Intrepid Capital
MANAGEMENT INC.

Index Returns	
4/1/2014 to 6/30/2014	
Dow Jones	2.83%
S&P 500	5.23%
NASDAQ	5.31%
Russell 2000	2.05%

2nd QUARTER COMMENTARY

June 30, 2014

"I would rather lose half of my shareholders than half of my shareholders' money."

— Jean-Marie Eveillard *(Former Portfolio Manager of First Eagle Global)*

Dear Friends and Clients,

I have always liked the above quote as we share the same belief at Intrepid Capital. Seeking to protect your capital is one of our primary tenets. However, few investors seem to place importance on such a basic principle. Caution has once again been thrown to the wind. Equity, bond, and real estate prices are now at levels that might have been considered ludicrous just a few quarters ago. I was aghast recently to hear a radio advertisement featuring a salesman proclaiming, "Come to my seminar and learn to flip houses!" I rubbed my eyes and checked my calendar to make sure it wasn't 2007!

One of the most frequent questions we hear at Intrepid Capital is "Why do you have so much cash?" That is typically followed by "What do you foresee coming that causes you to be so defensively postured?" Let us first establish that we have absolutely no ability to see into the future. We would suggest that you be highly skeptical of anyone making such a claim. What we do have is many years of experience in the asset management business. We can say with confidence that we believe equities and bonds are priced for perfection. Unfortunately, it's when the market least expects it that things "go bump in the night." To list a few such instances:

October 1987:	Global markets crash more than 20% in a single day
August 1998:	Russian ruble is devalued
September 1998:	Several Nobel Prize winners blow up Long Term Capital Management, requiring help from a consortium of the Federal Reserve and much of Wall Street
March 2000:	Tech bubble bursts
September 2001:	Terrorists attack NYC and the Pentagon
September 2008:	Lehman Brothers declares bankruptcy

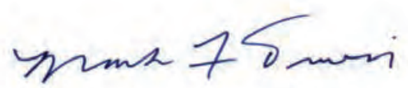
Without the ability to see around corners, we are forced to rely on a strict and disciplined underwriting process. For equity securities, we determine a conservative estimate of the company's worth to a cash buyer. We then seek to buy the equity at a discount to this estimate of value in case our estimates prove to be incorrect or something unforeseen occurs. For bonds, we restrict ourselves to shorter-term corporate bonds where we can reasonably anticipate business developments over the next few years. As a lender, we want to determine if the company can generate enough cash flow to comfortably service the debt over the life of the loan, and we seek companies that own tangible assets in excess of liabilities.

If a potential investment does not meet our underwriting standards and trade at a discount to our intrinsic value, the security will not be purchased. We sell a security when we believe we are no longer being compensated to assume the related risks, either due to the security climbing to our intrinsic value or a deterioration in the business's fundamentals. In the absence of attractive opportunities, we default to cash. The easiest way to think of it is: if prices are high, our cash tends to be high; if prices are low, our cash tends to be low.

Our relatively high cash position in the Intrepid Balanced Portfolio (the "Portfolio"), which averaged about 29% in the quarter, combined with a more defensively positioned high-yield bond allocation and one significant equity detractor, led to the Portfolio underperforming the blended benchmark of 60% S&P 500/40% BAML High Yield Master II (the "Index") in the quarter ending June 30, 2014. The Portfolio returned 1.75%, net-of-fees, in the quarter, while the Index gained 4.16%. The Russell 2000 returned 2.05%, and the S&P 500 rose 5.23% for the same period.

The Portfolio's investment in the common stock of Coach Inc (ticker: COH) materially impacted the Portfolio's performance in the second quarter. The shares declined more than 30% as the owner of the iconic brand reported poor earnings due to heavy competition from younger brands Michael Kors and Tory Burch. Other material detractors, which we define as having a greater than 10 basis point impact on the Portfolio's performance, were Oaktree Capital (ticker: OAK), Bio-Rad Labs (ticker: BIO), and American Eagle Outfitters (ticker: AEO). The top contributors in the quarter were Newfield Exploration (ticker: NFX), Aaron's (ticker: AAN), and FTI Consulting (ticker: FCN). Most of these positions are discussed in our other Portfolios' commentaries. Thank you for your investment.

Best regards,

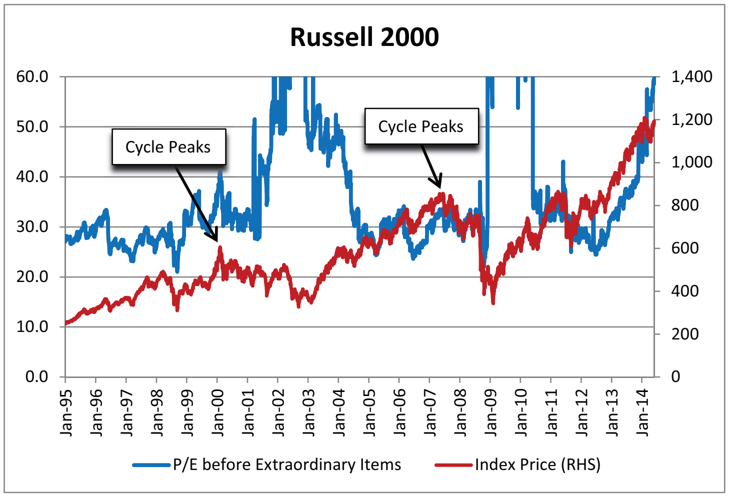


Mark F. Travis

President/C.E.O.

SMALL CAP PORTFOLIO – COMMENTARY BY JAYME WIGGINS, PORTFOLIO MANAGER

Could this be the worst market ever for a small cap value investor to find bargains? Perhaps. Intrepid Capital was founded in 1995, which happens to coincide with the earliest Russell 2000 data available on Bloomberg. We'll confine our commentary to what we've actually observed and can demonstrate empirically. **We believe small cap stocks are more overvalued than they have been at any point over the last three market cycles.**

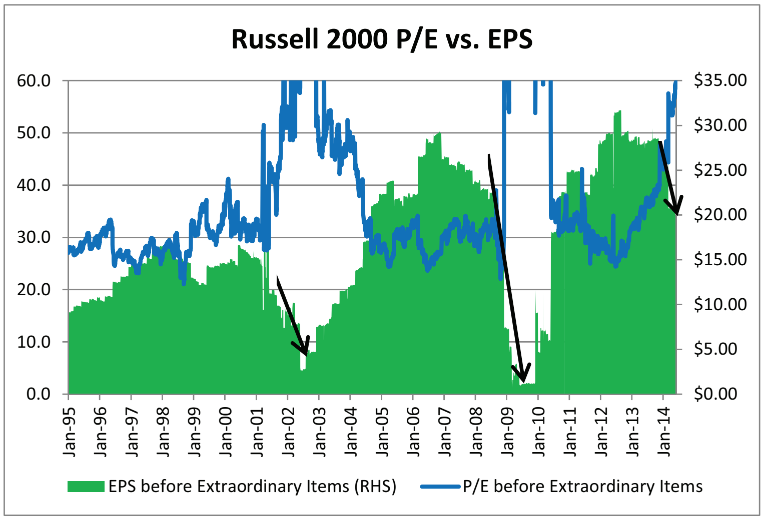


Source: Bloomberg

The first small cap cycle peak occurred on March 9, 2000, when the Russell 2000 Index hit a record high of 606.1. The Internet bubble was raging. Although large cap tech stocks dominated the headlines, the stocks of many smaller technology companies were caught up in the investment fervor. The Price to Earnings Ratio (P/E) of the Russell was 41x. After the tech bubble popped, the index of small caps fell by 46% before it troughed on October 9, 2002, at 327. As you might imagine, growth stocks were punished severely, but value stocks actually increased slightly over this period. The Russell 2000 Growth Index fell 63.9% from March 9, 2000, to October 9, 2002, while the Russell 2000 Value Index gained 4.1%.

The second small cap cycle peak occurred on July 13, 2007, when the Russell 2000 Index reached 855.8. Record low interest rates engineered by the Federal Reserve helped fuel a housing boom and never-before-seen levels of risk taking by banks. Corporate profitability reached an apex and the Russell 2000 P/E was 33x. Once the housing bubble busted, the Russell plummeted 59.8% to its March 9, 2009, bottom of 343.8. It was difficult to avoid the pain, as the sharp selloff decimated both growth and value stocks.

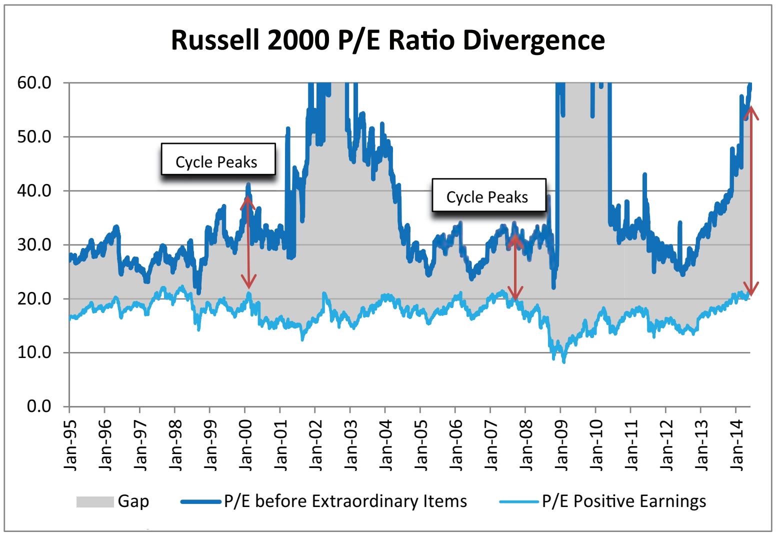
Today, July 1, 2014, the Russell 2000 Index is selling for 1,193 before the open of the market. Its P/E based on the GAAP (Generally Accepted Accounting Principles) earnings of its constituents is 118x. The P/E has never been higher in this generation, except for brief periods going into and coming out of recessions when earnings were so small the P/E metric was essentially meaningless. The actual P/E Ratio of the Russell is so unbelievable that it is not referenced by anyone. It's like the first rule of Fight Club: "You do not talk about Fight Club." The Russell 2000 P/E *excluding* items defined as extraordinary and "one-time" by Bloomberg is 60x. Over the last three market cycles, this massaged P/E has only been exceeded during recessions, when corporate earnings fell below normalized levels.



Source: Bloomberg

Since 1995, earnings before extraordinary items have exceeded GAAP earnings by a median of 63%. As you may suspect, there is little that's unusual about most of these charges as they are a fixture of publicly traded companies seeking to present earnings to investors in the best possible light. Nevertheless, we'll play along. During the last couple of quarters, small cap earnings have started to decline. The last two times we observed a drop in the Russell 2000's EPS of this magnitude, it accelerated as the economy contracted.

Around 29% of companies in the Russell 2000 Index are unprofitable, and they represent 23% of



Source: Bloomberg

the total market cap of the benchmark. Apparently, the Russell organization is embarrassed by this laughable statistic, since they promote a P/E for the Index that only reflects positive earnings. Therefore, they are taking the spin up another notch from just removing extraordinary items. On that basis, with all losses excluded, the Russell 2000 P/E is a more palatable 22x today. However, this is the same Positive Earnings P/E the Russell 2000 traded for at the last two market tops.

The complexion of the small cap market is not the same as it was at the previous peaks in 2000 and 2007. In our opinion, it's more dangerous today. The overvaluation is broader, and the magnitude of total losses relative to total profits within the Russell 2000 membership is the greatest it has ever been outside of a recession, as represented by the 38x gap between the Russell 2000's P/E of 60x and Positive Earnings P/E of 22x. For comparison, the gap was 20x on March 9, 2000, and 12x on July 13, 2007.

We find it incredible that the influence of profitless small caps is materially higher today than during the dot com bubble. The table below shows the ten largest companies in the Russell 2000 at the peak of the market on March 9, 2000. Five of these ten businesses were profitable at the time, but most cratered and never recovered. The lone "success" story was SanDisk, which registered a 3.6% annualized return per share over the last 14 years. In contrast, all but one of the ten largest stocks in the Russell at the 2007 top were profitable.

10 Largest Market Caps in Russell 2000: March 9, 2000

Company	Ticker	Industry	3/9/00 Market Cap	Notes	*% Change per share*
BroadVision	BVSN	Application software	20,690	Currently public	*-100.0%*
Celera	CRA	Health care services	10,730	Acquired 5/18/11	*-96.0%*
Millenium Pharmaceuticals	3437127Q	Biotech	10,050	Acquired 5/15/08	*-57.6%*
SanDisk	SNDK	Semiconductor devices	9,910	Currently public	*65.5%*
BravoSolution US	VERT	IT services	9,890	Acquired 1/28/08	*-100.0%*
Mercury Interactive	MERQ	Application software	8,820	Acquired 11/09/06	*-54.8%*
Human Genome Sciences	HGSI	Biotech	8,200	Acquired 8/06/12	*-83.5%*
Peregrine Systems	PRGNQ	Application software	7,790	Bankrupt 8/07/03	*-100.0%*
Emulex	ELX	Computer storage	7,550	Currently public	*-95.0%*
Affymetrix	AFFX	Life sciences equipment	6,700	Currently public	*-93.0%*

***Source: Bloomberg**; Dollar values are in millions of USD*

As of last Friday, June 27, 2014, immediately before the annual reconstitution that changes the membership of the Russell indexes, only half of the top ten Russell 2000 market caps were making money—the same proportion as in 2000. The Russell's leadership has transitioned from speculative technology stocks whose prices were only anchored by investors' imaginations in 2000 to a 2014 mishmash of highly levered companies dependent on continued low interest rates (including the REITs, MLP, and even Rite Aid) and unprofitable new age technology companies (SunEdison, Yelp, Zillow). The quality element appears to be sorely lacking.

10 Largest Market Caps in Russell 2000: June 27, 2014

Company	Ticker	Industry	6/27/14 Market Cap	Sales	Net Income	P/E	Debt/ Equity
American Realty Capital	ARCP	REITS	11,350	521	(577)	no earnings	265%
Rite Aid	RAD	Retail	7,000	25,699	201	34.8	no equity
Pilgrim's Pride	PPC	Food	6,950	8,392	593	11.7	61%
NorthStar Realty Finance	NRF	REITS	6,480	679	(249)	no earnings	174%
SunEdison	SUNE	Semiconductors	6,120	2,111	(1,111)	no earnings	1540%
Acuity Brands	AYI	Electrical Components	5,890	2,242	154	38.3	36%
Targa Resources	TRGP	Oil & Gas - MLP	5,780	7,511	71	81.1	2009%
Questcor Pharmaceuticals	QCOR	Pharmaceuticals	5,570	891	328	17.0	4%
Yelp	YELP	Internet	5,570	263	(8)	no earnings	0%
Zillow	Z	Internet	5,530	225	(15)	no earnings	0%

Source: Bloomberg*; Dollar values are in millions of USD*

We are pessimistic about the prospective returns of the small cap market at current nosebleed levels. Cash accounts for nearly three-quarters of the Intrepid Small Cap Portfolio (the "Portfolio") because opportunities simply don't exist, based on our valuation standards. We will stay the course of maintaining a large cash balance until that changes.

For the quarter ending June 30, 2014, the Intrepid Small Cap Portfolio returned 1.50%, net-of-fees, while the Russell 2000 benchmark increased 2.05%. The Portfolio significantly outperformed the benchmark during the first half of the second quarter, when at one point the Russell 2000 was down over 5% year-to-date while the Portfolio was up more than 2%. However, the Portfolio meaningfully trailed the benchmark during the back half of the quarter, when risky small cap stocks recovered all year-to-date losses. We try to avoid the most speculative segments of the small cap market, including unprofitable companies, so the Portfolio's recent performance has been more similar to larger capitalization benchmarks. The equities within the Portfolio rose approximately 7% during the quarter.

Year-to-date through June 30th, the Portfolio rose 4.13%, net-of-fees, compared to a 3.19% gain for the Russell 2000 Index. Cash ended the quarter at 74% of assets and has suppressed the Portfolio's gains this year, as the equities within the Portfolio have increased approximately 17% year-to-date. Cash levels increased from the prior quarter due to solid performance among the Portfolio's holdings, which resulted in us reducing positions that neared our valuation estimates. Our high cash position will constrain the Portfolio's ability to fully participate if the small cap market continues to rise at the aggressive pace of recent years. However, we would rather miss out on an unwarranted gain than endure a painful but appropriate loss. We strongly believe the small cap market deserves to trade lower, based on any reasonable valuation criteria.

The primary positive contributors to the Portfolio's second quarter performance were Newfield Exploration (ticker: NFX), Aaron's (ticker: AAN), and Aspen Insurance (ticker: AHL). Newfield is one of the market's best-performing stocks this year. The energy exploration & production company (E&P) shrewdly assembled a new foundational asset located in Oklahoma and is delivering strong returns there on its drilling capital. We initially purchased the stock during the natural gas rout of early 2012, and we experienced 18 months of subpar performance before other investors came to appreciate the extent to which Newfield has transitioned its portfolio toward a handful of key oil and liquids plays with long reserve lives. The stock now better reflects the value of its asset base, and we have significantly scaled down the position.

The shares of Aaron's, the rent-to-own (RTO) retailer, have rallied lately due to excitement over a recent acquisition. Aaron's had long been a taker of market share in the rent-to-own industry, but the company experienced its first ever decline in same store sales this year. RTO retailers have been negatively impacted as their low income customer base suffers from high unemployment, and they also face a growing threat from traditional retailers offering RTO options and new forms of subprime financing. In early February, Aaron's received a $30.50 per share buyout offer from Vintage Capital, a previous Aaron's franchisee and existing shareholder in a RTO competitor. The premium offered was rather small, and it wasn't clear to us if Vintage had the financial capacity to complete a purchase of Aaron's size. Nevertheless, we welcomed the interest.

For the next three months, Aaron's management engaged in a series of actions to stave off Vintage, culminating in the $700 million acquisition of Progressive Finance, which altered Aaron's squeaky clean balance sheet enough to make a leveraged buyout improbable. Progressive is a leading player in the rapidly growing virtual RTO market. It's a software solution integrated into a retailer's (e.g. Mattress Firm) point-of-sale system that enables the retailer to offer a lease-to-own transaction to customers without access to credit. Progressive buys the item from the retailer and the customer typically pays 15% of the retail price each month for a year, so they end up spending 80% more than the retail price. Progressive doesn't have the physical infrastructure to handle returns, so the business model relies on a high "keep rate" of 70-80% of customers paying the full term. Aaron's believes it can utilize its distribution infrastructure to help re-rent merchandise returns sourced from Progressive, potentially creating a competitive advantage in the low barrier-to-entry virtual space. We aren't sure it will be that easy. When the acquisition was announced, Vintage withdrew its buyout proposal, but it remains a major shareholder and has called a truce with Aaron's management. We do not yet have confidence in the durability of the virtual RTO model under recessionary conditions, and we are skeptical that Aaron's can achieve the 3-5% positive comps management has guided for 2015. We sold most of our Aaron's position.

It's not often that we have two companies in our Portfolio receive takeover offers in such a short time period, and we don't know if we've ever had two management teams concurrently rebuff overtures from prospective buyers. In mid April, Endurance Speciality Holdings proposed an acquisition of Aspen Insurance. The announced premium was 21% over Aspen's prior closing price, but a portion of the deal would be in stock. Endurance's shares fell on the news, reducing the expected premium to Aspen's shareholders like us. Aspen's management team promptly rejected the offer, citing a litany of reasons why the combination would not be a good fit. The back and forth between the companies has been entertaining, and Endurance is now appealing directly to Aspen's shareholders. We sold part of our Aspen stake after the initial spike, but we retained a partial weight. Aspen's stock is currently trading at a slight premium to tangible book value and a similar distance below the takeover price. We see roughly an even chance that the deal happens and expect the short-term downside if it does not occur could be a little greater than the upside if it does. On that logic, you could argue we should be out completely, but Aspen has done a solid job of growing its book value per share. Absent a major natural disaster, we expect that to continue.

The largest negative contributors to the Portfolio's return in the second quarter were Bio-Rad Labs (ticker: BIO) and Tetra Tech (ticker: TTEK). Neither of the two percentage declines was large, but they are both top five positions for the Portfolio. Bio-Rad manufactures equipment and consumables for life sciences and clinical diagnostics companies. The company has experienced below-average profitability for the last couple of years due to a high level of investment in a global ERP (Enterprise Resource Planning) system as well as several early stage acquisitions. We believe Bio-Rad's stock also suffers a discount because of the family control voting structure and disclosed inadequancies in internal controls, which we blame on bush-leaguers fulfilling certain financial roles on the management team. However, we believe there is an opportunity for the company to substantially improve margins once the heavy investment cycle has passed in a couple years. The recurring portion of Bio-Rad's revenue stream is approximately 70%, and we believe most investors overlook an equity position Bio-Rad holds in a German diagnostics firm that is worth one-fifth of Bio-Rad's current share price.

Tetra Tech, the water and environmental consulting firm, announced soft quarterly results that were adversely impacted by declines in governmental spending, foreign currency changes, and harsh winter weather. The company also cycled high sales to the mining industry a year ago, but comparisons will become easier. Tetra Tech is shifting its business mix toward higher margin projects, and we think the stock remains at a discount to fair value.

During the second quarter, we purchased three securities, although one of the buys was more material than the other two. Our major purchase was Dundee Corporation (ticker: DC/A CN), which is a Canadian holding company with interests in a variety of resource-based businesses. The firm's founder and CEO is Ned Goodman, a self-described value investor who pens lengthy annual shareholder letters in the fashion of Warren Buffett. Unlike Berkshire Hathaway, Dundee does not hold companies permanently. *"We're not your traditional holding company. We build companies, and sell them. It's* *a business,"* said Goodman in a 1999 interview. In recent years, and especially following the credit crisis, Goodman has become increasingly convinced of an impending global inflation. As a result, he has gradually positioned Dundee to potentially benefit from rising prices by owning stakes in the real estate, mining, energy, and agricultural sectors.

Dundee's stock is trading at a 40% discount to tangible book value, even though many of the company's assets are public equity investments with transparent pricing. The disconnect between Dundee's price and NAV may partially relate to the significant transformation undergone by Dundee in recent years. The firm has sold or spun off profitable subsidiaries, leaving the parent with a collection of several nascent enterprises that aren't earning money, as well as a large investment portfolio that accounts for most of the company's value but from which Dundee cannot claim meaningful earnings. As a result, a cursory look at Dundee suggests a company that used to be profitable but isn't any longer. However, Ned Goodman has compounded the company's book value at an attractive mid-teens annual rate over the last decade. Goodman is the Rodney Dangerfield of holding company CEOs—he gets no respect. Given the magnitude of the discount to book value, we do not believe an investment in Dundee shares is strictly a bet on Goodman, who is 77 years old. While it is likely that the company's investment portfolio will shrink along with any broader market pullback, we are establishing a position with what we believe is a significant NAV cushion.

On May 16, 2014, the shares of WWE (ticker: WWE) cratered 43% after the company obliquely announced the outcome of its overhyped television rights renewal with NBC Universal. The data they supplied suggested a 50-60% increase in domestic fees to WWE for its *RAW* and *Smackdown* shows, while many investors had expected a 100-200% jump. Along with the announcement, management provided a business outlook for 2015 and 2016 that gave a profitability matrix depending on certain numbers of WWE Network subscribers. We thought the TV deal was acceptable. While it was clearly below what management had projected, it certainly wasn't devastating, and the combined domestic and international renewals should produce over $90 million of incremental high margin revenue for the company. The problem with WWE's outlook was that, despite the spike in TV revenue, it suggested very weak levels of overall firm profitability at most reasonable subscriber scenarios for the fledgling WWE Network.

We thought there must be something else to the story, so we bought a tiny 0.5% position on the day of the market carnage. After additional research, we concluded that WWE's spending is simply out of control. According to their disclosures, the majority of the monumental growth in SG&A (Selling, General & Administrative) of the past three years is not Network-related. We think it's possible management may be allocating Network expenses to other parts of the company because they are afraid to admit that the subscriber breakeven point for the WWE Network is higher than they initially pledged. If that is not the case, then they should be able to dramatically reduce spending in areas that are not contributing to profitable revenue growth. We continue to believe the Network is a boondoggle for WWE. Early indications suggest we are correct, with post-Wrestlemania subscriber numbers weak. With that said, we think it's possible for management to unearth the value lurking beneath the current bloated cost structure. Vince McMahon has made mistakes, but he isn't in the business of losing money, and WWE has been a cash-generative enterprise for almost all of its public existence. The company has already announced a handful of roster cuts that won't amount to much in savings. Our gut tells us expenses will be rationalized further, but we need to see evidence of this before becoming bullish on the stock.

Lastly, we made a small purchase of one of the preferred stock issues of Pitney Bowes (ticker: PBI). This is an interesting security that is technically perpetual in nature, but its 6.125% coupon steps up by 50% on each call date after October 2016. In all likelihood it will be called on that date. The cash flow of the subsidiary tied to the preferred covers the dividend by 8.5x. The security offers a yield to call of 3%, so we view it as a lower risk way to earn a modest yield over the next two years. The idea was sourced by our high yield investment team, so please see the Intrepid Income Portfolio letter for further discussion.

Big Lots (ticker: BIG) and Tech Data (ticker: TECD) were the only two positions we completely exited in the quarter. Big Lots' stock rebounded on management's projections that they have turned the corner on negative same store sales. Comps broke into positive territory in the latest quarter. Investors are also encouraged by new initiatives such as cooler installations, SNAP (food stamp) acceptance, and a furniture financing program that just so happens to be sponsored by Progressive Finance, the company recently acquired by Aaron's. Oh what an incestuous portfolio we weave!

Shares of Tech Data, the IT distributor, appreciated beyond our fair value estimate, and the company has started distributing its financial statements after a restatement-related hiatus. We originally purchased Tech Data when the shares fell on a restatement announcement that we believed was contained. The most recent results indicate an improvement in revenue and earnings trends.

Thomas Jefferson said, *"In matters of style, swim with the current. In matters of principle, stand like a rock."* Every investor has to ask: Which kind of investor am I? Wall Street is fashionable. We are not. I wore parachute pants and Payless sneakers as a kid. We haven't wavered from our investment principles and believe this will benefit our shareholders once the investment cycle fully plays out. As a result of selling fully valued holdings, we have pruned our portfolio to a state where it is dominated by cash. While the purchasing power of this cash will be slowly eroded by inflation, we think that's no excuse to invest your money in small companies that are, in many cases, selling for more than twice what they are worth. Our goal is to protect your capital in these dangerous times by striving to avoid an ocean of overvalued stocks, while attempting to preserve the purchasing power of your assets by selectively investing in stocks where we believe a discount exists. We have a track record of investing aggressively in the wake of market dislocations. Expect us to be active when fear grips Wall Street. Thank you for your investment.

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY GREG ESTES, PORTFOLIO MANAGER

Readers may wonder why we have the coat of arms for the State of New York at the top of this letter. It is not because of the figures of Liberty or Justice, or for the American eagle. Rather, it is the motto which caught our eye. *"Excelsior"* is a Latin word which literally means "higher" but is more often translated as "Ever Upward." The motto is fitting for the state that is the center of the financial world. Wall Street appears to have taken the motto of its home state quite literally, pushing the S&P 500 Index into record territory. The following chart should visually convey what words often fail to do. The market, as measured by the commonly used S&P 500, has blown past its previous peaks from the late 90s, the era of the Internet bubble, and from the 2008 credit bubble. We are in uncharted territory, and with the exception of a small bump late in the summer of 2011, the road has been steep and steady.

Source: Bloomberg

As a matter of fact, when we examine historical quarterly returns since the beginning of this bull market, we can see just how steep the increase has been. Looking back from March 31, 2009, through the end of the most recent quarter, the S&P 500 has had double-digit gains in 7 of 21 quarters. The same pattern holds true for the Russell 3000 Index, which combines the small cap Russell 2000 Index with the larger cap Russell 1000 Index. In contrast, the Intrepid Disciplined Value Portfolio (the "Portfolio") has only posted two quarters with greater than 10%

gains over the same period. Of course, one of the biggest differences between the Portfolio and the comparative indices is that the Portfolio holds cash while the indices do not. This contributes to our lagging return when markets rise, *but we believe that having cash when pricing becomes favorable is critical to future investment success.* To put it another way, when prices fall, an investor who is already fully invested must sell something to buy something else that might have become attractive. By having cash, we are ready to take advantage of future opportunities. The process requires patience, but we believe that our patience will be rewarded. One thing that can be said about bull markets is that their ends are unexpected. We cannot say for certain when prices will become more favorable, but we believe that they are not in large part favorable now.

For the quarter ending June 30, 2014, the Portfolio returned 1.99%, net-of-fees, while the S&P 500 Index returned 5.23% and the Russell 3000 Index returned 4.87%. In a bit of a turn, it was small cap stocks that lagged in the quarter when compared to large caps. Year-to-date, the Portfolio returned 4.85%, net-of-fees, versus 7.14% for the S&P 500 and 6.94% for the Russell 3000. As stated above, the largest contributing factor for underperformance in both periods is cash, which was 30.6% of the Portfolio at quarter end.

The top contributor for the Portfolio was Newfield Exploration (ticker: NFX), which has continued its run-up as commodities have rallied. As a matter of fact, Newfield was the top performing stock year-to-date in the S&P 500. Rounding out our top three contributors were tech giants Apple (ticker: AAPL) and Cisco (ticker: CSCO). Apple has discussed plans for returning more capital to shareholders as well as engaging in a 7 to 1 stock split. Cisco posted 1st quarter earnings which were better than what many analysts had expected.

Our bottom three contributors were all retail-oriented: Coach (ticker: COH), American Eagle (ticker AEO), and Staples (ticker: SPLS). Each of these is a turnaround. In the case of Coach, we believe the turnaround will take longer than expected, as the company invests in a better customer experience and updating the style of its handbags and image as it transitions to a lifestyle brand. In our opinion, the market is in no mood to wait on any company. We are, and we understand that we may have to suffer some volatility in the interim. American Eagle and Staples are both retrenching, although in slightly different ways. For American Eagle, it is about catching up to changing fashion trends. We believe that this happens cyclically for many apparel retailers. In the case of Staples, retrenching means reducing its brick-and-mortar footprint by closing stores while bolstering its online presence. We believe that Staples already has an excellent business model in partnering with businesses to provide office supplies thorough its North American Contract segment.

During the quarter, we exited from a few positions, including Bill Barrett (ticker: BBG) and Tech Data (Ticker: TECD), which reached intrinsic values. We also sold Energizer Holdings (Ticker: ENR), which we had bought in the previous quarter. The company announced plans to split the business between the mature battery division, Household Products, and the more attractive Personal Care division. The market responded by pushing the stock price well above our intrinsic value estimate. On the buy side of the ledger, we added Oaktree Capital (ticker: OAK) and Teradata Corp (ticker: TDC). Oaktree is an alternative investment manager with more than $86 billion under management. Although we operate in different asset classes, we believe that Oaktree's approach to investing in distressed debt makes intuitive sense. They buy when they believe that they will be compensated for the risk. Otherwise, they will not deploy their capital. Teradata is a leader in data warehousing, which allows companies to collect, store, and analyze any type of data they might conceivably use, whether financial, inventory, or customer related. Currently, the industry is seeing their customer base delay increased spending, which has caused some stock price weakness for Teradata.

With a market that has continued to push into record-high territory, the average discount within the Portfolio has continued to shrink. Every quarter, we compare the stock price to our intrinsic value for each holding. The average discount at the end of the quarter was 5%. That's about as small as it has ever been. We continue to look for additions to the Portfolio, but the challenge of finding a good business trading for what we believe is a good price increases as the market pushes ever upward. Nonetheless, we continue to search for new ideas, and we believe that we have a solid understanding of a number of potential investments. Should stock prices pull back, we believe that we are prepared to deploy our cash.

INCOME PORTFOLIO – COMMENTARY BY JASON LAZARUS AND BEN FRANKLIN, CO-PORTFOLIO MANAGERS

Fixed income markets continued to build on last quarter's rally and posted impressive gains across the board. Despite another $10 billion reduction in the Federal Reserve's Quantitative Easing program and likely continued tapering in coming months, Treasury yields grinded lower, with the 10-year rate falling from 2.72% to 2.53% in the quarter. The decline in risk-free rates was partially responsible for the positive returns generated by corporate bonds, but spread compression was also a contributor. For the quarter ending June 30, 2014, the Barclays U.S. Aggregate returned 2.04%, and corporate bonds performed even better. Investment-grade corporate bonds, as measured by the BAML Corporate Index, returned 2.89%, and the BAML High Yield Master II Index gained 2.57% in the quarter. The Intrepid Income Portfolio (the "Portfolio") returned 1.05%, net-of-fees, in the second quarter.

Ruby Tuesday 7.625% notes due 5/15/2020 (ticker: RT) were the Portfolio's top contributor by a large margin. We discussed Ruby Tuesday in our fourth quarter 2013 commentary when it was the Portfolio's largest *detractor.* The casual restaurant chain has experienced operational weakness and has struggled to turn around the business. However, we concluded that the company had cost levers to pull that could improve the credit quality. More importantly, RT's significant real estate holdings gave us comfort that the bonds would be covered in a restructuring, and therefore we maintained a sizeable position despite the murky outlook. The company reported better than expected earnings in April, and the bonds rallied more than eleven points off the recent low. There were no detractors in the quarter.

Last quarter we discussed our cash position, indicating that we expected cash levels to increase as several of our larger holdings would likely be called in the summer. Two core positions were called in the second quarter; Compass Minerals 8.000% due 6/01/2019, and ManTech International 7.250% due 4/15/2018. These two positions comprised nearly 7% of the Portfolio's assets. Our original investment in AuRico Gold via the convertible notes was also called early in the quarter. Additionally, the unexpected private equity buyout of DFC Global (ticker: DLLR) led us to sell the notes of DFC's subsidiary (National Money Mart 10.375% due 10/01/2016) prior to the completion of the transaction. All told, approximately 12.5% of the Portfolio's holdings were converted to cash in the second quarter.

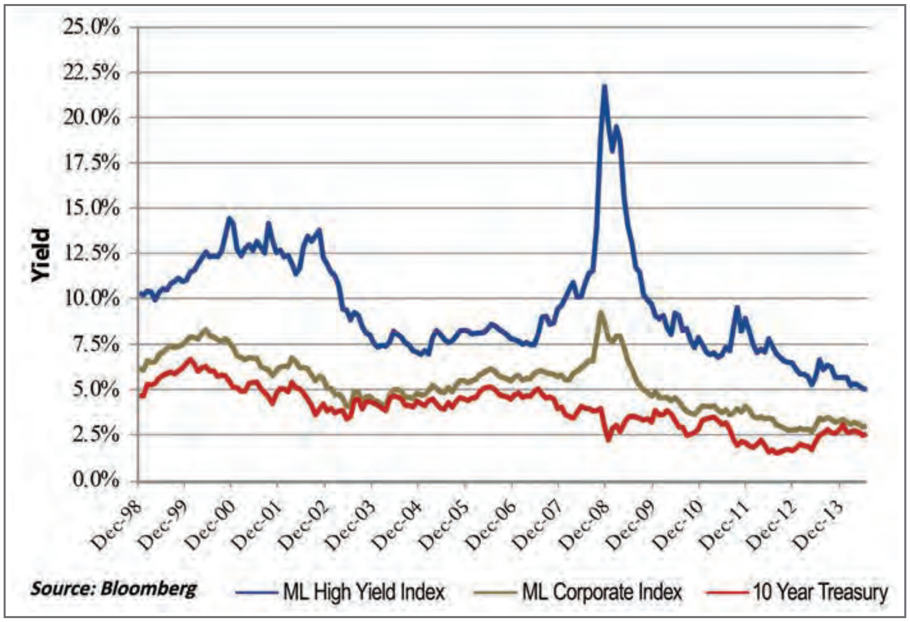
As regular readers of our commentaries know, we do not have a fully-invested mandate and, therefore, only deploy cash when we believe we are being compensated to assume risk. As noted below, we believe there are significant risks to investing in nearly all fixed income asset classes. Sourcing attractive ideas has been extremely difficult, but we are finding select opportunities. In the second quarter, we established one new core position in Pitney Bowes International Holdings preferred stock. It is important to note that this holding is classified as a 144A security, which means that it can only be purchased by Qualified Institutional Buyers with more than $100 million in assets. Therefore, the security could not be purchased for separately managed accounts that are less than $100 million in size.

Pitney Bowes (ticker: PBI) is best known for its long history in the postage meter business. The company's largest source of earnings is providing postage solutions to small and medium-sized businesses in North America and Europe. PBI makes money by renting the meters to customers, maintaining the units, and providing supplies. Revenue is highly recurring due to the contract-based nature of the business, most of which run from three to five years. The firm also offers more capable machines to larger enterprises, primarily for sorting mail and inserting items into envelopes. Lastly, Pitney Bowes has a digital business that provides back-end support to firms such as eBay, Facebook, and Twitter.

The preferred stock is an interesting security for a couple of reasons, both of which could potentially have led to it being overlooked by some investors. First, the preferred was issued by Pitney Bowes International Holdings (PBIH), which comprises the vast majority of PBI's international operations. Since all of PBI's debt resides at the parent company, and PBIH does not guarantee any of this debt, the preferred stock has a structurally senior claim on the international assets. We believe this improves the credit quality of the issue. PBIH has no debt and has a cash balance that is greater than the par value of the preferred stock. Further, PBIH's free cash flow covers the preferred dividend by 8.5 times. The second factor that makes the preferred interesting is the dividend. Beginning in October 2016, the dividend increases by 50% on every subsequent dividend date, making it a near certainty that the company will repurchase the preferred on this date. This feature eliminates the interest rate risk present in perpetual preferred stock issues and essentially gives the security a duration of just over two years.

In the desperate search for yield, fixed income investors have moved further and further down the credit spectrum. As shown in the chart below, high-yield corporate credit yields, as measured by yield-to-worst, are at all-time lows. Investment grade corporate yields are very near historic lows. While high-yield spreads are still about 100 basis points away from the all-time tightest level, spreads are significantly below the long-term average. We believe most corporate credits are overvalued and have been for quite some time. Even Federal Reserve chairwoman Janet Yellen acknowledged the presence of froth in the high-yield bond market. From a June 18th press conference:

> *"I've spoken in recent congressional testimonies and speeches about some threats to financial stability that are on our radar screen that we are monitoring, trends in leverage lending and the underwriting standards there, diminished risk spreads in lower-grade corporate bonds. High-yield bonds have certainly caught our attention. There is some evidence of reach for yield behavior."*



In such an environment, we will continue to maintain a very defensive posture. We have been finding value primarily in shorter-dated high-yield bonds that we believe have above-average credit qualities. However, opportunities have been scarce. We will not invest your capital in overvalued ideas and, therefore, have maintained a significant cash position. If opportunities arise, we will deploy this cash quickly, as we did in 2008/2009 and 2011.

Thank you for your investment.

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK/RETURN

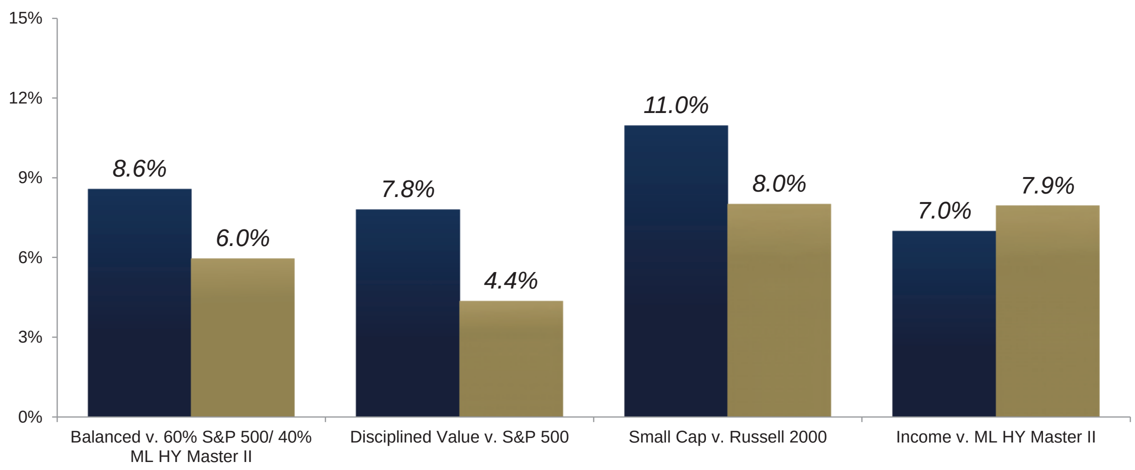
JUNE 30, 1999 TO JUNE 30, 2014

- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending June 30, 2014. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may differ materially from the volatility of any Intrepid composite. As of December 31, 2004, the firm changed its fixed income benchmark from the Salomon High Yield Short-Term Index to the Merrill Lynch High Yield Master II Index.

ANNUALIZED PERFORMANCE

TRAILING 15 YEAR RISK/RETURN

JUNE 30, 1999 TO JUNE 30, 2014



- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending June 30, 2014. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may differ materially from the volatility of any Intrepid composite. As of December 31, 2004, the firm changed its fixed income benchmark from the Salomon High Yield Short-Term Index to the Merrill Lynch High Yield Master II Index.