Intrepid Capital
MANAGEMENT INC.

Index Returns	
7/1/2014 to 9/30/2014	
Dow Jones	1.87%
S&P 500	1.13%
NASDAQ	2.24%
Russell 2000	(7.36%)

QUARTERLY MARKET LETTER
COMMENTARY
October 2014

"A government which robs Peter to pay Paul can always depend on the support of Paul"

— George Bernard Shaw

Dear Friends and Clients,

I was recently asked to speak to a group of largely retired businessmen, and the title of the discussion was "5 things I have learned in 20 years of running Intrepid Capital." I find it useful to reflect in the hope I won't have an unforced error twice! By recreating it here, I thought it would help clients to understand our investment process a little better.

Lesson #1: There is more than one way to investment heaven.

I don't believe we have cornered the market (no pun intended) on how portfolios should be managed. In fact, there are many ways to investment heaven, but most won't make it for lack of sticking with a consistent, disciplined process, whatever that may be. At Intrepid Capital, our goal is to participate on the upside and protect capital on the downside. We aim to do this with a conservative and strict underwriting process, carefully assessing business value and attempting to pay significantly less than that amount. To the dismay of some, our valued oriented process will often underperform the market. The incremental outperformance over a full market cycle (Bull & Bear market), compounded over a long investment horizon (20 years), should lead to a substantial dollar difference in the final value, if you stay with it.

Lesson #2: Price matters.

Price is not always indicative of value. At Intrepid Capital, we believe that the price you pay today is the largest determinant of your investment outcome, whether for a stock, bond, real estate or a private business. We try to pay such a cheap price so that our outcome is asymmetrical. In other words, we seek a lot more upside than downside when we establish a position.

Lesson #3: Fish in a deeper pond.

Most of the financial press and many a portfolio manager only follow the largest 500 equity securities by market capitalization. At Intrepid Capital, we search the globe for mispricings, leaving what we generally regard as efficiently priced domestic large capitalization companies to others. In the U.S. today, there are roughly 330 companies with market capitalizations north of $15 billion, but almost 10,000 companies with market capitalizations less than $15 billion, hence the deeper pond where we prefer to fish. In addition, we continue to look outside of this country, with more and more eyeballs devoted to the task.

Lesson #4: Don't do something . . . Just sit there.

Frankly, in almost ten years at the helm of the Intrepid Capital family of mutual funds, I have been amazed over the speed in which money comes in and goes back out, often to the detriment of the underlying shareholders. Until 1975, stock brokerage commissions were a high cost that made frantic trading difficult and expensive. Up until that time, portfolio turnover averaged maybe 30% per year, implying a holding period of just over three years. Today, trading

costs are negligible and portfolio turnover is 100% or greater in some instances. Please keep in mind our “friends” at the I.R.S. charge almost 2X in taxes for capital gains on a profitable position held 364 days versus one held 366 days. The top marginal rate for short term capital gains is roughly 44% versus 23% for gains held over one year. Lastly, I have heard the no load fund business, at times of heightened volatility, referred to as 1-800-GET- ME-OUT! Unfortunately, many, if not most mutual fund shareholders buy high and sell low. A study by Dalbar and Associates of Boston found that over the last 20 years the market averaged roughly 8% but the average mutual fund investor only 4%. This is largely the result of emotion-driven purchase and sale decisions. When you find a manager and process you like, don’t do something…just sit there.

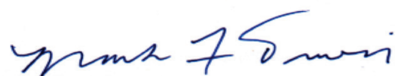
Lesson #5: Opportunities are the greatest when fear is the highest.

This last point is important to note as we are now five and a half years into a bull market with the last three having been particularly benign from the Federal Reserve’s continuous morphine drip of interest rate suppression. As rates seek a higher level, either on their own or with the helping hands at the Federal Reserve, equity prices could reset lower rather quickly. The VIX, or Volatility Index, is a good indicator of fear in market participants. Our process is somewhat counter cyclic in that we tend to be fully invested when prices are absolutely cheap, and when prices are high, our cash levels tend to follow. Our job, when the fire bell rings and the VIX index spikes from rampant fear, is to slide down the fire pole and buy mispriced securities! Our fire suits are on and we are listening.

The Intrepid Balanced Portfolio (the “Portfolio”) declined 0.69%, net-of-fees, for the quarter ended September 30, 2014, underperforming the 60% S&P 500 /40% BAML HY Master II benchmark (the “Benchmark”) which declined 0.10% for the same period. Year-to-date, the Portfolio has increased 5.57%, net-of-fees, versus the Benchmark’s gain of 6.47%. The top contributors to the quarter’s performance were American Eagle Outfitters (ticker: AEO), Intuitive Surgical (ticker: ISRG), and Berkshire Hathaway B (ticker: BRK/B). In contrast, the Fund’s largest detractors for the quarter were Bill Barrett (ticker: BBG), Mattel (ticker: MAT), and Newfield Exploration (ticker: NFX). Many of these companies are discussed in our other portfolio commentaries or have been discussed in prior quarterly commentaries.

Thank you for entrusting us with your capital, it is not a position we take lightly.

Best regards,



Mark F. Travis

President/C.E.O.

SMALL CAP PORTFOLIO – COMMENTARY BY JAYME WIGGINS, PORTFOLIO MANAGER

After eight consecutive quarterly gains, the Russell 2000 Index finally retreated in the third quarter of 2014. The benchmark's decline was 7.36%, which is a notable departure from the positive performance of larger capitalization stocks. As of September 30, 2014, the Russell's fully baked P/E based on GAAP earnings is 100x. The median constituent P/E in the index is 45x. The benchmark sits 8.8% below its all time high, but it's 28.7% above the previous cycle's July 2007 peak. The seepage in the prices of small cap stocks hasn't altered our view that the small cap market is prohibitively expensive. This condition is only likely to be cured by a sharp drop in stock prices.

Like the recent divergence in performance between large and small companies, we expect the next bear market to create a range of outcomes among small cap stocks. Higher quality, cash-generative companies should see their swollen valuation multiples contract. When this is paired with margin pressures, significant stock price declines are possible. However, for the fully invested money manager, this is the lesser of evils, since the intrinsic value growth inherent in owning good businesses eventually covers up poorly timed purchases. Just be prepared to wait. Long-term shareholders of Microsoft and Intel are still waiting to fully recover their tech bubble losses…over fourteen years later.

The small cap landscape is also littered with many companies of inferior quality. These range from the cyclically vulnerable to the structurally doomed to the hopelessly enamored. In many cases, these firms have been awarded substantial and rapidly growing market capitalizations well in advance of any signs of profitability. The endgame for the stocks of these weaker enterprises is potentially bleak (it might go something like this: http://www.youtube.com/watch?v=pkpglRZWEtU).

Currently, just over half of Russell 2000 index members are down more than 20% from their 52 week high prices. Given the Russell's negative year-to-date returns, it's not surprising that stocks belonging to higher beta industries are generally down more. Approximately 75% of Internet small caps and over 80% of biotechnology stocks are in a bear market (-20% or more). Three quarters of oil and gas drillers are in the same boat, as they have been impacted by declining commodity prices. On the other hand, financials have fared well. Only 14% of small cap banks and 10% of REITs have fallen by 20% or more.

For us, it's not a choice between owning overvalued high quality businesses or more overvalued low quality ones. Behind door number three is cash, which amounts to 73.6% of our portfolio. We don't view cash as our metaphorical bomb shelter—a place for us to hide until the battle is over. We're quite willing to tiptoe around investment landmines to dig up an 80 cent dollar, but we are unable to find meaningful value in this market. Sometimes there is an opportunity cost penalty for inaction, as the ongoing cash flow generated by companies leads to a gradual build in their values. The idea is that companies can grow into their stock prices, and some undoubtedly will. Nonetheless, over the past year, the membership of the Russell 2000, ex-financials, has produced aggregate free cash flow equal to 18 basis points of its collective market capitalization. The typical non-financial company's trailing free cash flow yield is 2%. We don't think time alone can fix this imbalance.

We present six signs of an increasingly hollow stock market:

- **Activism—the latest investment fad:** Don't get us wrong, management teams need to be held accountable, and activism has led to genuine improvements at many enterprises. However, we can't help but feel that there used to be a touch more substance behind activist positions. With corporate profit margins at record highs, the well has largely run dry for intelligent cost saving actions. The *activism du jour* is based on establishing a stake and then clamoring for management to borrow money to repurchase overvalued shares or explore "strategic alternatives." A specious 13D filing has been the surest ticket to a quick gain. Pardon our sanctimonious tone. To an extent, we are all investment mercenaries, so you can't blame activist investors for playing the game.

- **M&A at peak stock prices is viewed as a value creator:** How much value has been destroyed by companies overpaying for acquisitions? Promises of synergies now frequently lead to significant gains in the stock price of the *acquiring* company, which is a relatively new phenomenon. This summer the London Stock Exchange (LSE) agreed to buy Russell Investments, our favorite index compiler, for 19x EBITDA. LSE's stock rose 6% on the day of the announcement.

- **Earnings accretion and the 6 inch hurdle:** "Accretive to earnings" is perhaps the most abused phrase in the financial lexicon. An acquisition increases the acquirer's earnings per share (EPS) if the target's earnings yield (E/P ratio) is greater than the acquirer's after tax borrowing cost. Given that investment grade borrowing rates are approximately 3% today, creditworthy acquirers can pay around 50x earnings and still produce higher EPS. They can pay even higher multiples if using idle cash. Blessed are those management teams with the perspicacity to use their own overvalued stock when acquiring today.

- **Share repurchases are good for the goose, but not for the gander:** Over the last 7 years, S&P 500 stock buybacks troughed in the second quarter of 2009 and peaked in the first quarter of 2014. In terms of allocating shareholders' money, the timing is unbelievably awful. Yet, the ratio of insider buys to sells is near the lowest level since the tech bubble, according to Bloomberg.

- **Gaming the system through inversions:** A tax inversion is the relocation of a corporation's headquarters to a lower tax nation, while retaining the core of its operations in the original country. U.S. corporate tax rates are high in comparison to the rest of the developed world, and the system could use an overhaul. Nevertheless, most large companies have an effective tax rate well below the stated 35% Federal rate. In fact, during the last five years corporate tax receipts have been the lowest percentage of pre-tax profits going back to at least World War II. In 2013, that rate was 17.2%, according to data from the St. Louis Fed. Still, during 2014 corporate tax inversions caught on like wildfire as the newest variety of financial acrobatics to further enhance net income. Shares of Walgreens fell 14% on the day it disclosed it would not be moving its headquarters overseas upon closing the Alliance Boots acquisition. With recent anti-inversion rules, the Treasury department may have squashed the trend. Did anyone really think it could last?

- **More Central bank absurdity:** The Federal Reserve, through interest rate suppression, is the principal enabler of the colossal misallocation of capital we are witnessing. As U.S. Quantitative Easing supposedly comes to an end, Europe takes the baton. The European Central Bank has lowered its deposit rate deeper into negative territory and hopes it can stave off a recession through aggressive monetary policy. The Bank of Japan is directly purchasing Japanese equities. Central banks have become the clown car of the modern era—just when you think you've seen it all, out pops another silly idea.

For the three months ending September 30, 2014, the Intrepid Small Cap Portfolio (the "Portfolio") fell 1.64%, net-of-fees, compared to a 7.36% decline in the Russell 2000 benchmark. Year-to-date, the Portfolio has gained 2.42%, net-of-fees, while the Russell is lower by 4.41%. The Portfolio's equity-only performance for the quarter and year-to-date was -6.09% and 10.42%, respectively.

The Portfolio had no material gainers in the third quarter, which we define as equity positions adding more than 10 basis points to the Portfolio's overall return. Our Canadian dollar hedge was the largest gainer and offset foreign exchange losses on our Canadian-domiciled holdings, as the U.S. dollar strengthened. Other gainers were companies that we sold early in the quarter, before the small cap market fell. The primary detractors to the Portfolio's third quarter performance were Tetra Tech (ticker: TTEK), Pan American Silver (ticker: PAAS), and Ingram Micro (ticker: IM). The decreases in Tetra Tech and Ingram Micro were not dramatically different than the small cap market, and we have no insight to share. Pan American, a small position, fell significantly due to weakness in gold and silver prices.

During the third quarter, we bought shares of Ipsos (ticker: IPS FP), which is one of the world's leading market research organizations. By conducting surveys, Ipsos helps customers discover and dissect the attitudes and behaviors of consumers. The company is headquartered in France, but it has an extensive global reach and the official language of Ipsos is English. Approximately 60% of sales come from outside of Europe. Traditional players in the market research industry are being challenged by a shift toward digital forms of data collection and interpretation, driven by the proliferation of smartphones and social media. This has caused a significant slowdown in the growth rate of companies such as Ipsos.

On July 23, 2014, the company announced lower-than-expected organic growth, which led to a 22% single day drop in the share price. The trading multiple on Ipsos's stock fell to levels unseen since the credit crisis. While we do not discount the inroads being made by new digital players, we believe the stock's fall was an extreme overreaction. Like its peers, Ipsos is actively expanding its new business lines that fall under the digital umbrella. In fact, in a popular annual industry survey conducted by GreenBook of "The 10 Most Innovative Companies in Market Research," Ipsos is ranked third. Ipsos has longstanding relationships with blue chip customers, high emerging markets exposure, and it has delivered steady, expanding margins over time. We established a position at a free cash flow yield exceeding 10%.

We exited our remaining small positions in Aaron's (ticker: AAN), Royal Gold (ticker: RGLD), and WWE (ticker: WWE) in the third quarter. As the year progressed, we lost confidence in Aaron's management and have been surprised by the deterioration in its core rent-to-own business. We liquidated the majority of our Aaron's holding at favorable prices early in the third quarter and sold the remainder after the company reported second quarter earnings. Royal Gold exceeded our fair value appraisal as the precious metals royalty company outperformed underlying gold prices. We walked away with a nice gain.

WWE's stock rallied during the quarter both before and after it announced an improved outlook for 2015 due to $30 million of expense reductions. In our last quarterly letter to you, we speculated this cost cutting might occur. The stock exceeded our intrinsic value, and we sold it. U.S. subscriber growth at the WWE Network continues to stall. The Network has now been launched globally with more flexible pricing plans that have the potential to further cannibalize pay per view revenue. The company would be in a far stronger financial condition today if it never launched the WWE Network but instead nurtured its highly profitable television franchises. We expressed this view to them on more than one occasion while we were WWE's largest public shareholder. Although it wouldn't be easy for the company to unwind its WWE Network, we think it's a long-term possibility if subscriber numbers remain underwhelming.

We do not know if the current weakness in small cap equity prices will stick. There have been two occasions this year when declines were followed by a quick rebound back toward all-time highs. It's our position that most small cap stocks need a substantial re-pricing downward in order to trade at fair value. A key pillar of our investment philosophy is that we measure our results over a full cycle, which includes both a bull and bear market. We believe that's the fairest way to appraise any investment manager. Those analyzing current 3 and 5 year relative returns for investment managers should understand that they are only judging half of the cycle. It's like a Tour de France without the mountain stages. Those who follow cycling know *the race is won in the uphill climb.*

Thank you for your investment.

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY GREG ESTES, PORTFOLIO MANAGER

Although the bull market is getting long in the tooth, it hasn't yet given up the ghost in some corners on the market, particularly among the largest stocks. Essentially, a handful of mega caps are powering the index return, which we detail below. For the third quarter ended September 30, 2014, the Intrepid Disciplined Value Portfolio ("The Portfolio") posted a return of 0.79%, net-of-fees, comparing favorably to the Russell 3000 Index return of 0.01% but behind the S&P 500 Index return of 1.13%. For the calendar year-to-date, the Portfolio returned 5.68%, net-of-fees, while the Russell 3000 Index made 6.95% and the S&P 500 Index returned 8.34%. The Portfolio's equity-only return for the quarter and calendar year-to-date was 1.85% and 13.50%, respectively.

To get a better understanding of what is going on, we should state the differences between the two comparative indexes. The S&P 500 is comprised of 500 of the largest companies in the U.S. stock market. It is capitalization-weighted, meaning that the largest stocks will have more impact on the Index return than the smallest ones. The Russell 3000 Index is a compilation of the 3000 largest publicly traded companies in the U.S. It is a combination of the Russell 1000 large cap index and the Russell 20000 small cap index. It too is capitalization-weighted, but due to the inclusion of many smaller stocks, it represents

a broader investable universe. Whenever there is divergence between the indexes, it is often because of a divergence between small and large cap stocks. In this case, that is indeed true, but it is not the entire story.

If we examine the top 10 contributors within the S&P 500 Index over the past 12 months, we can see that they accounted for 82.77 points of the index's total gain of 277.29 points, or 30% of the gain. These top 10 stocks represent roughly 16% of the total index size. Now let's begin to narrow the scope of the return period. For the past nine months, the top ten stocks contributed 54.37 points of the index's 123.93 point gain, or roughly 44% of the return. For the most recent quarter, the index gained only 12.06 points, but the top ten contributors to the index gained 20.07 points. The takeaway from these figures is that *a handful of stocks are powering the gains of the S&P 500 Index.* Small caps have been going down for the past quarter and the past nine months. Midcaps, as measured by the S&P Midcap Index, were negative in the past quarter. It is clear that the continued positive performance for the S&P 500 Index is being driven by the largest of the large: of the top ten contributors to the S&P 500 Index over the past twelve months, all were among the top 25 in terms of size. Six of the ten were among the top 7 stocks, with the exception of Exxon Mobil (XOM). And the contributions from the top ten performers are becoming more of a factor as we focus on the most recent time period. The top ten contributors account for 29.8% of the twelve month index gain, 44% of the index's nine month gain, and more than 160% of the index's three month gain! How long can the top stocks continue to carry the market?

For the quarter, our top performers were three stocks that rebounded somewhat from challenging circumstances. American Eagle's (ticker: AEO) stock price was up over 30% in the quarter as it rebounded from annual lows. While the business environment for retail is still challenging, the market had set expectations even lower. Teen retailers appear to be gaining price discipline, and inventories appear to be in better shape for the important back-to-school and holiday seasons.

Intuitive Surgical (ticker: ISRG) has seen sales of its da Vinci units slow due to constrained hospital budgets, but the most recent quarterly release showed that physicians' adoption of robotic surgery is strong with procedure growth up 9% for the last year - well above expectations. In addition, management picked up the proverbial gauntlet thrown down by short sellers and bought back $1 billion in stock over the second quarter.

Finally, in the case of Staples (ticker: SPLS), the stock fell upon its earnings release when management reiterated that it will take time to reduce the brick and mortar footprint by closing stores (they closed 80 stores in its most recent quarter) and drive sales through its online channel. As the quarter progressed, a sellside report advocated that Staples acquire Office Depot, which had recently merged with Office Max. Without verification of any forthcoming mergers and acquisition activity, the market pushed the stock higher.

On the opposite end of the spectrum, the Portfolio's bottom contributors include another retailer, Mattel (ticker: MAT). The toy maker disappointed in the quarterly release as it worked through inventory issues, which seem to be a common theme for many retail-oriented businesses. In the case of Western Union (ticker: WU), concerns about higher commission costs have pushed shares down, although our opinion is that being a part of Western Union's network is a long-term advantage for its agents. We think that this will buttress Western's network against outside competitive threats. The third bottom contributor is silver miner Pan American Silver (ticker: PAAS), which has seen rough times as silver spot prices have fallen from a high of $21.58 per ounce in July to a quarterly low near $17 an ounce recently.

Activity during the quarter has been muted, with only one position exited. We sold shares of World Wrestling Entertainment (ticker: WWE) after attempting to re-establish a position earlier in the year. At the time of purchase, we assumed that the state of the business was unchanged from the previous year, but we felt there was an opportunistic chance to add to re-acquire the stock after the share price fell. However, our concerns that the WWE Network would not be as successful as management claimed combined with what we considered significant additional operational expenses led us to sell out of our position.

Our sole purchase for the quarter was in the UK-based publisher Quarto Group (ticker: QRT LN). This is a very small company, with a market capitalization of only £27.9 million. Quarto is unlike other publishers because it focuses on illustrated non-fiction

books. Part of the business, called co-editions, involves creating books and licensing them to third-party publishers. This allows Quarto to have widespread distribution of its products. Its Publishing Group sells its titles towards "Communities of Niche Enthusiasts," eschewing traditional bookstores to sell in various retailers locations. Examples would include pet books being found in PetSmart or Petco or Do It Yourself books found in Lowe's or Home Depot. We took the opportunity to establish a position after a relatively weak recent earnings release with the belief that management has good visibility into the second half of the year, which is its most important selling season.

Our cash level remains elevated at 45.6%. The question of whether that level of cash will increase or decrease is predicated on what discounts we can find among individual securities. Obviously a market which is in decline gives us more potential opportunities to purchase than a market that continues to rise. For now, we continue to look at new ideas and evaluate them for future potential inclusion in the Portfolio. At today's prices, the current average discount within the Portfolio, in which we examine the current stock price for each investment to our corresponding estimate of its intrinsic value, is 7%. That is slightly bigger than last quarter but still historically low. If pricing becomes more favorable, we stand ready to use some of that cash. We thank you for your confidence in our process.

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

High-yield bonds posted the worst quarterly performance since 2011 after yields hit record lows (and prices record highs) at the end of June, as measured by the BAML HY Master II Index (the "Index"). The asset class exhibited renewed volatility that had not be experienced in over a year, declining close to 2% through July, then recovering all of the losses and more by the end of August before falling more than 2% in September. Investors seemed to reassess the credit risk of these less-than-investment-grade businesses and became spooked by the prospect of rising interest rates (who'd have thought it was a bad idea to lend to a money-losing business at 6% for eight years?). Corporate CFOs may have also come to the realization that the borrowing environment was perhaps the most attractive in history. High-yield companies came to the new issuance market in force in September, and investors demanded more attractive terms to fork over their cash.

The September sell-off was broad but unfortunately fairly shallow. The median return of the more than 2,000 bonds in the index was only -1.5%. However, there were pockets of extreme risk aversion. Forty-six issues in the index lost more than 10% in the month, and eight issues lost more than 30%. These results were mostly concentrated in the most leveraged borrowers, with a preponderance of leveraged buy-outs (LBO), offshore oil and gas drillers, energy producers, and coal miners. As regular readers of our letters know, we typically seek to lend to higher-quality high-yield borrowers, and therefore were not involved with any of these companies.

Significant BAML HY Master II Losers - September 2014					
Leveraged Buy-Outs		**Offshore Drilling & Energy Producers**		**Coal and Iron Miners**	
Gymboree	-50.8%	Hercules Offshore	-13.7%	Walter Energy	-40.2%
Altegrity	-45.6%	Vantage Drilling	-10.3%	Arch Coal	-26.7%
Jones Group	-14.0%	Endeavour International	-47.5%	Cliffs Natural Resources	-18.9%
Toys R Us	-10.4%	Quicksilver Resources	-34.7%	Alpha Natural Resources	-14.1%

The Intrepid Income Portfolio (the "Portfolio") performed well in the quarter due to the defensive posture we've maintained for quite some time. The Portfolio returned -0.52%, net-of-fees, in the quarter, while the Index returned -1.92%. The Barclays Aggregate Bond Index, which represents the broad universe of investment-grade bonds, rose 0.17%.

The largest contributor to the Portfolio's performance in the quarter was Ruby Tuesday 7.625% due 5/15/2020. Ruby Tuesday continues to be one of the higher-yielding securities in the portfolio. This may have resulted in portfolio managers' reluctance to sell the notes to raise cash.

For the first time in several quarters, a few of the Portfolio's holdings detracted from performance. Our two largest positions are in energy producers (EPL Oil & Gas and Northern Oil and Gas), and the sector as a whole sold off materially as oil prices fell. Investors indiscriminately sold most energy bonds without regard to credit quality. We believe these two issues have unique qualities that bolster the credit quality beyond that of the average energy company. EPL was recently acquired by a larger energy business with the use of debt financing, but we believe investors are not recognizing the fact that the bonds have a senior claim on the acquired assets. EPL's assets will not guarantee any of the acquirer's debt until the notes are called, which we believe will occur early next year. Northern Oil & Gas (ticker: NOG) should be less impacted by lower oil prices due to its significant hedging program. As of June 30, 2014, the company had 65% of its production hedged for 2015 and was already layering in hedges for 2016. Both issues have been top performers in the past, and we expect them to contribute solidly going forward.

The sell-off in high-yield bonds allowed us to initiate positions in several new names that we had been watching for some time. In the quarter ended September 30, 2014, we purchased Era Group 7.750% due 12/15/2022, Mobile Mini 7.875% due 12/01/2020, Scotts Miracle-Gro 6.625% due 12/15/2020, Speedway Motorsports 6.750% due 2/01/2019, and Teleflex 6.875% due 6/01/2019. Regular readers will recognize many of these companies. Over the years we have owned other issues of Mobile Mini, Scotts Miracle-Gro, Speedway Motorsports, and Teleflex. In most cases the prices of these bonds did not drop significantly, but cash needs forced managers to sell what they could, and we were willing to step in at what we believe were attractive yields.

The only "new" idea that was sourced and purchased in the quarter is Era Group 7.750%. Era Group (ticker: ERA) is one of the largest providers of helicopter transportation services in the U.S., primarily serving the offshore oil and gas markets in the Gulf of Mexico and Alaska. While helicopter operators are exposed to fluctuations in energy prices, most of the companies' sales are tied to production rather than exploration, which provides a much more stable revenue stream. The industry structure as a whole has improved over the last few years as larger and more capable aircraft are required to service platforms further offshore. This has resulted in operators competing more on capability and service instead of price. We believe Era is performing below normalized levels due to several company-specific issues that should be remedied shortly. Additionally, the company's owned fleet has significant value that offers protection potential to bondholders.

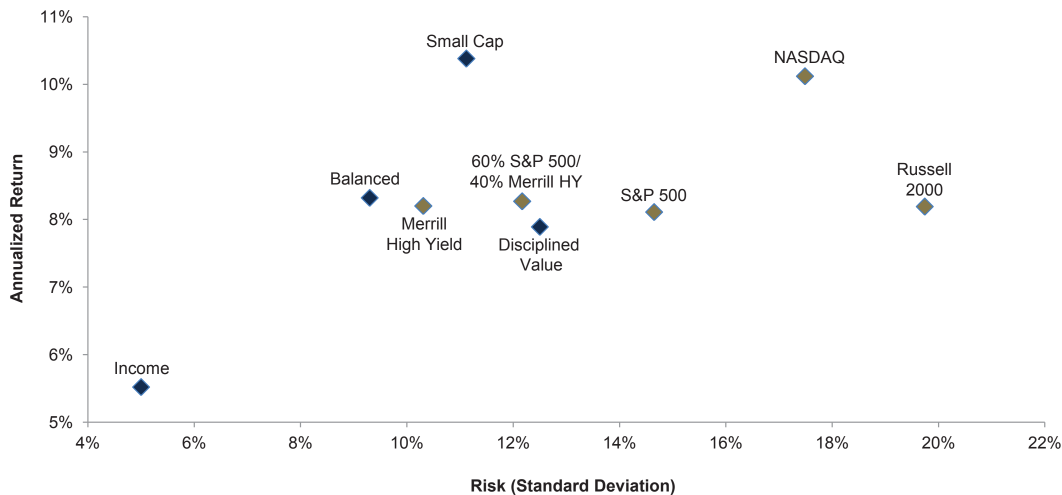
One material position was called in the quarter; Cott Beverages 8.125% due 9/01/2018. At the end of the quarter, cash comprised 33% of the Portfolio's assets. We expect call activity to increase in the fourth quarter and into 2015, and therefore cash levels should increase in the absence of attractive opportunities to deploy capital. Despite what was a favorable quarter for our defensively positioned portfolio, yields offered by high-yield bonds are only slightly more attractive than they were three months ago. This is particularly true with the higher-quality businesses we seek to lend to. To put this in perspective, consider that since the credit crisis the Index has recorded a quarterly loss in only four of the last twenty-three quarters. Further, the Index fell more than 2% in only one of these periods; the third quarter of 2011. Nevertheless, we will continue to diligently search for undervalued securities on your behalf.

Thank you for your investment.

RISK ADJUSTED RETURNS

TRAILING 10 YEAR RISK/RETURN

SEPTEMBER 30, 2004 TO SEPTEMBER 30, 2014

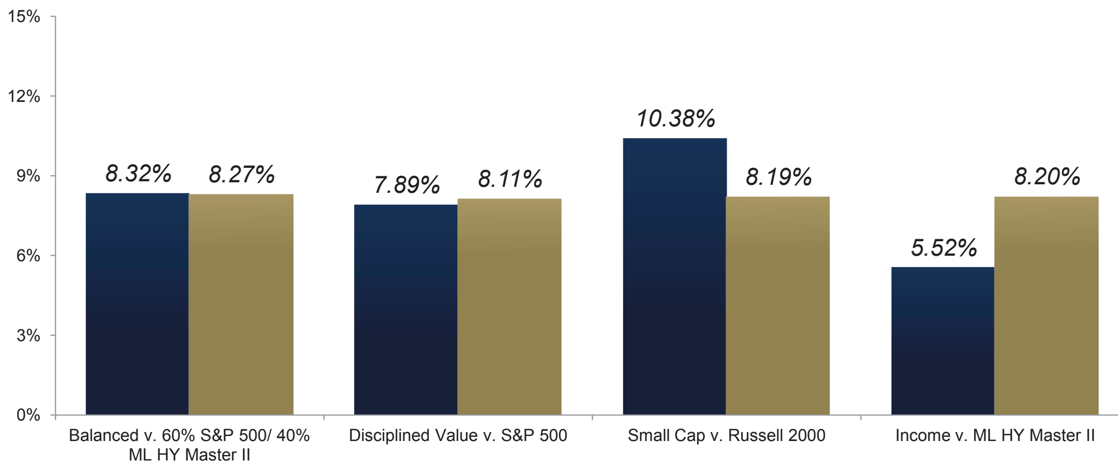


• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 10-year period ending September 30, 2014. Returns reflect the reinvestment of dividends and other earnings. The volatility of 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. Risk is the annualized monthly standard deviation.

ANNUALIZED PERFORMANCE

TRAILING 10 YEAR RETURNS

SEPTEMBER 30, 2004 TO SEPTEMBER 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 10-year period ending September 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. Risk is the annualized monthly standard deviation.