Intrepid Capital
MANAGEMENT INC.

the constant pursuit of value

2Q'13 4/1/13 – 6/30/13

DOW JONES	2.27%
S&P 500	2.91%
NASDAQ	4.52%
RUSSELL 2000	3.08%
E.A.F.E.	-0.75%

QUARTERLY MARKET LETTER COMMENTARY | June 2013

SMALL CAP PORTFOLIO

Do you remember when you learned to ride a bike? The process probably started with training wheels. Big smiles at that stage—my feet make me go! Eventually, the training wheels came off. This may have created a heightened anxiety. Your parent likely spent time holding the seat of your bike as you pedaled around, steadying it as you got used to keeping your balance. Then, there was *that* moment. The big moment when your mom or dad let go. Did you pedal off happily down the street? Or did you tumble over?

Investors haven't experienced that moment of independence, *yet*. The hand-holding combination of deficit spending, suppressed interest rates, and money printing has contributed to broad asset inflation. It's been like learning to ride by sitting on an exercise bike. You could fall asleep, and you still won't fall over. Papa Ben has told investors that some day he will let go of the bike (i.e. stock and bond markets), but before he ever does, he promises to make sure we (i.e. the economy) are ready to ride on our own. Do you believe him? One day budgets should balance, interest rates should rise, and the printing press should grind to a halt—right? So far, it has been all talk, no show. We think it's high time for this market to take off the training wheels and put on its big boy pants.

During the second quarter, we underperformed the small cap market. The Intrepid Small Cap Portfolio (the "Portfolio") declined 0.69%, net-of-fees, versus a 3.08% gain in the Russell 2000 Index. Year to date, the Portfolio is up 3.88%, net-of-fees, compared to a 15.86% rise in the benchmark. We have owned a lot of one of the few things you can hold in a portfolio that doesn't benefit from asset inflation: cash. The Portfolio's cash is 56% of assets because we have many things to sell, but little worth buying based on our valuation guidelines. Today, the typical company in the Russell 2000 trades for a median multiple of 18x operating income.

Although our significant cash has been the principal factor explaining our low relative returns over the past year, it wasn't the only reason we underperformed this quarter. A few of our holdings fell by a double digit percentage in the last three months, including Pan American Silver (ticker: PAAS), FTI Consulting (ticker: FCN), and Bio-Rad (ticker: BIO). The latter two are significant positions for the Portfolio. Bio-Rad is investing large sums in an Enterprise Resource Planning (ERP) system that should eventually help it streamline its global operations, and the firm has also made a few R&D-oriented acquisitions that were dilutive to margins. The Schwartz family continues to manage Bio-Rad with a long-term view. We aren't sure why FTI Consulting's stock dropped. Call it noise. Despite short term swings in stock prices, our internal valuation estimates held steady or increased slightly for almost the entire portfolio.

Like other miners of precious metals, Pan American's stock fell sharply over the past three months due to plummeting gold and silver prices. In addition to commodity price exposure, miners can also be impacted by rising cash costs and political interference. Investor sentiment has been extremely negative toward the sector. On a per reserve basis, Pan American is trading about 30% cheaper than it was at the end of 2008, when silver prices and the firm's cash margin were both lower. Our first investment in the company was successful, as we established our position during the credit crisis and sold as the silver market fully digested the implications of QE2. We repurchased Pan American in early 2012, when the stock was down 50% from its peak. Since then, the stock price has been halved again. We're not giving up on it yet.

We will buy a precious metals stock if we believe it offers cheap insurance against the pernicious effects of printing money recklessly. Typically, we require

a "double discount" with this type of name. When computing our valuation for Pan American, we took a 25% haircut to the silver price at the time of purchase. Then, we applied a standard discount to our valuation to provide a cushion against uncertain outcomes. Since buying the name, the adverse change in the price of silver has burned through our valuation buffer and reduced Pan American's fair value. Nevertheless, the stock price has fallen even more.

We find it curious that the gold and silver markets appear to be anticipating an end to quantitative easing, yet the stock market is within spitting distance of all-time highs. Even if the "taper" does arrive, we think the Fed will not hesitate to revisit past practices when economic weakness is apparent, even if they are the last ones to acknowledge it. We believe our original rationale for buying a modest position in Pan American was reasonable, and we added to our stake during the quarter. Should we be proved wrong and our government become responsible with fiscal and monetary policy, we'll take our lumps on Pan American. Despite the carnage in the sector, we perceive precious metals as an area of increasing opportunity. In recent months, we have devoted a substantial amount of time to determine the best opportunities in this battered sector, which is one of the only hated areas in the market today. We have researched miners, precious metals royalty companies, pawn shop operators, and mineral drilling contractors. Should the stocks in the space continue to be punished, we are prepared to increase our investments in this area.

The largest gainers in the Portfolio during the second quarter were WWE (ticker: WWE), Telephone & Data Systems (ticker: TDS), and American Greetings (ticker: AM). TDS benefited from the increasing value placed on wireless spectrum. American Greetings was discussed in our last letter, as the firm received a revised buyout offer on April 1st. WWE has been one of our favorite positions for some time, and we have shared our investment thesis with many of you. WWE is the leading promoter of professional wrestling entertainment. A few years ago, it was an $18 stock. In the spring of 2011, the company significantly cut its outsized dividend to align it better with cash flow. This still left WWE with one of the highest dividend payout ratios among public companies. We established our position after the stock price hit the single digits. Around that time, WWE's management began to discuss more actively plans to launch a WWE television network. They intend to position it as a premium channel like HBO.

Starting a television network is not easy. It's expensive, and you need cable and satellite operators on board as partners. WWE has forged ahead with spending to build out a network infrastructure, even though it has not secured the necessary partnerships. Largely as a result of this spending, the firm's profitability has decreased. Before 2011, WWE was making around $80 million of pre-tax operating income each year. Currently, they are making around half of that amount. We believe it is unlikely that the network venture will succeed. While 13 million unique viewers tune into a WWE show each week, only about 4 or 5 million are watching *RAW*, WWE's most popular show, at any one time. Management has stated they need 1 million subscribers to break even on the network and they are projecting 2-3 million. There are already 6 hours of weekly WWE content available on cable, and we don't believe there are enough fans who clamor for more and are willing to pay a monthly fee for that privilege.

In our opinion, WWE's stock has suffered because investors have assumed its current profitability is permanent. We think there are two primary ways that WWE can improve earnings back to past levels. First, the company could abandon its efforts to establish a WWE network. Most of that spending would fall away. We think this is likely if they do not gain serious traction by the end of 2014. Secondly, we believe WWE has a tremendous opportunity to lift income when it renews its television rights deals. The company's *RAW* and *Smackdown* are the longest running weekly episodic shows on television. *RAW* airs Monday nights and has solidified USA as the most-watched cable network. WWE receives almost $100 million per year for the domestic portion of its TV rights fees. Yet, WWE is paid a fraction of the amount per viewer relative to other programs, whether it is NASCAR, the NHL, or scripted shows.

WWE has a lower income viewer demographic than many other shows, so it brings in lower advertising rates. The driving decision behind what a network will pay a content provider is

the amount of ad revenue the program generates. Sports programs are frequently treated as loss leaders, so networks will sometimes pay above projected ad rates in order to secure marquee properties. We have investigated the ad rates paid to USA during *RAW*, and we believe NBC Universal (owner of USA) could double what it pays WWE and still break even on the property. Our research indicates that WWE could recoup the $40 million reduction in operating profit from 2010 to 2012 by growing its domestic TV rights fees by 40% or its global TV rights by 25%. We believe this is achievable and would keep all parties content. Therefore, we think WWE has two ways to restore profitability: it can end its pursuit of a premium channel network or it can simply do a mediocre job of negotiating the next TV deal. We are the company's largest institutional shareholder.

We sold the following names in the second quarter: American Greetings, International Speedway (ticker: ISCA), Speedway Motorsports (ticker: TRK), and Baldwin & Lyons (ticker: BWINB). The NASCAR names reached valuation. Baldwin is a small cap insurance company with very limited liquidity. We have been gradually selling the position near fair value.

We purchased one new name in the quarter: Tech Data (ticker: TECD). Tech Data is one of the world's leading distributors of IT products. It is a direct competitor to Ingram Micro (ticker: IM), which is one of the Portfolio's largest holdings. IT distributors move products from vendors to Value Added Resellers (VARs). VARs have relationships with small and medium-sized businesses. They are like a Chief Information Officer for a company that can't afford one. They use Tech Data for credit, logistics, and to simplify ordering products. We initially researched Tech Data during our due diligence for Ingram Micro. At the time, we believed Ingram was the better bargain. Recently, Tech Data has struggled with the final stage of its domestic ERP implementation, leading to a loss of market share in the U.S. Additionally, on March 21st the company announced a restatement due to accounting improprieties at its U.K. subsidiary. The restatement is estimated to total 4% of cumulative operating profit over the past three years. The release of this news sent the stock down, and we purchased Tech Data shortly thereafter. Management is keenly focused on returns on capital. Tech Data is trading close to tangible book value, and our cash flow-based valuation is well-supported by asset value.

The Portfolio's relative performance in recent quarters has been poor. We attribute it to the three C's: cash, commodities, and chance. Cash is a by-product of our process and will change when we can find strong investment ideas. Commodity companies have been the Portfolio's biggest detractors over the past 18 months, yet we believe they are among the largest current discounts in the portfolio. Chance is the randomness experienced on a short-term basis. For the most part, there were not significant operational developments for the companies in the Portfolio whose stock prices declined this quarter. Ultimately, we expect prices to reach our intrinsic value estimates. We understand that our valuation-driven investment process can sometimes appear peculiar to outsiders when evaluating our performance against peers and benchmarks. We always ask our investors to judge us over a full market cycle, including good and bad market environments. If we do not deliver good risk-adjusted returns over complete cycles, then there is no need to use us as an active manager. We continue to believe in our process and expect to achieve our long-term objectives. Thank you for your investment.

DISCIPLINED VALUE PORTFOLIO

If ever anyone had doubt that the market has become accustomed to -- even dependent upon — the Federal Reserve's easy monetary policy, look no further than the market's behavior after the June 19, 2013 FOMC (Federal Open Market Committee) meeting. After signaling a future tapering to reduce its purchasing of bonds — known as QE3 — sometime in the future, the Standard & Poor's 500 Index began to decline, falling 3.4% by the end of trading three days later. What followed were numerous attempts to "walk back" the FOMC statements or "refine" them by reassuring the market that QE3 will continue, *particularly if the economy shows signs of weakness.* It is no wonder then that the market's reaction to a negative revision to GDP from 2.4% growth to 1.8% growth sent the market up almost 1%. The market was reassured that QE3 was more likely to continue because economic indicators were showing signs that recovery is not strong enough to justify an end to quantitative easing. In our opinion, it seems like we are all living in an alternate universe, where everything is upside down. Bad results are good and fundamentals mean

little. We think that the market's only current concern is how long the Fed will maintain its level of QE. But this is not our area of expertise, and we would posit that it is no one else's either.

We are reminded of a movie from the 80's, *WarGames*, in which the supercomputer Joshua, when assessing the nuclear doctrine of mutually assured destruction, concludes that "the only winning move is not to play." We will not play the game of betting on quantitative easing because, like all things, it will end, and the speculation as to the timing of its end should lead to greater volatility. Although it is challenging to continue to apply our principles of value investing, we intend to stay resolute in doing just that.

For the quarter ended June 30, 2013, the Intrepid Disciplined Value Portfolio ('the Portfolio") returned 0.82%, net-of-fees, in comparison to the S&P 500's return of 2.91% and the Russell 3000's return of 2.70%. For the first six months of the year, the Portfolio returned 8.28%, net-of-fees, in comparison to the S&P 500's return of 13.82% and the Russell 3000's return of 14.07%. As mentioned above, this is an incredibly challenging market for us, because we see limited opportunities for investment. With stock prices at or near all time highs, it is difficult for us to justify purchasing businesses — even quality businesses — because we do not believe that there is enough of a discount between said stock price and our estimate of intrinsic value. The immediate result of our process is that we ended the quarter with 50% of the Portfolio in cash. It does not thrill us to have such a large cash position; we would much rather be able to own great businesses at great prices. The problem, we believe, is that there are few businesses selling for great or even good prices. Therefore, we feel we must take the uncomfortable path of holding cash until the gap between price and intrinsic value widens.

For the quarter, the Portfolio has added five new positions: Western Union (ticker: WU), Coach (ticker: COH), Northern Trust (ticker: NTRS), Check Point (ticker: CHKP), and Tech Data Corp (ticker: TECD). One thing to note about these purchases is that they are not confined to one industry. Rather, they represent our efforts to find what we believe are good value opportunities no matter what industry or sector. We spend a lot of our time looking for new businesses, and even when we do not purchase a business at today's price, we still believe that the effort is not wasted because we have increased our knowledge base of potential investments. Should prices change, we stand ready to invest in ideas with which we are already familiar. While our purchasing activity was higher than it has typically been over the past year, we did have more sells than buys. The Portfolio exited from seven positions: American Greetings (ticker: AM), CR Bard (ticker: BCR), GameStop (ticker: GME), International Speedway (ticker: ISCA), Molson Coors (ticker: TAP), Regis Corp (ticker: RGS), and Speedway Motorsports (ticker: TRK). In all cases, shares were sold because stock prices had reached our internal intrinsic values. Our sell discipline is triggered when a stock price goes above what we think the business is worth (intrinsic value). In this quarter, several companies had reached that level. For GameStop, the stock price reached our intrinsic value very quickly; we had just purchased it in the previous quarter. But we believe that this is the nature of stock prices. They can move up or down much more quickly than the true intrinsic value of the business. In the case of GameStop, the market became reassured that new gaming consoles would allow for the play of used games, thus protecting GameStop's core business model. Although we could have been tempted to hold on to the stock in the hope that it would continue to climb, we believe that we are better off sticking to our analysis of what we believe the business is worth instead of attempting to guess how the market might feel about a stock for a particular time period.

During the quarter, the Portfolio's three biggest detractors of performance were: Pan American Silver (ticker: PAAS), which fell as did most precious metals-related stocks; FTI Consulting (ticker: FCN), which had little reason for its drop, since there was no fundamental change to the business; Bio-Rad (ticker: BIO) has seen its stock decline as management which has elected to take a short-term hit to its operating margin by making some acquisitions which the market does not favor.

Top contributors to Portfolio performance were: Telephone & Data Systems (ticker: TDS), which has begun to monetize some of its spectrum assets held by its primary holding, U.S. Cellular (ticker: USM); Microsoft (ticker: MSFT), which has traded up as plans for the Holiday launch of Xbox become clear; World Wresting Entertainment (ticker: WWE) which has moved up as investors have begun to

suspect that the company will negotiate a better TV rights offer which could lead to improved margins.

Today, our internal estimate of the average discount within the Portfolio is 23%. We can calculate each stock's discount by comparing its stock price to our estimate of its corresponding intrinsic value. Generally speaking, the greater a stock price's discount to our intrinsic value estimate, the greater the percentage weight given to that stock within the Portfolio. However, we do also consider the volatility of a company's cash flow in that decision. Therefore, while some investments may have discounts larger than 20%, we want to limit what we believe are potential risks for adverse short-term events. We limit this risk by limiting the target weights for these stocks. A good example of this is Pan American Silver (ticker: PAAS), whose underlying intrinsic value is based upon the price of silver. Because the price of silver can be volatile, we choose to cap our exposure to limit our potential downside risk in this investment. Currently, the median investment weight in the Portfolio is 2.09%. In our view, a "full weight" would be 4%.

We continue to scour the markets, looking for suitable investment opportunities that we believe are also priced attractively. We believe that we have identified many high quality businesses; however, the current market prices for those businesses are too high in our opinion to justify investing in them. Should prices change, we believe that we are poised to deploy our cash to add to our existing positions in the Portfolio, as well as initiate new positions. We appreciate your confidence in our investment process.

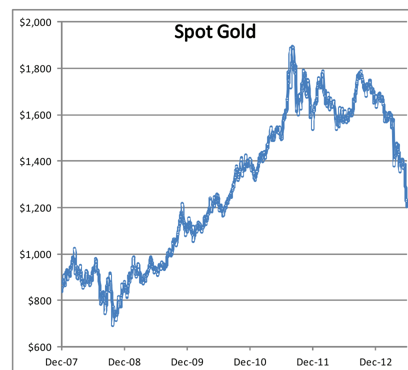
BALANCED PORTFOLIO

> "The mere prospect of a slight reduction in the administered drug makes the patient tremble and shudder."
>
> — Joachim Fels
>
> *Wall Street Journal – June 28, 2013*

The above quote by a Morgan Stanley strategist was said shortly after the latest announcement by the Federal Reserve on June 19, 2013, when the capital markets started gyrating with the mere mention by Ben Bernanke that the pace of bond buying and rate suppression would slow as the economy continues to heal.

Coincidentally, this June marks the 100th year anniversary of the legislation to form the Federal Reserve. I have always enjoyed reading financial history as I think there is a lot to be learned that can help navigate markets. I think the old adage, "The markets may not play the same song, but they often hum a similar tune" holds true. A little financial history is in order. The framers created the Federal Reserve Act "To provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford a means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Regulating a 16 trillion dollar U.S. economy was not among them! Representative Charles Lindbergh, Sr., the father of the aviator, predicted the Federal Reserve Act would establish "the most gigantic trust on earth" and was concerned the Fed would become an economic dictator. *The New York Times* said, "History and experience unmistakably show that governments are not good bankers." Representative Carter Glass of Virginia, the chief sponsor of the Federal Reserve Act, pledged the new agency would be restrained by the requirements of the gold standard — which the country abandoned in the mid-1930's.

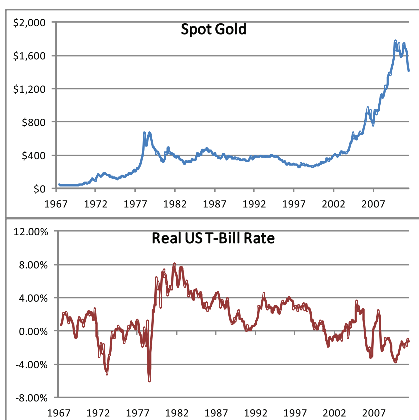
For most of calendar year 2013, up until the most recent announcement by the Federal Reserve, the financial markets were tranquil and trending up. That has now changed. The Fed announcement quickly added almost 1% to the 10-year Treasury yield and caused lower bond prices and significant liquidation across all sectors of the bond market (government, municipal, corporate, mortgage-backed, etc.). Now, after the last few trading days of June, many bond indices show negative year-to-date performance.



(Chart 1) Source: Federal Reserve Bank-6/20/2013

The other market to drop significantly over the second quarter of 2013 was gold. The price decline began with a two day sell-off in mid-April and accelerated over the remainder of the second quarter. It is difficult to establish an "intrinsic value" for an ounce of gold like

we would for the shares of a cash generative business. Gold has typically been a good diversifier for its non-correlated performance to stock and bond markets. We view gold as protection against a monetary disturbance that may occur with many central banks aggressively printing money.



(Chart 2) Source: Federal Reserve Bank-5/2/2013

Over time, the price of gold has been heavily influenced by short term real interest rates. The real rate is the nominal rate of interest, in current times close to zero, minus the inflation rate which is running greater than zero, say 1-2%, resulting in negative real rates. This leaves the opportunity costs of holding gold versus cash low as well. Although real rates have moved up since gold's peak price in September of 2011, they are still negative and likely to support the price per ounce. We are just glad our approximate 3% commitment to shares of gold mining and related shares wasn't any larger. Much like Tabasco sauce, a little goes a long way!

As of June 30, 2013, the S&P 500's trailing twelve month and three year annualized returns were 20.60% and 18.45%, respectively. Both returns are well above the historical average. This environment is a challenging one for a firm like ours that spends as much time assessing risk as we do contemplating return. We like to remind investors that, psychologically, the pain of loss is two times greater than the pleasure of a gain.

When no suitable stock or bond meets our risk/return parameters, our default investment is cash, of which we currently hold a higher than normal amount. As of June 30, 2013, the Intrepid Balanced Portfolio (the "Portfolio") had 17.6% in cash that is anxiously waiting to be deployed when, as the TV host Bob Barker used to say, "the Price is Right!"

The Portfolio reported a loss of 0.49%, net-of-fees, in the three-month period ending June 30, 2013. For the one-, three- and five-year periods ending June 30, 2013, the Portfolio's annualized net-of-fees returns were 10.86%, 10.91%, and 9.05%, respectively. Below are the top contributors and the largest detractors for the second quarter of 2013. Several of these positions are discussed in the Small Cap Portfolio and Disciplined Value Portfolio commentaries.

Top 5 Equity Contributors	Return
Microsoft (MSFT)	21.56%
Telephone & Data Systems (TDS)	18.36%
World Wrestling Entertain. (WWE)	18.34%
Western Union (WU)	15.51%
Berkshire Hathaway (BRK/B)	7.35%

Top 5 Equity Detractors	Return
Royal Gold (RGLD)	-40.53%
Pan American Silver (PAAS)	-28.32%
Newmont Mining (NEM)	-27.57%
FTI Consulting (FCN)	-11.70%
Bio-Rad Laboratories (BIO)	-10.95%

Thank you for your patience and continued support as we wait for better opportunities to deploy your capital (and ours). If there is anything we can do to better serve you, please don't hesitate to call.

HIGH YIELD PORTFOLIO

Chuck Prince, former CEO of Citigroup, famously quipped in 2007 that "as long as the music is playing, you've got to get up and dance." Well, as we all know, that credit party ended rather abruptly and left many with hangovers. This time around, Fed Chairman Ben Bernanke just informed partygoers that the kegs may run dry and his all-nighter could end early. This prompted many to head for the exits in search of a better party or a bed in which to sleep it off. The subsequent downturn in nearly every asset class is interesting - stocks, corporate bonds, commodities, precious metals, and U.S. Treasury bonds all sold off. This is not a typical occurrence in a "risk-off" environment. We believe this provides evidence of the Federal Reserve artificially propping up markets.

The high-yield market, as represented by the Bank of America Merrill Lynch High Yield Master II Index (the "Index"), lost 1.35% in the quarter ended June 30, 2013. Due to the lower duration, the index significantly outperformed investment grade corporate bonds as represented by the Bank of America Merrill Lynch U.S. Corporate Index, which fell 3.36%. Further, the Barclays U.S. Aggregate Index, which broadly tracks the investment grade bond market including Treasuries, corporates, and mortgages, slid 2.33%. Longer duration bonds were hard hit as 10- and 30-year U.S. Treasury rates spiked. The 10-year rate, which is of particular interest to most fixed income investors, increased more than 100 basis points from the early May low of 1.63% before declining slightly to 2.49% by the end of the quarter.

The Intrepid High Yield Portfolio (the "Portfolio") performed as we believe it

should in such an environment, losing only 0.60%, net-of-fees. The Portfolio has maintained a very short duration, so our performance was not greatly affected by the sharp increase in rates. Further, we have always targeted higher-credit quality bonds within the high-yield market, and our performance in the quarter reflected this bias. Lastly, the Portfolio's cash balance, which averaged 24% of assets, was a major contributor to the outperformance. As we do every quarter, we like to remind readers that we do not allocate capital based on top-down market calls. We only invest when we find a security we believe provides an attractive return for the risks borne. If we cannot find such a security, we will hold cash as we have done since the Portfolio's inception.

The Portfolio's largest contributors were Thermon Industries 9.50% due 5/01/2017, Speedway Motorsports 8.75% due 6/01/2016, and Quality Distribution 9.875% due 11/01/2018. Thermon (ticker: THR) is a fairly new position that we expected to hold until the May 2014 call date. The company decided to repurchase our bonds earlier at a premium, which pulled the gain forward and made it the top contributor. Northern Oil & Gas 8.00% due 6/01/2020, a newly established position discussed below, was the largest detractor, although the bonds declined only a few points. This was followed by Swift Energy 8.875% due 1/15/2020 and ManTech International 7.25% due 4/15/2018. Both positions were established in the second quarter.

Despite the relatively mild sell-off in high yield bonds (the Index is only off 4.1% from its all-time high), the market did offer opportunities to build new positions and add to existing holdings. We were fairly active buyers in the second quarter, entering five new positions and adding to five existing names.

Compass Minerals International (ticker: CMP) owns the world's largest rock salt mine and the largest rock salt mine in the U.K. The company sells highway deicing salt to municipalities, and sells consumer and industrial grade salt for various uses such as water conditioning and food preservation. The salt business contributes 80% of total sales and 70% of profits, and we believe is largely immune to change in economic activity. CMP also owns a growing fertilizer business. The company has maintained a conservative financial profile over the last several years, with net debt-to-EBITDA hovering around 1.5x. The new position in the 8.00% bonds is a great example of the utility of maintaining detailed watch lists of high-quality businesses we would like to own at the right prices. We first completed research on Compass during the credit crisis in 2008/2009, and soon after became a creditor. Compass called our holdings when it issued the 8.00% bonds, but at the time the new issue had too much interest rate risk for our liking, and we believed better opportunities existed elsewhere. We followed the company for the last several years, and as the interest rate risk declined the issue became more and more attractive. It took quite some time to establish the position, given the small issue size of only $100 million, but we were able to purchase a full position in the bonds early in the quarter.

Over the last two years we have found considerable value in energy credits, and we constantly monitor the space in search of new ideas. In the second quarter we established a position in Northern Oil & Gas 8.00% notes due 6/01/2020. Northern Oil & Gas (ticker: NOG) owns mineral rights for 182,000 net acres in North Dakota and Montana, where operators drill in the Bakken and Three Forks formations. These areas primarily produce oil, which currently receives a hefty price premium to natural gas on an energy-equivalent basis. NOG has a conservative balance sheet with only 2.0x debt-to-EBITDA and net debt-to-proved reserves of only $6 per barrel of oil equivalent (boe). This second metric is a way to measure asset coverage. For context, oil producing assets have recently sold for more than $30 per boe. Clearly, commodity price exposure is a primary credit risk when investing in energy businesses. To mitigate this risk, NOG has hedged 70% of its expected production in both 2013 and 2014. We began establishing the position early in the quarter before the market sold off, and therefore the position was the largest detractor in the quarter. The notes are slightly longer duration, which were impacted by the steep increase in risk-free rates. Spread widening across the high-yield market also contributed to the price decline. At current prices, we believe the notes have compelling risk/reward characteristics.

The last new holding we would like to highlight is ManTech International 7.25% due 4/15/2018. ManTech (ticker: MANT) is a provider of IT, logistics, cyber intelligence, and other services to the Department of Defense. The company's operations have suffered as the U.S. has withdrawn from Iraq and the operational tempo in Afghanistan has slowed. About 30% of the company's business is tied to the Middle East, which will be fully discontinued within a year or

two. This has caused many analysts to be overly negative on the company. However, we believe the company's core business is higher quality, and the balance sheet is rock solid with almost no net debt. ManTech is a good example of how we can leverage research across product lines. Intrepid's equity portfolios have owned the common stock for quite some time, but the bonds were not particularly attractive due to the longer maturity and low yield. Over a year ago, the Portfolio purchased a small weight in the equity when the share price declined to levels which we believed implied a disaster scenario and offered, in our opinion, an attractive dividend yield. We have made a solid gain on this position and were able to "swap" some of this exposure with a position senior in the capital structure when the bonds traded lower during the recent high-yield pullback.

To continue with the party analogy, we view ourselves as designated drivers. We participate and enjoy the festivities, but stay away from the hunch punch. As the party drags on we become increasingly bored, eagerly anticipating the night to end. On the following morning when others have lost their wallets and are nursing hangovers, we awake early with a spring in our step. We hope this gives our investors an idea of how we manage the Portfolios. **Our first priority is to protect capital.**

We thank you for your investment.