Intrepid Capital MANAGEMENT INC.

Index Returns	
10/1/2014 to 12/31/2014	
Dow Jones	5.20%
S&P 500	4.93%
NASDAQ	5.76%
Russell 2000	9.73%

PRESIDENT'S LETTER

January 2015

"Patience is bitter, but its fruit is sweet."

— Jean-Jacques Rousseau

Dear Friends and Clients,

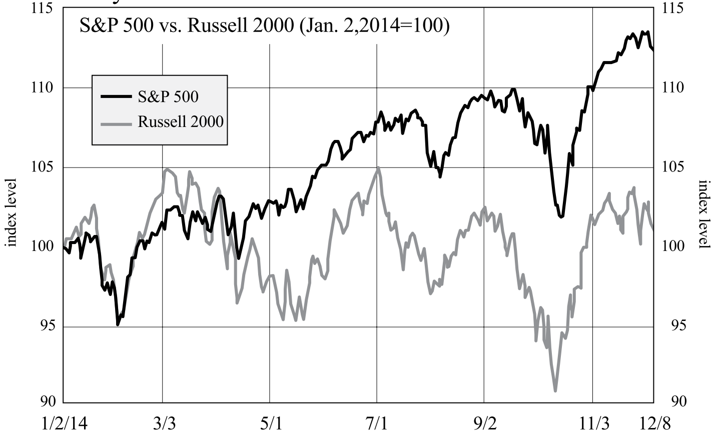
The equity markets presented us two very brief opportunities to put additional cash to work in the 4th quarter of 2014, once in mid-October and then again in mid-December. In both instances, investor psychology quickly swung to bearish sentiment, only to be just as quickly washed away by rising prices.

As an investor who operates from the basis that it all comes back to cash, it is currently very difficult to find shares in a business at these prices, where one would be happy with the cash flows to the investor. "Prices be damned," many are saying as more investors put money into index funds while hedge funds continue to close. If only it were that easy. Low cost, almost free, coupled with mindless simplicity have generally not been the way to high risk adjusted returns, until now. If you were to view the 2008 results of the Vanguard 500 Index, you would probably have asked yourself if you could have really stuck with with a decline of about 37%. Based on our experience with most investors, the answer is probably not. The history of the no-load mutual fund industry argues otherwise, showing investors tend to bail out at the bottom of the market when there is too much volatility. We strongly encourage you not to do this. Instead, just continue to delegate that responsibility to us!

The application of consistent and fundamental valuation techniques guides us into and out of the markets. As prices rise to meet our estimate of intrinsic value, in the absence of alternative undervalued securities, our cash balances will build. Cash in our portfolios are elevated today for that reason. Our process of carefully underwriting each stock and bond will never bat 1,000, and it might not keep up with a sharp upswing in market prices, but our primary goal to our shareholders is to protect the capital they entrusted to us.

For most of the last fifteen years, we have increased value to portfolios by searching mostly through the large universe of the small cap market, generally U.S. based companies, as represented by the Russell 2000. The Russell 2000, the S&P 500 Index, along with shorter maturity, less than investment grade bonds, as represented by the Bank of America Merrill Lynch High Yield Master II Index (BAML HY Master II) have been the place to be most of the last fifteen years, just not in 2014. See the chart to the right showing the S&P 500 versus the Russell 2000 over the course of 2014.

Plenty of shorts here



source: The Bloomberg

We expect changes in the market over the course of 2015 which we hope to take advantage of for the benefit of fund shareholders. It will be interesting to see how the Federal Reserve works its way out of the “box canyon” in which it finds itself. Each time over the last year and a half there has been even a brief mention of rising rates, the equity and debt markets have sold off. With an aging bull market, coupled with high stock and bond prices, we believe the prices could swing dramatically. Please rest assured all of us at Intrepid Capital will be seeking higher returns than currently offered in cash, with no more risk than absolutely necessary.

As many of you know, Intrepid Capital is celebrating its 20th anniversary this year and we could not be more proud of how far we’ve come. When we speak and write about being long term investors, and use the term “over a full market cycle,” our 15 year performance returns reiterate this philosophy. All four strategies are now at least 15 years old and three of them have outperformed their respective benchmarks over this time period. For the 15 year period ended December 31, 2014, the Balanced portfolio returned 8.66%, net-of-fees, compared to the 60% S&P 500/40% BAML HY Master II benchmark’s return of 5.79%; the Disciplined Value portfolio returned 8.37%, net-of-fees, compared to the S&P 500’s return of 4.24%; the Small Cap portfolio returned 11.44%, net-of-fees, compared to the Russell 2000’s return of 7.38%; and the Income portfolio returned 6.93%, net-of-fees, compared to the BAML HY Master II’s return of 7.71%.

Finally, we are pleased to announce the launching of our new International portfolio. This strategy will be managed according to the same disciplined philosophy we have implemented across the firm over the past 20 years. Our focus will be on developed markets outside the United States. Think Australia and France, not North Korea or Zimbabwe! This portfolio is being led by Ben Franklin, CFA. In October, Matt Parker, CPA joined Intrepid Capital to assist our investment team as a new research analyst, and is focusing on analyzing potential international investments. Please contact Matt Berquist or Chris Pilinko if you would like to discuss investing in this new product.

Thank you for entrusting us with your hard earned capital. If there is anything we can do to serve you better, please don’t hesitate to call.

Best regards,

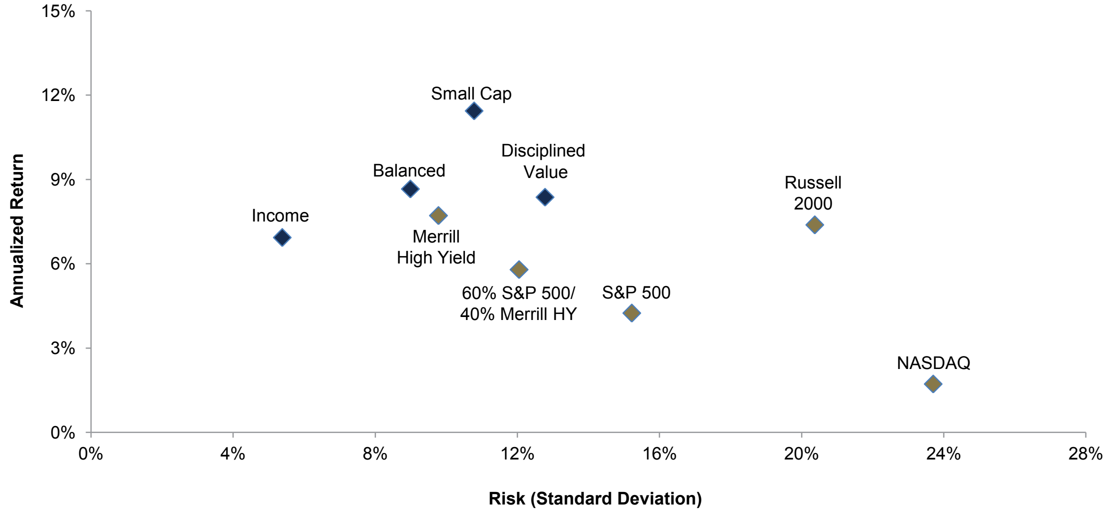
Mark F. Travis

President/C.E.O.

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK/RETURN

DECEMBER 31, 1999 TO DECEMBER 31, 2014

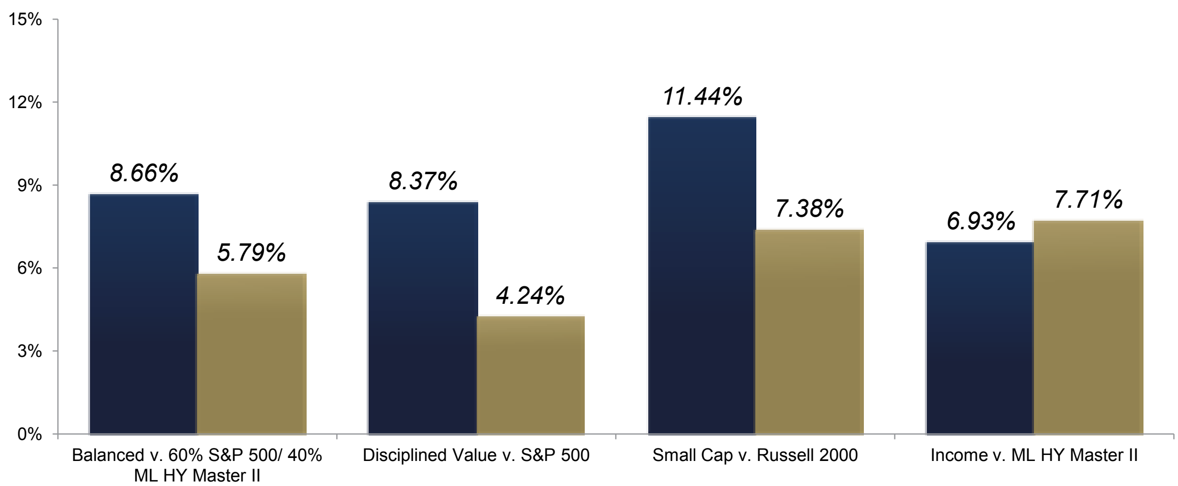


• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending December 31, 2014. Returns reflect the reinvestment of dividends and other earnings. The volatility of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

ANNUALIZED PERFORMANCE

TRAILING 15 YEAR RISK/RETURN

DECEMBER 31, 1999 TO DECEMBER 31, 2014



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