Intrepid Capital
MANAGEMENT INC.

2Q 2015

Index Returns	
4/1/2015 to 6/30/2015	
Dow Jones	-0.29%
S&P 500	0.28%
NASDAQ	2.03%
Russell 2000	0.42%

QUARTERLY COMMENTARY

July 2015

"I believe the market is extremely overheated… if more respected investors had warned about the market in '07, we might have avoided the crisis in '08."

— Carl Icahn, on Twitter

Dear Friends and Clients,

I read the above quote from Carl Icahn, the famous corporate raider, in a recent edition of *Barron's* magazine. I find it of continuing interest that other well-known investors have expressed similar opinions, along with notable academic luminaries, including Janet Yellen, Chairwoman of the Federal Reserve, and Yale professor Robert Shiller, yet no one appears to be listening, at least at the moment. The gravitational pull away from non-existent returns on cash has left most investors with a "tin ear," either deaf to the fact that equity and debt valuations are stretched, or helpless to remove themselves from the capital markets due to a need for current income.

The 3-year and 5-year returns of the S&P 500 are both over 17% annualized. This fact, coupled with very low equity price volatility and the aforementioned microscopic returns on cash and savings accounts, have led many investors to adopt the attitude of Alfred E. Neuman of Mad Magazine, "What, me worry?" Yes, one should worry. In fact, that is largely what we do on your behalf – worry. Many have made the choice to invest in unprofitable, speculative businesses that could take decades to generate enough cash to repay the initial investment, if ever.

In the fixed income world, such investments usually involve seeking yield without regard to maturity or the inherent risk of capital loss if interest rates begin to rise in the future. The timing of such a move is uncertain. I, for one, don't think the good old U.S.A. can afford higher rates on the additional nine trillion dollars the federal government has borrowed since 2008. According to the Congressional Budget Office, net interest payments were $231 billion in 2014 with a 1.8% average rate.[1] A mere 1% rise in rates would require an additional $128 billion in interest on the same amount of debt. Significantly higher interest rates would be tough if not impossible to swallow within the confines of the U.S. budget.

At Intrepid Capital, we believe that prospective returns are driven by what we pay for an asset and the corresponding cash flows that come with it. Please keep in mind that as volatility increases, the more likely mispricing is to occur, and the more likely we are to find investments where there is a favorable risk/reward profile.

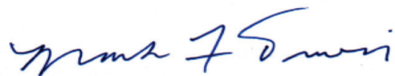
At this juncture in early July 2015, most returns in the capital markets, equity or debt, have been rather subdued year to date, ±1%; not exactly what many were expecting given the strong bull run of 2013 and 2014. If prices become more attractive, I will look forward to reporting back to you what we have found.

1 *https://www.cbo.gov/publication/45684*

For the quarter ended June 30, 2015, the Intrepid Balanced Portfolio (the "Portfolio") increased 0.48%, net-of-fees, compared to the S&P 500 Index and the BAML High Yield Master II Index which returned 0.28% and -0.05%, respectively, for the period. Cash in the Portfolio at the end of the quarter was 16.6%. The top performers in the Portfolio for the quarter were Royal Mail (ticker: RMG LN), Telephone & Data Systems (ticker: TDS), Bio-Rad (ticker: BIO), Leucadia National (ticker: LUK) and Tetra Tech (ticker: TTEK). Worst performers for the period were Contango Oil & Gas (ticker: MCF), Corus Entertainment (ticker: CJR/B), Berkshire Hathaway CL-B (ticker: BRK-B), Coach (ticker: COH) and Northern Oil & Gas (ticker: NOG).

Thank you for trusting us with your hard earned capital. It is not a position we take lightly.

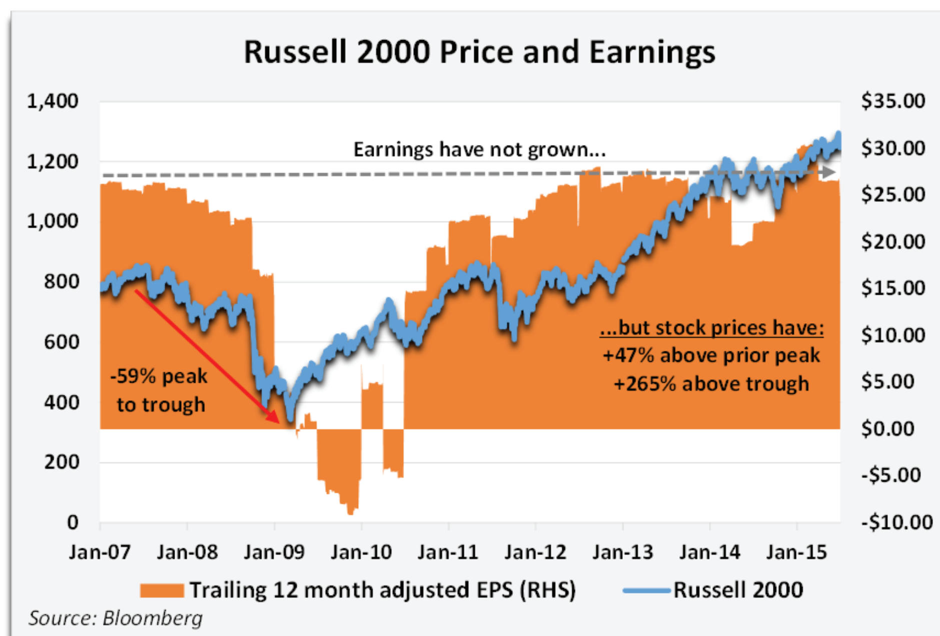
Best regards,



Mark F. Travis
President/CEO

SMALL CAP PORTFOLIO – COMMENTARY BY JAYME WIGGINS, PORTFOLIO MANAGER

Despite negative first quarter U.S. GDP growth, corporate profits edging lower, and Greece coming apart at the seams, the Russell 2000 Index (the "Index") reached a new all-time high one week ago. The Index is trading 46.5% above its peak from the previous market cycle, which occurred on July 13, 2007. Since the prior market top, aggregate earnings for the Index's constituents haven't increased, even on an adjusted basis that removes any charges classified as extraordinary. The Index fell 59% from peak to trough during the last bear market. We believe there is material downside risk today for investors. The Intrepid Small Cap Portfolio (the "Portfolio") continues to carry a considerable cash position, reflecting our inability to identify small caps that meet our valuation criteria.



Is the end near for the bull market? We think so, but we do not possess any special insight into market timing. A month ago in a *Wall Street Journal* op-ed, Burton Malkiel, author of *A Random Walk Down Wall Street*, chided Janet Yellen for her prediction in July 2014 that biotech and social media stocks had "substantially stretched" valuations.[2] Malkiel noted that the Nasdaq Biotechnology ETF has rallied 40% since Yellen's comments, which he attributed to not only speculators but also "sophisticated companies" that have made acquisitions in the space at large premiums. The implication was that because biotech stocks have continued their rapid ascent, Yellen was wrong. On January 10, 2000, a "sophisticated company" announced it would merge with a much younger tech company that had a highflying stock up 79% in the 12 months prior to the announcement. That was the AOL-Time Warner deal, which ultimately destroyed hundreds of billions in shareholder value. Sophisticated companies and sophisticated investors make mistakes all of the time. There is no doubt in our minds that the stock prices of many businesses are currently supported by the prospect of M&A, which is being fueled by artificially suppressed interest rates and the inability of many large companies to grow organically.

The average publicly-traded company is trading at the highest earnings multiple on record.[3] It has never been harder for us to find value. According to analysis by Sundial Capital Research, the percentage of unprofitable IPOs is higher today (78%) than at the apex of the tech bubble in 2000. The valuations assigned to many private tech companies are eye-popping, to say the least. Last week, the *Wall Street Journal* described how WeWork Companies, a provider of shared office space to startups, has received a $10 billion valuation after the latest funding from Fidelity Management & Research.[4] The

2 Malkiel, Burton G. "Janet Yellen is No Stock Market Sage." Wall Street Journal (June 1, 2015).

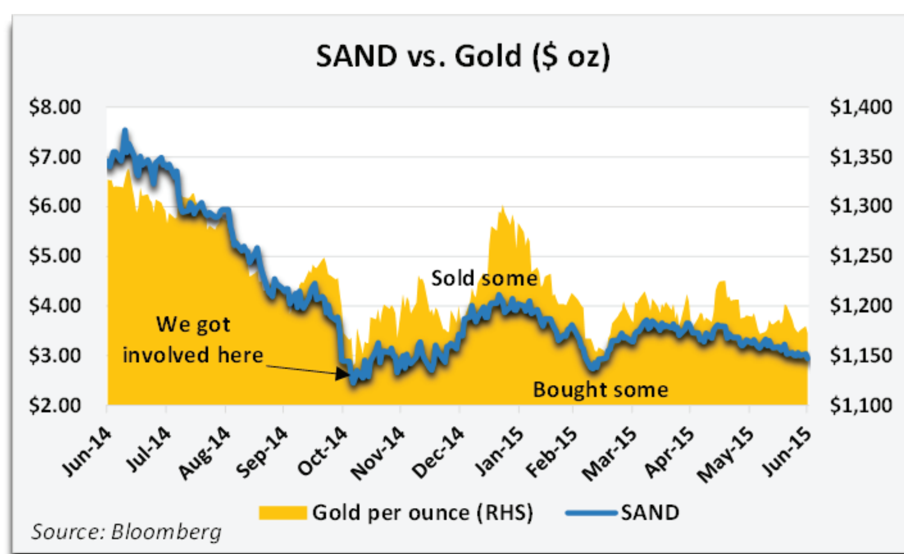
3 Paulsen, Ph.D., James W. "Median NYSE Price/Earnings Multiple at Post-War RECORD." Wells Capital Management. Perspective - Economic and Market (Jan. 8, 2015).

4 Brown, Eliot. "WeWork's Valuation Soars to $10 Billion." Wall Street Journal (June 24, 2015).

article noted that Boston Properties, the largest publicly-traded office landlord, carries a $19 billion market capitalization. Boston Properties owns 45 million square feet of real estate, including many prime locations. In contrast, WeWork *leases* 3.5 million square feet, which it transforms into hip, fun working spaces. It then subleases the transformed offices to small companies who pay much higher rates. Nifty idea. According to the article, WeWork is profitable and was priced at approximately 100x operating income when a $5 billion valuation was placed on it in December. You read that right—the valuation increased 100% in 6 months. Recent investors in WeWork are doubling down their bets on the sustainability of today's renewed startup frenzy, since WeWork depends on the continued vibrancy of funding for untested companies. That's the sort of bet we are not willing to make.

For the second quarter ending June 30, 2015, the Intrepid Small Cap Portfolio returned -0.78%, net-of-fees, while the Russell 2000 Index gained 0.42%. The holdings within the Portfolio fell -2.11% during the period. **The performance of our holdings over the past three quarters has not been satisfactory.** We deserve some blame. Yet, we also believe the market has unfairly punished several of our holdings, which we expect to be cured in time. The Portfolio's three largest contributors in the second quarter were Dundee (ticker: DC/A CN), Tetra Tech (ticker: TTEK), and Bio-Rad (ticker: BIO). None of them had material developments that are worth detailing. The four largest detractors to the Portfolio were Contango Oil & Gas (ticker: MCF), Corus Entertainment (ticker: CJR/B CN), Sandstorm Gold (ticker: SAND), and EZCORP 2.125% Convertible Notes. In our opinion, the first detractor was a screw-up by your Portfolio's Lead Portfolio Manager, while the latter three remain core holdings that deserve to trade at higher prices.

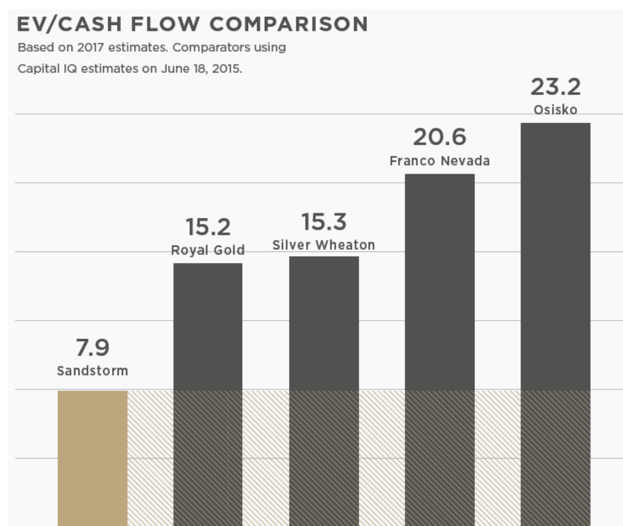
We purchased Contango Oil & Gas last fall during the rout in oil prices. At the time, we expected oil prices to recover (still do), but we wanted to ensure that our energy investments possessed balance sheets that could weather a prolonged downturn. Contango is one of the least leveraged small cap E&Ps. The company's offshore natural gas fields are generating cash that management is investing in onshore liquids-oriented plays that have higher breakeven costs than most competitors. Contango's stock held up very well during the early stages of the collapse in oil prices, and we should've fully exited our position then and rotated into more compelling opportunities. The shares sold off sharply after the first quarter earnings report in May. That report highlighted Contango's unfavorable position on the cost curve for its onshore portfolio. During our conversations with management, their explanations about Contango's increasing cost trend were inadequate. In hindsight, we improperly overemphasized the clean balance sheet at the expense of asset quality, and we failed to sell when losses could have been mitigated. We regret our decision-making, but at this point, we think the stock is pricing in more bearish scenarios for long-term oil and natural gas prices that we anticipate.



Sandstorm Gold's shares were weak this quarter due to the softening gold price. We first bought the stock last fall after gold had slid sharply. Our timing was better than usual. We believe that Sandstorm's streaming and royalty business model is superior to precious metals miners. Mine owners have greater operating leverage, which hurts them when gold and silver prices are falling. When precious metals are rising, the miners are still subject to cost inflation and potentially higher taxes and royalties from the governments of emerging economies where the mines are often located. Given unprecedented global monetary policy easing, we think there is a place

in our Portfolio for precious metals companies. We are not convinced the Fed will follow through on promises to raise interest rates, and even if they do, we expect the moves to be incremental.

Margins and cash flows for streaming and royalty companies like Sandstorm, Royal Gold, Silver Wheaton, and Franco-Nevada remain high even at current gold and silver prices. These firms also participate in the free upside from growth in mineral reserves funded by their mining partners. Sandstorm probably deserves to trade at a discount to peers, since some of its partners are financially weaker than the miners that anchor competitors' royalty portfolios. However, Sandstorm has made significant progress in upgrading the quality of counterparties in its portfolio. The stock is trading for below 10x trailing free cash flow and half of the forward multiple of peers.



Source: Sandstorm June 2015 Investor Presentation

During the second quarter, we purchased more of the convertible bonds of pawn operator EZCORP, which widened to an 8% yield on the company's announcement of a restatement at a Mexican subsidiary. It's hard for us to envision scenarios where we are not paid off at par (or better) when the bonds mature in four years. The tables below show our calculation of asset coverage on the bonds, assuming EZCORP received nothing for either its domestic financial services (i.e. payday) business or the Mexican subsidiary with accounting issues. The table to the left below uses the company's latest balance sheet to demonstrate that the liquid assets of the parent and pawn subsidiaries alone comfortably cover all of the firm's recourse debt. The table to the right below shows that credit quality is even stronger when viewed against recent transaction prices paid by industry leaders. The pawn industry continues to consolidate, and over the past 2 years there have been 6 major pawn store acquisitions by First Cash Financial, Cash America, and EZCORP. The average purchase price per store was $2 million. If we assume each of EZCORP's 497 U.S. pawn stores could be sold for $1.1 million, the lowest transaction price reported from recent deals, and we assume each of EZCORP's 242 Mexican stores could be sold for $400k, similar to other transactions, the total proceeds plus cash and investments cover EZCORP's liabilities by 250%. In a yield-starved world, we are surprised other investors haven't taken notice.

Convertible Bond Asset Coverage: 12/31/14	
Unrestricted cash	77,599
Pawn loans	150,930
Pawn service charges receivable	30,241
Inventory	133,986
Pawn current assets only	392,756
Cash Converters stake	97,000
Conservative asset total	**489,756**
	EZCORP total
Accounts payable and accrued exp	80,314
Customer layaway deposits	5,133
Other current liabilities	6,258
2.125% Convertible notes at par	***230,000***
Total liabilities, excl. Grupo debt	**321,705**
Coverage	**1.52**

Coverage based on transaction comps	
U.S. pawn stores	497
Value per store	*$1,097*
Value U.S. pawn ops	544,986
Mexican pawn stores	242
Value per Mex store	*$400*
Value Mexican pawn ops	96,800
Unrestricted cash and inv.	174,599
Asset value	**816,385**
Convertible notes & other liab.	**321,705**
Coverage	**2.54**

Source: Intrepid Capital Management, Inc.

The last year has been incredibly frustrating. **The greatest challenge is not resisting the urge to buy overvalued stocks—it's accepting the reality that the longer this market continues to rise unabated, the more people are going to tell you that you're wrong.** It's the Monday Morning Quarterback Effect (M.M.Q.E.—the acronym is quite appropriate here). In April 2012, GMO's Jeremy Grantham wrote to clients about career risk, or the tension between protecting your job or your clients' money:[5]

> The central truth of the investment business is that investment behavior is driven by career risk. In the professional investment business we are all agents, managing other peoples' money. The prime directive, as Keynes knew so well, is first and last to keep your job. To do this, he explained that you must never, ever be wrong on your own. To prevent this calamity, professional investors pay ruthless attention to what other investors in general are doing. The great majority "go with the flow," either completely or partially. This creates herding, or momentum, which drives prices far above or far below fair price… Missing a big move, however unjustified it may be by fundamentals, is to take a very high risk of being fired…Picking cash or "conservatism" against a roaring bull market probably lies beyond the pain threshold of any publicly traded enterprise. It simply cannot take the risk of being seen to be "wrong" about the big picture for 2 or 3 years, along with the associated loss of business.

So, here we sit, seen by most as wrong for 3 years and counting. Three years is a long time. For me, it encompassed the births of two babies and a noticeable increase in blood pressure. However, three years is not long enough in the investment business. Long-term investors should be judged over a full market cycle, which may not conform to popular 3 or 5 year measurement periods.

I have been asked several times what I would do differently were the investment clock rewound to the beginning of 2012. I think many expect me to contritely state that my takeaway is that Quantitative Easing (QE) works, so I would keep a fully invested portfolio if I could do it all over again. Instead, my response goes something like this:

> We are not trying to stake out the moral high ground. Given the benefit of a crystal ball, I would've altered many decisions. I would've been fully invested until April 29, 2011, then zero percent invested until October 3, 2011 (avoiding a 30% drawdown), and then fully invested from late 2011 through to the present. Oh, and I would've bought Netflix and biotechs. Stating that is a no-brainer, since we want to deliver the best possible returns for our clients. We have learned many things about various companies and industries over the last several years, which I think will enhance our decision-making going forward. Yet, the gap in performance between the Portfolio and its benchmark over the past 3 years has resulted overwhelmingly from the Portfolio's high level of cash. The cash allocation is the byproduct of our investment discipline paired with a small cap market that we see as extremely overheated. Our discipline does not attempt to predict investor behavior. That's a fool's errand. Instead, we strive to avoid the full extent of painful market drawdowns by adhering to a time-tested valuation methodology. Equally important, we seek to capitalize when others panic and sell securities at low prices. Our goal in marrying these two approaches is to produce an attractive absolute return over a full cycle. **We have remained faithful to our process.**

Our staunch, defensive positioning has cost us clients. That's an unfortunate but necessary evil to managing money this way. The same investment discipline has won us clients over the years, such as those who appreciated the Portfolio's outperformance during and immediately after the 2008 credit crisis. We are at a juncture where market risk appears much greater than potential reward. To thrive, you must first survive. We believe the Intrepid Small Cap Portfolio is in an excellent position to respond to changing market conditions. Thank you for your investment.

5 Grantham, Jeremy. "My Sister's Pension Assets and Agency Problems (The Tension between Protecting Your Job or Your Clients' Money)." GMO Quarterly Letter (April 2012).

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY GREG ESTES, PORTFOLIO MANAGER

Another "disaster" averted? At the end of June, Greek Prime Minister Alexis Tsipras rejected a bailout plan that would prevent his country from defaulting to the International Monetary Fund. The European markets roiled as the word "contagion" was softly murmured among investors. Money began to shift from European and U.S. stocks into U.S. Treasuries. The level of risk in financial assets was being reevaluated. Would this possibly lead to a greater sell-off? Nah!

For the quarter ended June 30, 2015, The Intrepid Disciplined Value Portfolio ("the Portfolio") fell -0.11%, net-of-fees, compared to the S&P 500 Index's return of 0.28% and the Russell 3000 Index's return of 0.14%. The gap might have been bigger had the consternation caused by the Greek default not occurred at the end of June. For the first six months of the year, the Portfolio has returned 1.47%, net-of-fees, versus the S&P 500 Index return of 1.23% and the Russell 300 Index's return of 1.94%. Volatility, as characterized by the Chicago Board Options Exchange Volatility Index (the VIX), had been decreasing over the past six months until the concern over Greece, which caused a spike in the index. However, now it appears that Greece will do a 180° turn and agree to the bailout proposals it initially rejected. The market appears to be rejoicing once again. From our perspective, this pattern has been going on for more than six years. Simply put, the pattern is one where the market faces some existential threat every few months for a day or two, only to have the threat removed, sending shares to all-time highs. We've seen it several times when the markets grew concerned over when the Federal Reserve might raise rates, only to have the Fed reassure everyone that rate increases would not happen for a long time, or that they would be mild when they did occur. In Europe, it happens when worries start with Greece, then resolution usually comes from either the European Central Bank or Germany offering additional financial lifelines. The commonality in each case appears to be that the market more than recovers from the threat. The resolution is more beneficial to the market than the initial cause for worry.

Every bull and bear market is unique, and today's bull market is no exception. It has been characterized by near-zero rates, which have had the effect of forcing investors to seek out riskier assets to achieve desired returns. If one was once a fixed income investor in Treasuries, one might now be a high yield bond investor or even possibly a stock investor, because there is little to no yield in Treasuries. Other things being equal, investors have been forced out of their comfort zones to make up for this low yield environment. Similarly, if one is a value stock investor, one is faced with a choice: A) go along with the market and play the relative game, keeping oneself invested, even though it might mean owning stocks which are overvalued, or B) avoid investing in stocks which are overvalued and risk underperformance relative to indexes and peers. It's no surprise that many value investors choose A, because choice B also has career risk. We have chosen B, and it has been no picnic. The Portfolio's cash level is currently 55%. Since March 31, 2009, when this bull market started, the S&P 500 Index has returned 18.87% annually, while the Russell 3000 Index has advanced 19.39% per year. In contrast, the Portfolio has returned 14.36%, net-of-fees, annually over the same time period, and while an annual return above 14% sounds great over a period of decades, most investors would not be thrilled to achieve that return in what has become the third longest bull market in history. We are not happy to be underperforming during this bull market. However, there is another aspect to choice B: at some point the bull market will end. Not being fully invested, the investor who has cash available is free to purchase stocks as they might become more attractively priced. The investor who is fully committed is faced with a choice of remaining in the stocks currently owned or selling at a loss to buy other stocks. Either way, that investor participates more fully in a declining market. Our decision has certainly not been easy, but we made it because we believe that in the long-run, it will be best for our shareholders.

During the quarter, our top contributors were Mattel (ticker: MAT), Telephone & Data Systems (ticker: TDS), and Northern Trust (ticker: NTRS). For both Mattel and TDS, the quarter and stock performance were a bit of a reversal, as both have been bottom contributors in the past. Mattel saw some improvement in inventory levels and sales trends across its brands. In TDS' last earnings release, its U.S. Cellular (ticker: USM) business showed postpaid (monthly billable) subscriber gains and improved profitability, which were met with enthusiasm by the market. Northern Trust continued to benefit from a rising market, which allows its assets under management (AUM) to grow and increases the fee it earns on managing those assets. The primary thesis for investing in Northern Trust has more to do with the net interest margin that the company can generate from its assets. With

rates so low today, it earns very little, but an increase in that net interest margin could be a significant boost to the company's cash flow. The increase in assets under management is a nice hedge while we wait for higher rates.

On the flipside, the bottom contributors to the Portfolio's performance were Contango Oil & Gas (ticker: MCF), Teradata Corp (ticker: TDC), and Coach (ticker: COH). Contango is an energy exploration and production (E&P) company that posted lower production amid significantly lower commodity prices, which resulted in a steep drop in EBITDAX (earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses). We have written about Coach in the past; the company has a long road ahead of them. They have taken some important initial steps, including refreshing the designs of their handbags and discontinuing promotional selling. In effect, they are protecting the brand by not discounting merchandise, but that does have a short-term effect of reducing sales.

Teradata is a data warehousing company that has seen soft demand, particularly among its financial customers. In addition, there is a new trend within data collection, called Big Data, which is about the collection, storage, and examination of mass amounts of data. We can think about Big Data as being distinct from data warehousing. Data warehousing combines more standardized data elements, such as logistics, accounting, and/or sales data into an easily accessible unified whole to aid management in decision-making. Big Data can collect much more information, but it is not standardized, and frankly some of it is not even useful. Think of all the data a social media company might collect on its users. Some of the information is valuable, but some is just white noise. There could be vast amounts of data, but it is not necessarily easily arrayed into storage, nor is it all useful. Big Data tends to use cheaper hardware operated by a vendor's software. Data warehousing requires more expensive hardware. Many investors feel that Teradata, as a data warehousing company, is being left behind by the advent of Big Data, but our belief is that data warehousing and Big Data are complementary. Companies can make use of both types of applications, and Teradata offers both. What we see in the interim is demand weakness. We have added to the position.

The Portfolio's cash level increased during the quarter due to some position reductions and an exit of two of our positions entirely. Intuitive Surgical (ticker: ISRG) traded above intrinsic valuation even though the company's most recent earnings release was mixed, with softness in margins while robotic surgical procedure growth was solid. Quest Diagnostics (ticker: DGX) was sold as the share price traded above our valuation due to news that lab volume growth had shown improvement. Although the news was welcome that lab order volume had increased, it was already factored into our valuation of the business.

The average discount within the Portfolio's invested portfolio is 14%, which is our internal measure that examines our intrinsic valuation for each individual stock in comparison to its stock price. This figure widened a little from last quarter, primarily due to a couple of factors. First, our energy-related holdings fell in price, which increased their respective discounts. Second, we sold two stocks that had no discounts left. Although we had no new acquisitions in the quarter, we continue searching for discounts. We are learning about new businesses, and although we may not be a purchaser today, we always have an eye towards potentially buying them in the future when, in our opinion, pricing is more favorable. We appreciate you investing alongside us and hope you enjoy the summer.

INCOME PORTFOLIO – COMMENTARY BY JASON LASARUS, PORTFOLIO MANAGER

All eyes are on Greece in these first few days of July as a potential exit from the European Union ("Grexit") has become a real possibility. The country had been negotiating with bailout providers for the last several weeks, but talks fell through last week, and Greece went on to miss its loan repayment to the International Monetary Fund on June 30. Greek banks and the stock market have been closed all week, and Greeks are only allowed to withdraw €60 ($66 USD) per day from ATMs. Photos have circulated on social media showing empty grocery store shelves and long lines of cars waiting for fuel. Still, many still believe everything will be fine. They declare that even a Grexit would not be meaningful to the European Union given the nation's tiny contribution to the Eurozone's GDP. This might be true, but what is readily apparent in the global market reaction to the stalemate is that Greece *does* matter.

Puerto Rico is experiencing a similar crisis due to the immense amount of debt the Commonwealth is carrying. According to the *Wall Street Journal,* the Commonwealth's debt-to-GDP ratio is 66%, several times greater than the most indebted U.S. state, Massachusetts, at 18%. Puerto Rico's governor has publicly declared that its debt is unsustainable, and he is pursuing relief from creditors. Prices of Puerto Rico's municipal debt have cratered, highlighting the dangers of reaching for yield in a world where central banks have forced savers to invest in ever-riskier securities to meet income needs.

Meanwhile, back at home, the prospect of a Fed rate hike later this year continued to rattle the high-grade bond market. Ten-year Treasury yields steadily declined throughout 2014 and plunged early in 2015 to 1.6%, then violently shot higher in February and March before settling at 1.9% at the end of the first quarter. Yields have moved steadily higher since and are currently around 2.4%. The specific causes of the unusual level of volatility are not completely understood, but according to a *Bloomberg Business* article, some are citing a change in market structure and the presence of high-frequency traders. This has led to concern among Fed officials and the launch of investigations aimed at determining the causes. The Department of Justice has also launched an investigation into potential manipulation of Treasury markets.

To lend some perspective to how such moves in interest rates have impacted bond prices, consider the 2.25% Treasury bond due 11/15/2024, which is the most recently issued ten-year bond that was outstanding during the first six months of 2015. The bond's duration is around eight years, which means the bond price should change by about 8% for every 1% parallel shift in the yield curve. It's unlikely we would experience a perfectly parallel shift, but we are only seeking to approximate the price change. In January, the 10-year yield fell a little more than 50 basis points, and the bonds rose 4.8%. The yield then rose 60 basis points by March, and the bonds fell 5.2%. In the second quarter, 10-year yields rose 43 basis points to 2.4%, which resulted in a 3.6% drop in the 2.25% Treasury. It has been a bumpy ride for the Treasury bond investor, who, including coupons, lost 2.5% in the second quarter.

Rising risk-free rates had a significant negative impact on investment-grade markets. The Barclays US Aggregate, which represents the broad investment-grade market and comprises Treasury and agency bonds, mortgage-backed securities, and corporate bonds, declined 1.68% in the second quarter ended June 30, 2015. High-grade corporates, as measured by the BAML US Corporate Index, dropped 2.66% in the second quarter due to the index's longer duration of around seven years. High-yield bonds were somewhat immune to the pain of higher interest rates due to the asset class's shorter duration of closer to four years. Rates at the shorter end of the yield curve did not shift upward to nearly the same extent as the long end. High-yield spreads were essentially unchanged, and the BAML High Yield Master II Index (the "Index") declined 0.05% in the quarter. The asset class performed well in April and May, but reversed course in June amidst significant outflows from high-yield mutual funds and ETFs. The weakness was broad across ratings and sectors, but distressed issues experienced significantly more pain that the average bond, particularly those in the mining and energy sectors.

In contrast, the Intrepid Income Portfolio (the "Portfolio") posted a positive return of 0.91%, net-of-fees, in the second quarter. The outperformance was attributable to security selection. Most of our positions beat the benchmark handily, including all but one of our energy names. 85% of our average invested assets outperformed the benchmark in the quarter, and there were only three material detractors. Our larger than normal cash position tempered the results somewhat. The top contributors to the Portfolio's performance were PetroQuest Energy 10% due 9/01/2017 (ticker: PQ) and Regis Corp 5.75% due 12/05/2017 (ticker: RGS). While we only discuss these two companies below, several others contributed materially to the Portfolio's quarterly performance, including the bonds of AuRico Gold, Ruby Tuesday, PHI Inc., Era Group, Smith & Wesson, and Northern Oil and Gas. All of these issues outperformed the Index by several percentage points.

PetroQuest was one of the first energy bonds we purchased for the portfolio. The 10% notes were one of the Portfolio's core positions from 2011 to 2014. We became wary of the credit quality after management overpaid for Gulf of Mexico properties in 2013 and financed the transaction with debt. We cut the position in half last summer as the call date neared and the bond price

held near its highs. Not surprisingly, the bonds fell along with all high-yield E&Ps late in 2014 as oil prices plummeted, but we maintained the position due to the firm's relatively higher exposure to natural gas. The bonds rebounded significantly as oil prices stabilized, at which point we began to consider at what price we would exit the position completely. The impetus came early in June when PetroQuest announced it would be selling its largest asset. The price was favorable to the company, and it generated gobs of liquidity. The bonds jumped several points on the news, but we have a less favorable view of the transaction. PetroQuest sold a key asset that supported the company's credit quality and will use the funds to drill in a largely unproved play in East Texas. While the well returns are better in this area, we were uncomfortable underwriting such a drilling campaign.

Our position in the Regis 5.75% bonds was established in late 2013 through a private placement. We and another investor were the only two owners of these bonds until recently. A third party indicated its interest in the notes two months ago and was able to complete a purchase more than two points higher than the level we had the bonds marked. We believe the credit quality of this hair cutting business is strong, and therefore we intend to maintain our position in the short-dated notes.

As for detractors, EZCORP 2.125% due 6/15/2019 (ticker: EZPW) and EXXI 8.25% due 2/15/2018 (ticker: EXXI) were each a material drag on the Portfolio's performance. EZCORP was the Portfolio's biggest detractor in the first quarter as well, and we had hoped the bond price was nearing a bottom. Like Kevin Bacon's character in *Animal House*, we should have toughened up and exclaimed "Thank you, sir! May I have another?" The company wasn't done with us yet. In late April, EZ announced it had discovered accounting errors in its Mexican unsecured loan business, Grupo Finmart. The firm delayed its earnings release to investigate, and at the time of this writing has still not released full financials or its 10-Q SEC filing. EZCORP's stock is down at least 20% since the announcement, and the convertible bonds we own have fallen from the mid-80s to around 79. Our analysis indicates the bonds are covered even excluding EZ's U.S. payday operations and the entire Mexican business. The notes are offering a yield materially higher than the Index, with better credit quality (in our opinion), lower duration, and a potentially valuable equity option. We think the bonds are very attractive at these levels, and we added to our positions on the weakness.

EPL Oil & Gas was the only energy-related detractor in the second quarter, negatively impacting the Portfolio's overall performance by a little more than 0.1%. The bonds turned in an impressive performance early in the quarter, rising to the highest level since December of last year as oil prices stabilized and market participants believed bondholders were in a strong negotiating position to push for a refinancing. Recall that EPL was purchased by Energy XXI (ticker: EXXI) in 2014, but EPL remained a standalone subsidiary that did not guarantee any of EXXI's debt. As discussed in our fourth quarter 2014 commentary, we believed the parent had a strong incentive to refinance these bonds. However, our confidence in the thesis weakened recently as it became more obvious that taking the bonds out was not a priority of management's, so we decided to exit the position.

The portfolio had a fair amount of activity in the second quarter. We reached our target positions in three new ideas. The new purchases include First Cash Financial Services 6.75% due 4/01/2022 (ticker: FCFS), Multi-Color Corp 6.125% due 12/01/2022 (ticker: LABL), and two issues of Rent-A-Center (ticker: RCII)

First Cash Financial Services is one of three large publicly-traded pawn shop operators. We discovered FCFS when completing work on EZCORP and Cash America, the other two pawn operators. First Cash is differentiated in that it has a significant presence in Mexico and is the pawn shop of choice in that country. Further, only a small portion of the firm's earnings are attributable to payday loan operations. This is important because the U.S. government's Consumer Financial Protection Bureau (CFPB) has come down hard on payday loan practices and will heavily regulate the industry, which will dramatically reduce the size of the payday loan market and the profitability of companies offering such loans. First Cash is very conservatively leveraged, in our opinion, with a debt-to-EBITDA ratio of just 1.5 times, and the notes make up nearly all of the firm's debt. Additionally, we believe the bonds are well covered by the asset value of the stores. The three major pawn operators have consistently acquired stores for a minimum of $1 million per store, and in some cases beyond $3 million per store. At $1.5 million per store, the domestic stores alone (which generate less than half of the company's sales) cover the

firm's *total* liabilities by 150%. We believe the 400+ basis point spread the bonds offered at the time of purchase was more than adequate compensation for the risks.

Two of the Portfolio's core positions were called in the quarter, Teleflex 6.875% due 6/01/2019 and Smith & Wesson 5.875% due 6/15/2017. We expected the Teleflex bonds to be called, but the Smith & Wessons were a surprise. We also sold three positions. The sales of the PetroQuest and EPL bonds were discussed above. We also exited our position in Quality Distribution 9.875% due 11/01/2018. The bonds were a long-time holding of the Portfolio, but unfortunately it was announced that the firm would be acquired by a private equity buyer. No details were given about the prospective capital structure, but the bonds will likely be refinanced as part of the deal. The yield to the expected refi date was very low, so we decided to preemptively exit the position.

At Intrepid, we don't pretend to know what will happen with Greece or Puerto Rico. Maybe one or both of these situations is the catalyst for a global re-valuation of financial assets, but more likely the catalyst will be some future "unknown unknown." What we do know is that the future is unpredictable. To mitigate the risks of the unknown, we look at securities through the lens of valuation. To bear the risks of a specific security, we must be appropriately compensated. We will not force your capital into securities when we don't believe we are paid to assume the risks. We continue to believe ideas that will potentially provide attractive risk-adjusted returns are scarce, and therefore the Portfolio's cash balance remains elevated. Additionally, as stated in our letters for the last several years, we believe interest rates are well below normalized levels. We will maintain the Portfolio's short-duration posture until we believe we are being paid to extend further along the yield curve. Thank you for your investment.

INTERNATIONAL PORTFOLIO – COMMENTARY BY BEN FRANKLIN, PORTFOLIO MANAGER

The news of Greece potentially exiting the euro zone ("Grexit") dominated the news during the quarter. Despite the reported fear, the MSCI EAFE Index ended the second quarter ending June 30, 2015, in the black. The last few weeks of the quarter did see a decline, but the advance prior to this was strong enough to keep it positive. A potential failing country with a risk of mass contagion is no match for this easy money binge!

Greece has been playing hardball in negotiations with their bailout creditors, effectively stating that they would like to be part of the euro zone without playing by the euro zone's rules. While the drama has been unfolding over the course of the year, it culminated on June 28, 2015, when the Greek government enacted capital controls and ceased equity trading. The seemingly endless stories sure make for good theatre. The final outcome is unknown and speculating on such is farther away from Intrepid Capital's core competency than Charles Barkley's golf skills are from his basketball talent. There is the possibility of contagion as well, with radical parties in other weak European countries (e.g. Spain, Italy, etc.) gaining momentum. Some reporters portend contagion is inevitable; we see it as a potential but far from certain outcome. Nevertheless, we shy away from political risks such as these.

The MSCI EAFE Index reported a return of 0.62% during the quarter, outstripping the Intrepid International Portfolio's (the "Portfolio") return of 0.61%, net-of-fees. As mentioned, Greece weighed on Europe's share prices during the quarter, but the strength of the European market prior to the last few weeks has been incredibly strong. In fact, through June 30th European stocks as measured by Stoxx Europe 600 were still up nearly 14% year-to-date![6] We attribute much of this to the same reason stocks have reached unprecedented levels domestically: central banks determined to keep rates low, resulting in asset inflation. Rather than committing capital based on keeping the easy money spigots open, we are focused on the fundamentals of underlying businesses; that is, the cash flows a business throws off and what we are willing to pay for these flows.

The Portfolio's three largest contributors during the quarter were Royal Mail (ticker: RMG LN), Programmed Maintenance Services (ticker: PRG AU), and Imvescor Restaurant Group (ticker: IRG CN). The three largest detractors were Coventry Group (ticker: CYG AU), Balda AG (BAF GR), and Corus Entertainment (ticker: CJR/B CN). We believe the fall in prices of all three of the largest detractors were not warranted based on the underlying fundamentals.

6 SXXP Index total return (Bloomberg: SXXP Index) was 13.91% through 6/30/2015.

Royal Mail is the UK's designated Universal Postal Service Provider. The company was previously owned by Her Majesty's government but was taken public in October 2013. During the quarter the company announced that a potential and growing competitor to their last-mile delivery would exit the market. This was a large potential threat as management estimated the competition would cause Royal Mail to lose over £200 million ($310 million) in revenue by 2018. The positive news caused the shares to rally and we trimmed the position; however, we believe shares are still trading at a discount.

Programmed Maintenance Services benefitted from strong earnings, a solid outlook, and the announcement of a merger with competitor Skilled Group (ticker: SKE AU). We do not believe the merger is in the best interest of shareholders; however, after announcing the plan the stock moved up for several days. Since the end of the quarter, and as the market has presumably digested the news, the equity price has given up the gains.

Imvescor Group is a Canadian restaurant franchiser that has been struggling to turnaround negative same-store sales over the past few years. The company has a new CEO with a clever turnaround plan. The market likes the plan, as is apparent with the stock appreciating 24% during the quarter.[7] Due to the stock price increasing prior to the business fundamentals, we took this opportunity to significantly reduce the position.

Coventry Group is another company going through a turnaround, and it had a tough quarter as the company announced that both its Secretary and CFO are stepping down. Investing in turnaround situations is not something we relish; however, if a company is trading at a cheap enough valuation it is something we may consider. In this case, the company is trading at a price-to-tangible book value of less than 0.6x. The assets on the books are high quality, with over one-third of the market cap in cash. Admittedly, the company will likely burn some cash this fiscal year as they restructure their business; however, these cash outflows are for tangible cost cutting initiatives that we believe will benefit future earnings and cash flow.

Balda Group is another firm that trades at a discount to the net assets on the books. In this case, net cash and equivalents make up almost €200 million ($220 million) compared to a market cap of €120 million ($130 million). The cash was accumulated from an investment the company previously disposed of. The cash requirements of the existing business are low. In fact, the operating business is small relative to the cash pile as total revenue is a paltry €80 million ($88 million). During the quarter the company announced a loss of a customer making up about 10% of revenue, and the equity fell about 6%, indicating a loss of €9 million ($10 million) in value. This appears to be a significant overreaction in our opinion, and we took the opportunity to add to our position.

Corus was discussed last quarter, and is discussed in more detail in the Intrepid Small Cap Commentary. The company's TV channels have had strong ratings, yet advertising revenues are suffering. We believe the company continues to trade at a discount due to their ownership structure whereby the Shaw family has control despite a low economic interest. We believe the company makes for an attractive takeover candidate by a vertically-integrated cable company.

During the quarter we made multiple purchases, and one sale. We bought small positions in Baldwin & Lyons (ticker: BWINB), Fenner (ticker: FENR LN), HNZ Group (ticker: HNZ/A CN), and Pacific Brands (ticker: PBG AU), while we bought a larger weight in Noranda Income Fund (ticker: NIF-U CN). The one sale was in Fantastic Furniture (ticker: FAN AU), which we exited as it surpassed our intrinsic value estimate.

Noranda Income Fund is a Canadian zinc smelter with an uncertain future. The company currently has an agreement with Glencore (ticker: GLEN LN) whereby zinc concentrate is supplied to Noranda until 2017. Cautionary language about the future of the contract caused the stock to fall to what we believe is below net asset value when factoring in the cash flows until contract maturation. Additionally, we believe Noranda will continue to operate, albeit at lower market rates. Even at these lower rates the shares are trading at a discount to our estimated intrinsic value.

We continue to search international markets for undervalued securities and recently have found ideas in unusual areas. These have included very small companies that many large institutional investors would likely shun, companies trading at a deep

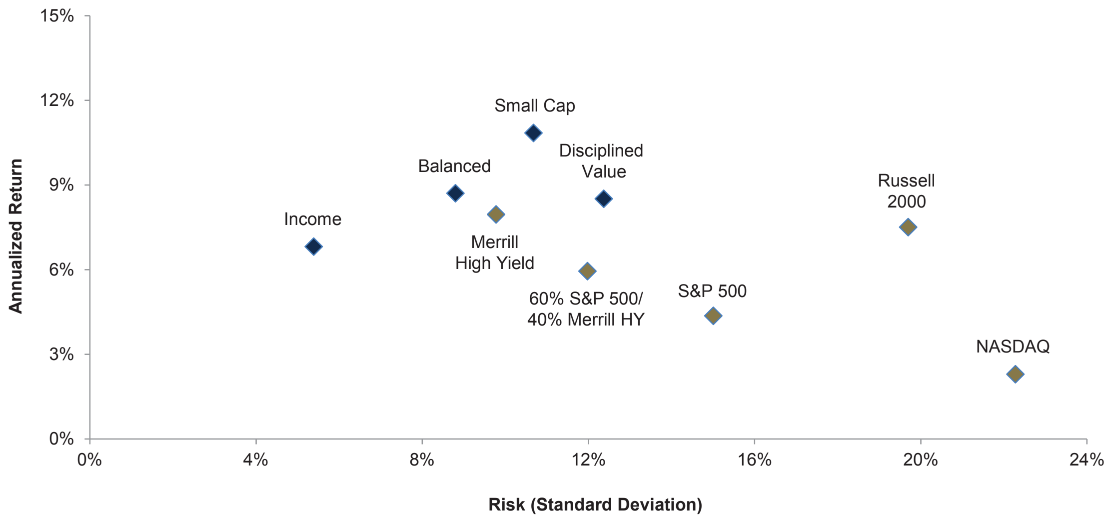
7 In local currency (CAD).

discount to the net assets on their books, and even an obscure Canadian income trust in Noranda. We will continue to search for high quality businesses, but in the current environment this is a difficult feat. This hunt, when fruitful, is one of the most enjoyable parts of the job. *The* most enjoyable part is watching these ideas result in large profits, which we continue to strive for. Thank you for your investment.

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK/RETURN

JUNE 30, 2000 TO JUNE 30, 2015

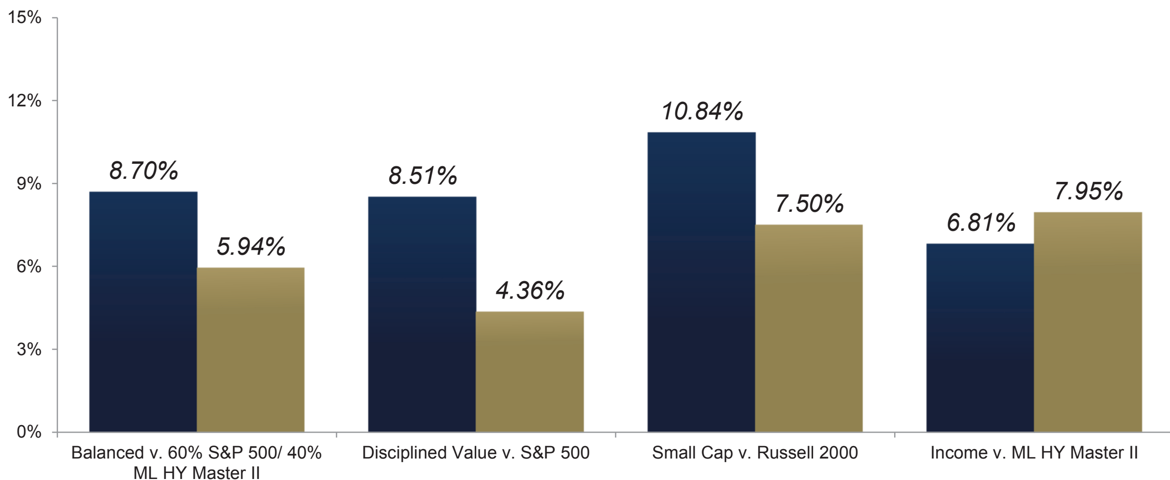


- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending June 30, 2015. Returns reflect the reinvestment of dividends and other earnings. The volatility of the 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, 2000 TO JUNE 30, 2015



- 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, 2015. 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.