact name of registrant as specified in its charter)

Georgia	58 - 2237359
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3150 Holcomb Bridge Road, Suite 200, Norcross, Georgia 30071
(Address of principal executive offices)

(770) 248-9600
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant: (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 ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 9, 2002
Common Stock, no par value	18,176,409

INTERCEPT, INC.

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PART I FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

InterCept, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share amounts)

	March 31, 2002 (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 25,021
Short term investments	51,333
Accounts receivable, less allowance for doubtful accounts of $744 and $946 at March 31, 2002 and December 31, 2001, respectively	19,105
Advances to SLM	7,108
Deferred tax assets	1,249

Inventory, prepaid expenses and other	15,417
Total current assets	119,233
Property and equipment, net	29,248
Intangible assets, net	127,901
Advances to Netzee	10,528
Investment in affiliate	-
Other noncurrent assets	2,266
Total assets	$289,176
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Current maturities of notes payable	$ -
Accounts payable and accrued liabilities	6,985
Deferred revenue	10,794
Total current liabilities	17,779
Notes payable, less current portion	2,212
Deferred revenue	372
Deferred tax liability	3,699
Total liabilities	24,062
Minority interest in consolidated subsidiary	230
Shareholders' equity:	
Preferred stock, no par value; 1,000,000 shares authorized; no shares issued or outstanding	-
Common stock, no par value; 50,000,000 shares authorized; 18,159,174 and 18,086,766 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	245,138
Retained earnings	19,799
Accumulated other comprehensive (loss)	(53)
Total shareholders' equity	264,884
Total liabilities and shareholders' equity	$289,176

The accompanying notes are an integral part of these condensed consolidated balance sheet

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InterCept, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands, except per share data)

	Three
	2002 (unaudit
Revenues:	
Service fee income	$33,99
Data communications management income	1,97
Equipment and product sales, services and other	1,70

Total revenues	37,67
Costs of services:	
Costs of service fee income	14,15
Costs of data communications management income	1,36
Costs of equipment and product sales, services and other	1,26
Selling, general and administrative expenses	12,18
Depreciation and amortization	2,41
Total operating expenses	31,37
Operating income	6,30
Other income, net	1,17
Income before provision (benefit) for income taxes, equity in loss of affiliate and minority interest	7,47
Provision (benefit) for income taxes	2,75
Equity in loss of affiliate	(1,48
Minority interest	(
Net income (loss) attributable to common shareholders	$ 3,22
Net income (loss) per common share:	
Basic	$ 0.1
Diluted	$ 0.1
Weighted average shares outstanding:	
Basic	17,99
Diluted	19,12

The accompanying notes are an integral part of these condensed consolidated statements of o

InterCept, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three Mon March 2002 (unaudited)
Cash flows from operating activities:	
Net income (loss)	$ 3,228
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	2,414
Loan cost amortization	15
Minority interest	7
Deferred income tax provision	1,053
Loss on sale of property and equipment	14
Gain due to stock issuances of subsidiary	(25)
Equity in net loss of affiliate	1,487

Income tax benefit related to exercise of stock options	624
Changes in operating assets and liabilities, net of effects of acquisitions:	
Accounts receivable, net	1,166
Inventory, prepaid expenses, and other	77
Other assets	93
Accounts payable and accrued expenses	(4,678)
Interest accrued on note receivable	(83)
Deferred revenue	1,406
Net cash provided by operating activities	6,798
Cash flows from investing activities:	
Acquisitions, net of cash acquired	(5,376)
Purchase of investments, net	(1,044)
(Advances to), repayments from affiliate, net	(410)
Purchases of property and equipment, net	(2,474)
Increases in capitalized software	(358)
Net cash used in investing activities	(9,662)
Cash flows from financing activities:	
Proceeds from line of credit	6,717
Payments on notes payable and line of credit	(4,970)
Payment of shareholder note	-
Proceeds from exercise of stock options	1,221
Net cash provided by financing activities	2,968
Net increase (decrease) in cash and cash equivalents	104
Cash and cash equivalents at beginning of the period	24,917
Cash and cash equivalents at end of the period	$25,021
Supplemental disclosures of cash flow information:	
Cash paid for interest	$ 33
Cash paid for income taxes	$ 2,010

The accompanying notes are an integral part of these condensed consolidated statements of ca

INTERCEPT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

InterCept, Inc., ("InterCept"), is a single-source provider of a broad range of technologies, products and services that work together to meet the electronic commerce and operating needs of community financial institutions in the United States. Over 1,900 of these community financial institutions have contracted with InterCept for one or more of our technologies, products and services, which include electronic funds transfer transactions, core bank processing systems, check imaging systems, data communications management networks, laser document printing and automated mailing services, as well as services related to each of these products and systems.

In February 2000, InterCept completed a public offering of its common stock. Proceeds to InterCept from this offering (after deducting expenses related to the offering) were approximately $65.5 million. Proceeds of this offering were used to pay certain debt, to fund future acquisitions and investments, partially to fund Netzee's operations and other general working capital needs.

In August and September 2001, InterCept completed a public offering of its common stock. Proceeds to InterCept from this offering including the over allotment option (after deducting expenses related to the offering) were approximately $107.5 million. Approximately $26.4 million of the proceeds of this offering were used to pay certain debt and the remainder will be used for working capital and other general corporate purposes, to fund future acquisitions and to fulfill InterCept's obligations under its revolving line of credit to Netzee.

InterCept was incorporated on April 30, 1996 and has made several acquisitions since inception.

The consolidated financial statements include the accounts of InterCept and its wholly owned subsidiaries InterCept Communications Technologies, Inc., SBS Data Services, Inc., C-TEQ, Inc., InterCept Services, LLC, ICPT Acquisitions I, LLC, DPSC Acquisition Corp., InterCept TX I, LLC, InterCept Output Solutions, LP, and InterCept Supply, LP as of March 31, 2002. In addition, ProImage, Inc., a corporation in which InterCept has a 67% ownership interest as of March 31, 2002, has been consolidated in InterCept's consolidated financial statements since its inception, due to Intercept's control of ProImage. Management of InterCept retains responsibility for all day-to-day operations of ProImage and has and will continue to provide complete financial support for ProImage due to legal limitations on the other shareholder's ability to fund losses. All significant intercompany accounts and transactions have been eliminated in consolidation. Minority interest represents the minority shareholder's proportionate share of the equity and earnings of ProImage. As of March 31, 2002, InterCept owned approximately 28% of the outstanding common stock of Netzee, Inc. InterCept accounts for its investment in Netzee under the equity method, which requires it to record Netzee's results of operations in a single line item in its statement of operations entitled "equity in loss of affiliate."

2. Net Income Per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding plus the effect of outstanding stock options using the "treasury stock" method, which is based on the average stock price for the period. The effects of anti-dilutive options have been excluded. All options were anti-dilutive for the period ended March 31, 2001 and have been excluded from the computation of net loss per share.

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001

	Income	Shares	EPS	Income	Shares	EPS
Basic EPS	$ 3,228	17,996	0.18	$(732)	13,776	$(0.05)
Dilutives:			-			
Stock options		992	0.01	-	-	-
Contingently issuable shares		137	-			
Diluted EPS	$ 3,228	19,125	$0.17	$(732)	13,776	$(0.05)

3. Comprehensive Income (Loss)

Comprehensive income (loss) is the total of net income (loss) and all other unrealized losses on securities, net of tax.

The following table sets forth the calculation of InterCept's comprehensive income (loss) for the periods indicated below (in thousands):

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net income (loss), as reported	$ 3,228	$ (732)
Unrealized gain (loss) on securities, net of tax:	-	29
Comprehensive income (loss)	$ 3,228	$ (703)

4. Acquisitions

During the three months ended March 31, 2002, InterCept made several final payments totaling approximately $376,000 that were related to 2001 acquisitions.

InterCept adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Under this statement, InterCept no longer amortizes goodwill but assesses it annually or whenever events or changes in circumstances occur for impairment. Additionally, InterCept no longer recognizes assembled workforce apart from goodwill in accordance with the Statement of Financial Accounting Standard No. 141, "Business Combinations" and has reclassified the cost previously allocated to workforce of $800,000, less accumulated amortization of $289,000, to goodwill. InterCept has not yet completed its goodwill impairment analysis. Goodwill and workforce amortization for the three months ended March 31, 2001 was approximately $901,000. Excluding this amount, net loss and net loss per share for the three months ended March 31, 2001 would have been approximately $(191,000) and $(.01), respectively.

5. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations at March 31, 2002 and December 31, 2001 consisted of the following (in thousands):

	March 31, 2002	Decem 2
$50.0 million line of credit with Wachovia Bank, National Association (formerly First Union National Bank), as amended, interest payable at the LIBOR rate plus applicable margin as defined (approximately 3.13% as of March 31, 2002); payable in full on June 1, 2004, guaranteed by substantially all assets of InterCept.	2,206	$
Other	6	
	2,212	
Less current maturities	-	
	$2,212	$

6. Advances to SLM

On December 3, 2001, InterCept entered into a loan agreement with SLM under which InterCept loaned SLM $7.0 million, subject to various terms and conditions in exchange for cash and settlement of other indemnification obligations in the acquisition agreement. Borrowings under the loan agreement bear interest, payable upon maturity, at the prime rate and are secured by up to 591,871 shares of InterCept common stock with a market value of approximately $21.7 million at March 31, 2002 that SLM now holds or may earn. The loan matures on September 30, 2002 and requires mandatory prepayments from the proceeds of sales of InterCept common stock by SLM until the loan is repaid in full. At March 31, 2002, the balance on the loan was $7,108,000, including accrued interest of $108,000.

7. Subsequent Event

We announced, after the close of trading on the Nasdaq Stock Market on March 19, 2002, a major expansion in its merchant processing operations. InterCept entered into a definitive agreement to acquire the assets of Internet Billing Company, Ltd. (iBill), a Ft. Lauderdale-based provider of transaction processing for Web merchants, and InterCept also signed a binding letter agreement to acquire Electronic Payment Exchange, Inc. (EPX), a provider of transaction processing services based in New Castle, Delaware. Effective April 8, 2002, InterCept closed the iBill transaction. InterCept paid $112.0 million in cash and is obligated to pay additional quarterly earnout payments for a period of six quarters ending December 31, 2003. The amount of each earnout payment depends on whether the acquired business achieves certain financial targets. InterCept used cash on hand, proceeds from its line of credit with Wachovia Bank, and proceeds from a CD-secured loan from The Peoples Bank of Winder, Georgia, to fund the purchase price of iBill.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We derive revenues primarily from the following sources:

Service fees for:

- core data processing and check imaging systems, support, maintenance and related services and software sales
- EFT processing services

Data communications management

Equipment and product sales, services and other:

- sales of banking-related equipment and complementary products
- equipment maintenance and technical support services
- related products and services.

In our service bureau operations, we generate core data processing revenues from service and processing fees based primarily on the asset base of our financial institution customers, the number of transactions we process and the number of accounts we service. We recognize these revenues as we perform the services. We also generate revenues from the licensing of our core data processing systems. We recognize revenues for licensing these systems in accordance with Statement of Position 97-2 on "Software Revenue Recognition," issued by the American Institute of Certified Public Accountants. We recognize software license fees when we have signed a non-cancelable license agreement, shipped the product and satisfied significant obligations to the customer.

We license Renaissance Imaging(R) check imaging software on an in-house basis, and we generate revenues from up-front license fees and recurring annual maintenance fees charged for this system. We recognize revenues from the licensing of Renaissance Imaging in accordance with Statement of Position 97-2, as discussed above. We also provide check processing and imaging in a service bureau environment under which we generate recurring revenues. On a service bureau basis, we generate revenues based on the volume of items processed. We recognize this revenue as we provide the service.

We derive EFT revenues principally from processing ATM and debit card transactions. We receive a base fee for providing our ATM processing services and an additional fee for each additional ATM serviced. Once the number of transactions by a financial institution exceeds established levels, typically between 1,500 and 2,500 transactions per month, we charge additional fees for these transactions. For debit card transactions, we currently receive a portion of the interchange fees generated by our financial institution customers, and we charge a monthly fee if our customers do not meet a specified minimum dollar amount of transactions for a particular month. During the second quarter of 2002, we will begin implementation of a new debit card pricing structure, under which we will receive a fee for each transaction processed. Under the new pricing, we will not receive a portion of the interchange fee for processing debit card transactions. We believe that this new pricing structure, once fully implemented, will not materially change our revenues from debit card processing and that it will materially reduce our exposure to any changes in interchange fees that may be implemented by Visa and MasterCard. Most charges under our EFT service agreements are due and paid monthly.

We generate our data communications management service revenues principally from network management and from equipment configuration services and installation. We charge an installation fee and a regular monthly fee on an ongoing basis for providing telecommunications connectivity and network management.

We recognize revenues from sales of equipment and complementary products at the time of shipment. We recognize maintenance and technical support service revenues as we provide the service.

For the three months ended March 31, 2002, approximately 88% of our total revenues were recurring revenues. Recurring revenues result from regular monthly payments by our customers for ongoing services used in connection with their business. These revenues do not include conversion or deconversion fees, initial software license fees, installation fees, hardware sales or similar activities.

We offer Internet banking and voice response products through Netzee. We own approximately 28% of Netzee's outstanding common stock. We account for our investment in Netzee under the equity method, which requires us to record Netzee's results of operations in a single line item in our statement of operations titled "equity in loss of affiliate."

We announced, after the close of trading on the Nasdaq Stock Market on March 19, 2002, a major expansion in our merchant processing operations. We entered into a definitive agreement to acquire the assets of Internet Billing Company, Ltd. (iBill), a Ft. Lauderdale-based provider of transaction processing for Web merchants, and we also signed a binding letter agreement to acquire Electronic Payment Exchange, Inc. (EPX), a provider of transaction processing services based in New Castle, Delaware. Effective April 8, 2002, we closed the iBill transaction. We paid $112.0 million in cash and are obligated to pay additional quarterly earnout payments for a period of six quarters ending December 31, 2003. The amount of each earnout payment depends on whether the acquired business achieves certain financial targets. InterCept used cash on hand, proceeds from its line of credit with Wachovia Bank, and proceeds from a CD-secured loan from The Peoples Bank of Winder, Georgia, to fund the purchase price of iBill.

We base our expenses to a significant extent on our expectations of future revenues. Most of our expenses are fixed in the short term, and we may not be able to reduce spending quickly if our actual revenues are lower than we expect. To enhance our long-term competitive position, we may also make decisions regarding pricing, marketing, services and technology that could have an adverse near-term effect on our financial condition and operating results.

Because of the foregoing factors and other risk factors discussed in our SEC filings, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. Our operating results are likely to fall below the expectations of securities analysts or investors in some future quarter. In that event, the trading price of our common stock would likely decline, perhaps significantly. We face other risks in our business as described in detail in the section in our 2001 Annual Report on Form 10-K entitled Management's Discussion and Analysis of Financial Condition and Results of Operations - Disclosure Regarding Forward-Looking Statements.

Results of Operations

The following table sets forth the percentage of revenues represented by certain line items in our condensed consolidated statements of operations for the periods indicated.

	Three Months Ended March 31, 2002	2001
Revenues	100.0%	100.0%
Costs of services	44.6	42.4
Selling, general, and administrative expenses	32.3	33.5
Depreciation and amortization	6.4	9.3
Total operating expenses	83.3	85.2
Operating income	16.7	14.8
Other income, net	3.1	2.7
Income before provision for income taxes, equity in loss of affiliate and minority interest	19.8	17.5
Provision for income taxes	7.3	(0.9)
Equity in loss of affiliate	(3.9)	(21.1)
Minority interest	0.0	0.0
Net income (loss)	8.6%	(2.7)%

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Revenues. Revenues increased 39.3% to $37.7 million for the three months ended March 31, 2002 from $27.0 million for the three months ended March 31, 2001. The $10.7 million increase was comprised of (a) a $10.2 million increase in service fee income, (b) a $288,000 increase in hardware sales, and (c) a $145,000 increase in data communications management income. The increases are attributable to both internal growth and acquisitions and not to any significant increases in prices.

Costs of Services. Costs of services increased 46.3% to $16.8 million for the three months ended March 31, 2002 from $11.5 million for the three months ended March 31, 2001. The $5.3 million increase was comprised of (a) $5.2 million related to service fee income, (b) $162,000 increase in hardware sales, offset by (c) a decrease of $75,000 related to data communications management. The increases are attributable to both internal growth and acquisitions. Gross margins decreased to 55.5% for the three months ended March 31, 2002 from 57.6% for the three months ended March 31, 2001. This decrease was primarily a result of lower margins associated with InterCept Output Solutions (the assets we acquired from HSI in October of 2001).

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 34.5% to $12.2 million for the three months ended March 31, 2002 from $9.1 million for the three months ended March 31, 2001. The $3.1 million increase was primarily due to personnel added from acquisitions, additional personnel to support our growth and other miscellaneous expenses. Selling, general and administrative expenses as a percentage of revenues decreased to 32.3% for the three months ended March 31, 2002, from 33.5% for the three months ended March 31, 2001.

Depreciation and Amortization. Depreciation and amortization decreased $94,000 to $2.4 million for the three months ended March 31, 2002 from $2.5 million for the three months ended March 31, 2001. The decrease was primarily attributable to the reduction of amortization due to the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," partially offset by additional property, plant and equipment depreciation.

Other Income, Net. Other income, net increased to $1.2 million for the three months ended March 31, 2002 from $728,000 for the three months ended March 31, 2001. The $450,000 increase was primarily due to an increase in interest income and a decrease in interest expense due to the receipt of the proceeds from our August 2001 common stock offering, which were partially used to pay down debt.

Provision (benefit) for Income Taxes The effective tax rate for the three months ended March 31, 2002 was 36.9% as compared to 40.5% for the three months ended March 31, 2001, excluding $2.2 million of a tax benefit recorded on the equity in losses of Netzee in 2001. The decrease in the effective rate is mainly due to state tax planning initiatives implemented in the fourth quarter of 2001. During the three months ended March 31, 2002, the tax basis of the investment in Netzee exceeded the book basis. As such, InterCept recorded a valuation

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allowance against the tax benefits for the equity method losses in Netzee due to uncertainty of future realizability of the asset.

Equity in Loss of Affiliate. Equity in loss of affiliate decreased to a loss of $1.5 million for the three months ended March 31, 2002 from a loss of $5.7 million for the three months ended March 31, 2001. For the three months ended March 31, 2002, this amount represents the recording of equity losses to the extent of the remaining balance of the investment in Netzee. In all prior quarters, this amount represented our share of Netzee's net loss.

Minority Interest. Minority interest remained constant at a loss of $7,000 for the three months ended March 31, 2002 and 2001.

Liquidity and Capital Resources

Since our incorporation, we have financed our operations and capital expenditures through cash from operations, borrowings from banks and sales of our common stock, including our initial public offering in June 1998, which resulted in net proceeds to us of $14.4 million, our public offering in February 2000, which resulted in net proceeds to us of $66.0 million, and our public offering in August and September 2001, which resulted in net proceeds to us of $107.5 million.

Cash and cash equivalents were $25.0 million at March 31, 2002 and $24.9 million at December 31, 2001. Short term investments with a maturity of one year or less were $51.3 million at March 31, 2002 and $50.3 million at December 31, 2001. Net cash provided by operating activities was $6.8 million for the three months ended March 31, 2002 and $2.8 million for the three months ended March 31, 2001. The increase in the net cash provided by operating activities was primarily attributable to increased net income.

Net cash used in investing activities was $9.7 million for the three months ended March 31, 2002 and $15.2 million for the three months ended March 31, 2001. The decrease in net cash used in investing activities was primarily due to the acquisition of SLMsoft.com, Inc. in the first quarter 2001, offset slightly by the $5.0 million advance payment to an escrow account for the iBill acquisition completed in April 2002.

Net cash provided by financing activities was $3.0 million for the three months ended March 31, 2002 and $7.4 million for the three months ended March 31, 2001. The decrease in net cash provided by financing activities was primarily due to lower net borrowings.

Together with John H. Harland Company, we provide a revolving line of credit to Netzee. On March 29, 2002 we amended this facility to reduce the total amount of credit available and to extend the termination date to April 10, 2003. Along with Harland, we currently provide to Netzee an $18.0 million revolving line of credit secured by substantially all of Netzee's assets. Of the total $18.0 million available to Netzee, we provide approximately $14.0 million and Harland provides approximately $4.0 million on a pro rata basis with us, provided that we are obligated to advance the last $1.0 million without Harland's participation. In February 2001, we paid Netzee $14.1 million in cash and assumed $2.4 million of DPSC's net liabilities in exchange for regulatory reporting software and other assets formerly owned by Netzee's subsidiary, DPSC. Netzee has subsequently borrowed additional funds from us, and as of March 31, 2002, Netzee owed us a total of $10.5 million under this line of credit. Borrowings under this line of credit bear interest at prime plus 2%. We finance this line of credit with cash on hand and additional borrowings under our credit facility with Wachovia Bank. Netzee may require additional funds to support its operations and to repay its borrowings from us. Netzee may seek to raise capital through public or private offerings of debt or equity, the sale of assets or from other sources. No assurance can be given that additional funds will be available on terms favorable to Netzee, if at all. Netzee's ability to continue as a going concern and to meet its obligations as they come due may depend upon its ability to raise additional capital funds.

On December 3, 2001, we entered into a loan agreement with SLM under which we agreed to lend SLM $7.0 million subject to various terms and conditions. Borrowings under the loan agreement bear interest, payable

upon maturity, at the prime rate and are secured by up to 591,871 shares of InterCept common stock that SLM now holds or may earn. The loan matures on September 30, 2002 and requires mandatory prepayments from the proceeds of sales of our common stock by SLM until the loan is repaid in full.

During 2001, we entered into an amended and restated credit facility with Wachovia Bank (formerly First Union National Bank). Under this facility we may borrow up to $50.0 million for working capital and to fund acquisitions and related expenses. The Wachovia credit facility contains provisions that require us to maintain certain financial ratios and minimum net worth amounts and that restrict our ability to incur additional debt, make certain capital expenditures, enter into agreements for mergers, acquisitions or the sale of substantial assets and pay dividends. This credit facility matures on June 1, 2004. Interest is payable monthly, and outstanding principal amounts accrue interest, at our option, at an annual rate equal to either (a) a floating rate equal to the lender's prime rate minus 0.25% or (b) a fixed rate based upon the 30-day LIBOR rate plus applicable margins. On March 31, 2002, the interest rate under this facility was approximately 3.13% per year, and approximately $2.2 million was outstanding under this facility.

We funded the cash portion of the purchase price of our acquisitions in 2001 through the use of cash on hand and borrowings under our bank credit facility.

We have used a substantial portion of the remaining capital resources available to us to fund the purchase of iBill, and we anticipate using up to an additional $13.0 million to fund immediate working capital needs of EPX. To provide the cash needed for these purposes, we have drawn on our bank credit facility with Wachovia Bank, borrowed additional funds from The Peoples Bank of Winder secured by certificates of deposit that we own, and plan to use the remaining net proceeds from our 2001 public offering of common stock.

Because we have exhausted or shortly will exhaust the capital resources available to us from our 2001 public offering and our bank credit facility, our operating cash flows will be our principal source of short-term liquidity. Accordingly, we are unlikely to make any additional acquisitions that require a material amount of cash until we raise additional capital or extend and enhance our current borrowing facilities. We believe that to the extent that we rely on cash flows from operations to meet our short-term funding requirements, a decrease in demand for our products and services would not result in a material reduction in the availability of those funds. Because most of our customer contracts require the payment of monthly charges and have original terms of three to five years, we have a high percentage of recurring revenues.

We believe that, other than our need for cash to fund our pending EPX acquisition, funds to be provided by operations will be sufficient to meet our anticipated capital expenditures and liquidity requirements for at least the next 12 months. We intend to grow, in part, through strategic acquisitions. Assuming we are able to raise additional capital, we expect to make additional expenditures to make acquisitions and integrate the acquired companies. We can give no assurances with respect to the actual timing and amount of the capital we raise or of the acquisitions we may make with the capital so raised. In addition, we can give no assurance that we will complete any acquisitions on terms favorable to us, if at all, or that additional sources of financing will be available to us.

Critical Accounting Policies

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

We believe the following critical accounting policies involve the most complex or subjective decisions or assessments and affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

a) Revenue recognition

Revenues include service fees, data communication management fees, equipment sales, installation and maintenance, software license fees and software maintenance. We recognize service fee income and data communication management fees as services are performed. We recognize revenue from equipment sales and installations upon installation of the product, and we recognize any related maintenance revenue ratably over the period during which the services are performed. We also generate revenues from the licensing of our core data processing systems. We recognize revenue for licensing these systems in accordance with Statement of Position 97-2, "Software Revenue Recognition," issued by the American Institute of Certified Public Accountants. We recognize software license, hardware and installation revenue after we have a signed non-cancelable license agreement, have installed the products and have fulfilled all significant obligations to the customer. We recognize maintenance fees over the term of the maintenance period. We sell some of our software and hardware products under five-year, sales-type lease agreements under which customers make annual installment payments. These annual payments include the initial installation and ongoing license fee. Revenue attributable to installation fees and the sale of equipment is recognized upon installation. License fees are deferred and recognized ratably over the period of the lease.

b) Allowance for doubtful accounts

We record an allowance for doubtful accounts based on estimates of losses related to customer receivables balances. We develop estimates by evaluating specific customer accounts for risk of loss as well as historical credit memo data and other known factors for billing disputes that arise in the normal course of business.

c) Fair value of assets acquired and liabilities assumed in purchase combinations

Our purchase combinations require us to estimate the fair value of the assets acquired and liabilities assumed in our business. In general, we determine the fair value based upon information supplied by the management of the acquired entities and valuations by independent appraisal experts. The valuations have been based primarily upon future cash flow projections for the acquired assets, discounted to present value using a risk-adjusted discount rate. In connection with our acquisitions, we have recorded a significant amount of intangible assets. These assets are being amortized over the expected economic lives of the assets, generally ranging from 7 to 20 years. If we determine that we have over-estimated the economic life of these assets, we will begin to amortize the remaining unamortized carrying value of the assets over the newly estimated life. Accordingly, depreciation and amortization expense could be increased, and the amount of any increase could be material to our results of operations.

We also recorded a significant amount of goodwill in connection with our acquisitions. Through the end of 2001, we evaluated goodwill for impairment whenever indicators of impairment existed based on undiscounted projected future cash flows. If the carrying value of the goodwill was less than the undiscounted projected future cash flows, no impairment would be recognized. Beginning January 1, 2002, we adopted a recently issued accounting standard that requires us to evaluate our goodwill for impairment on an annual basis or whenever indicators of impairment exist. The evaluation will be based upon a comparison of the estimated fair value of the unit of our business to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities of that unit. The fair values used in this evaluation will be estimated based upon discounted future cash flow projections for the unit. These cash flow projections will be based on a number of assumptions as discussed above. If a change in estimate of fair value occurs after one year of the acquisition, the change would be recorded in our statement of operations.

To date, we have not completed our analyis and thus have not recorded an impairment of our goodwill or intangible assets. We believe that assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.

d) Investment in and Advances to Netzee

We currently own approximately 28% of Netzee's common stock. We account for our investment in Netzee using the equity method of accounting, under which the operations of Netzee are recorded on a single line item in our statements of operations, "equity in loss of affiliate." We do not consolidate Netzee's results of operations with our results of operations.

We have reviewed our investment in Netzee in accordance with Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." APB Opinion No. 18 provides that "a loss in value of an investment which is other than a temporary decline should be recognized." We compare our carrying value of the investment to the fair market value of the stock over time in order to determine when a loss in value that is other than temporary has occurred. For the three months ended March 31, 2002, InterCept continued to record equity method losses in Netzee, resulting in the reduction of its investment in common stock of Netzee to zero. The corresponding fair market value of our shares of Netzee's common stock was approximately $651,000.

We then applied EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses," which addresses the percentage of ownership that an investor should use to compute equity method losses when the investment in common stock has been reduced to zero and the investor holds other securities of the investee such as preferred stock or advances to the investee. Netzee has $6.5 million preferred stock outstanding, of which InterCept has no ownership percentage, and an $18 million line of credit in which InterCept holds an interest of approximately 78%. Under EITF 99-10, we would not record any additional equity method losses until the preferred stockholders have reduced their investments to zero. We will then use our relative ownership percentage in the next most senior level of capital (i.e. line of credit) to record its share of Netzee's losses. As InterCept owns 0% of the preferred stock, InterCept will not record additional equity method losses until the preferred stockholder has absorbed $6.5 million of losses. After that point, InterCept will record equity method losses based on its 78% interest in the line of credit.

Additionally, we have evaluated the business and financial projections of Netzee and have concluded, based on our review, that the amounts due from Netzee are collectible. Therefore, we have not established a reserve for the note as of March 31, 2002.

April 2002 Acquisition

In April 2002, we closed the transaction to acquire substantially all of the assets of Internet Billing Company (iBill). Based in Ft. Lauderdale, Florida, iBill provides secure transaction services that enable Web merchants to accept and process real-time payments for goods and services purchased over the Internet. iBill also manages all back-office functions including reporting, tracking, customer service and sales transactions. We paid $112.0 million in cash and are obligated to pay additional quarterly earnout payments for a period of six quarters ending December 31, 2003. We will account for this acquisition as a purchase.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not use derivative financial instruments in our operations or investments and do not have significant operations subject to fluctuations in foreign currency exchange rates. Borrowings under the Wachovia credit facility accrue interest at a fluctuating rate based either upon the lender's prime rate or LIBOR. As of March 31, 2002, $2.2 million was outstanding under this facility. Any future borrowings will increase our exposure to interest rate fluctuations. Changes in interest rates that increase the interest rate on the credit facility would make it

more costly to borrow under that facility and may impede our acquisition and growth strategies if we determine that the costs associated with borrowing funds are too high to implement these strategies. Additional loans to Netzee may increase the amount outstanding under this facility.

We have loaned SLM $7.0 million and we have a $14.0 million line of credit to Netzee. As of March 31, 2002, $10.5 million was outstanding on the Netzee line of credit. Changes in interest rates that decrease the interest rates on these loans will decrease our interest income.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Other than as described in this paragraph, we are not a party to, and none of our material properties is subject to, any material litigation other than routine litigation incidental to our business.

On March 15, 2002, we brought an action against Midwest Payment Systems, Inc. ("MPS") in the U.S. District Court in the Eastern District of Tennessee seeking a declaration as to the rights and legal relations of InterCept, MPS and the customer banks under the contracts that we and the banks have with MPS and asserting a claim for tortious interference with contractual relations. MPS has not answered our complaint. On April 3, 2002, InterCept and MPS agreed to a consent order pursuant to which MPS agreed to continue to provide services on a month to month basis so that InterCept can continue to service its customers who use MPS for ATM/EFT services. Both InterCept and MPS agreed not to solicit the ATM/EFT business of the customer banks until final resolution of the lawsuit, and both companies agreed to limited communications with the customers regarding the lawsuit.

Item 2. Changes in Securities and Use of Proceeds

During the quarter ended March 31, 2002, we opened an escrow account for the iBill acquisition. We used $5.0 million to open this escrow.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

In April 2002, InterCept acquired Internet Billing Company, Ltd. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K.

Exhibit No.	Description
2.1	Asset Purchase Agreement dated March 19, 2002, by and among InterCept, Inc.; InterCept Billing Company, LLC; Internet Billing Company, Ltd.; iBill California, LLC; (incorporated by reference to InterCept's Current Report on Form 8-K dated April 9, 2002 and filed April 23, 2002).

10.1	Amendment No. 1 to Amended and Restated Credit Agreement, dated March 29, 2002, by and among Netzee, Inc., InterCept, Inc. and John H. Harland Company (incorporated by reference Exhibit 10.12.4 to Netzee's Annual Report on Form 10-K for the year ended December 31, 2001 filed April 1, 2002).

(b) Reports on Form 8-K filed during the three months ended March 31, 2002

Form 8-K dated February 25, 2002, filed on March 4, 2002, reporting under Item 5 the corporate name change from The InterCept Group, Inc. to InterCept, Inc.

Form 8-K dated March 19, 2002, filed on March 22, 2002, reporting under Item 5 the press release announcing a major expansion of our merchant processing division.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERCEPT, INC.

May 14, 2002	/s/ John W. Collins
Date	John W. Collins Chairman of the Board, President and Chief Executive Officer (principal executive officer)
May 14, 2002	/s/ Scott R. Meyerhoff
Date	Scott R. Meyerhoff Chief Financial Officer (principal financial and accounting officer)