Intrepid Capital Funds

the constant pursuit of value

INTREPID INCOME FUND

2nd QUARTER 2014 COMMENTARY

2Q 2014

JUNE 30, 2014

PERFORMANCE

	Inception Date	Total Return Qtr.	YTD	1 Year	Average Annualized Total Returns as of June 30, 2014 3 Year	5 Year	Since Inception
Intrepid Income Fund - Inst.^	08/16/10	0.95%	2.43%	4.93%	4.68%	6.37%	4.81%
BAML High Yield Master II Index		2.57%	5.64%	11.80%	9.27%	13.94%	8.88%
Barclays US Aggregate Bond Index		2.04%	3.93%	4.37%	3.66%	4.85%	5.32%
BAML Corporate Index		2.89%	5.95%	8.01%	6.25%	8.27%	6.45%

^Institutional Class shares of the Intrepid Income Fund commenced operations on August 16, 2010. Performance shown prior to August 16, 2010 (5-Year and Since Inception) reflects the performance of Investor Class shares, which commenced operations on July 2, 2007, and includes expenses that are not applicable to and are higher than those of Institutional Class shares.

Effective January 31, 2014, the Investor Class shares of the Fund were closed, and any outstanding Investor Class shares were converted into Institutional Class shares.

Performance data quoted represents past performance and does not guarantee future results. *Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption fee on shares held for 30 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Institutional Class shares of the Intrepid Income Fund commenced operations on August 16, 2010. Performance shown prior to August 16, 2010 (2008-2010) reflects the performance of Investor Class shares, which commenced operations on July 2, 2007, and includes expenses that are not applicable to and are higher than those of Institutional Class shares.

Per the prospectus, the Fund's annual operating expenses (gross) for the Institutional Share Class is 0.98%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 0.90% through 1/31/15, respectively. Otherwise, performance shows would have been lower.

July 1, 2014

Dear Fellow Shareholders,

Fixed income markets continued to build on last quarter's rally and posted impressive gains across the board. Despite another $10 billion reduction in the Federal Reserve's Quantitative Easing program and likely continued tapering in coming months, Treasury yields grinded lower, with the 10-year rate falling from 2.72% to 2.53% in the quarter. The decline in risk-free rates was partially responsible for the positive returns generated by corporate bonds, but spread compression was also a contributor. For the quarter ending June 30, 2014, the Barclays U.S. Aggregate returned 2.04%, and corporate bonds performed even better. Investment-grade corporate bonds, as measured by the BAML Corporate Index, returned 2.89%, and the BAML High Yield Master II Index gained 2.57% in the quarter. The Intrepid Income Fund (the "Fund") returned 0.95% in the second quarter.

Ruby Tuesday 7.625% notes due 5/15/2020 (ticker: RT) were the Fund's top contributor by a large margin. We discussed Ruby Tuesday in our fourth quarter 2013 commentary when it was the Fund's largest *detractor*. The casual restaurant chain has experienced operational weakness and has struggled to turn around the business. However, we concluded that the company had cost levers to pull that could improve the credit quality. More importantly, RT's significant real estate holdings gave us comfort that the bonds would be covered in a restructuring, and therefore we maintained a sizeable position despite the murky outlook. The company reported better than expected earnings in April, and the bonds rallied more than eleven points off the recent low.

AuRico Gold 7.75% due 4/01/2020 (ticker: AUQ), which was added to the portfolio in the first quarter, was the Fund's second largest contributor. The company is discussed in last quarter's commentary. Rounding out the top contributors is the common stock of Corus Entertainment (ticker: CJR/B CN). We recently established a small position in the stock. There were no detractors in the quarter.

Top Ten Holdings	(% of net assets)
EPL Oil & Gas, 02/15/2018, 8.250%	4.8%
Smith & Wesson, 6/15/2017, 5.875%	4.6%
Northern Oil and Gas, 06/01/2020, 8.000%	4.5%
Regis, 12/05/2017, 5.750%	4.1%
Pitney Bowes International Holdings, Inc.	4.0%
Cott Beverages, Inc., 09/01/2018, 8.125%	3.9%
Brown Shoe Co., Inc., 05/15/2019, 7.125%	3.5%
Ruby Tuesday, Inc., 05/15/2020, 7.625%	3.3%
Swift Services Hlds, Inc., 11/15/18, 10.000%	3.1%
PHI, Inc., 3/15/2019, 5.250%	3.0%

Top ten holdings are as of June 30, 2014. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

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

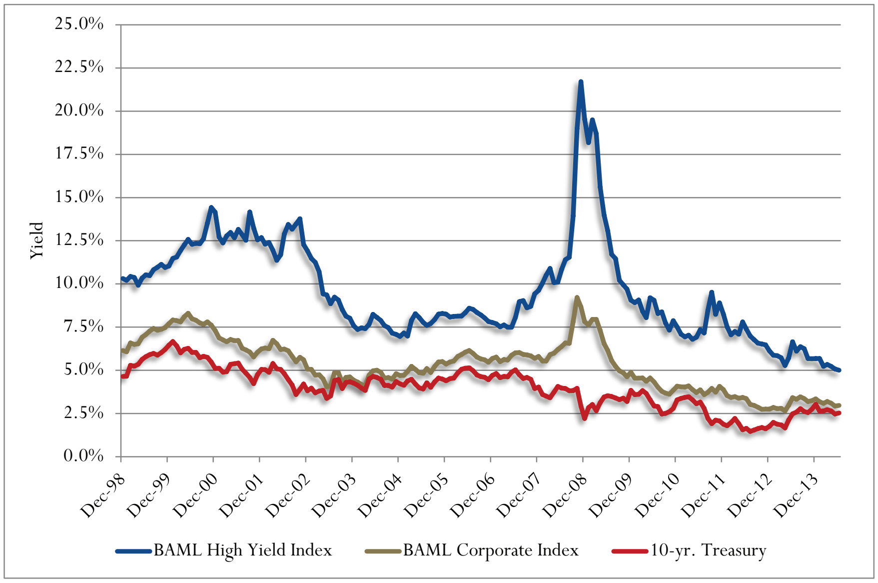
As regular readers of our commentaries know, we do not have a fully-invested mandate and, therefore, only deploy cash when we believe we are being compensated to assume risk. As noted below, we believe there are significant risks to investing in nearly all fixed income asset classes. Sourcing attractive ideas has been extremely difficult, but we are finding select opportunities. In the second quarter, we established one new core position in Pitney Bowes International Holdings preferred stock.

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

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

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

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



Source: Bloomberg

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

Thank you for your investment.

Sincerely,

Jason Lazarus, CFA
Intrepid Income Co-Lead Portfolio Manager

Ben Franklin, CFA
Intrepid Income Co-Lead Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. The risk is generally greater for longer term debt securities. Investments by the Fund in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual securities volatility than a diversified fund. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

The Bank of America Merrill Lynch High Yield Master II Index (BAML High Yield Index) is Bank of America Merrill Lynch's broadest high yield index, and as such is comparable with the broad indices published by other investment banks. Bank of America Merrill Lynch US Corporate Index (BAML Corporate Index) is an unmanaged index of U. S. dollar denominated investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one year remaining term to final maturity. Barclays Capital U.S. Aggregate Bond Index is an index representing about 8,200 fixed income securities. To be included in the index, bonds must be rated investment grade by Moody's and S&P. You cannot invest directly in an index.

Yield-to-Worst is the lowest potential yield that can be received on a bond without the issuer defaulting. Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. Basis Point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice or recommendations to buy or sell any security.

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