Intrepid Capital Funds
the constant pursuit of value

INTREPID SMALL CAP FUND

2Q2014

2nd QUARTER 2014 COMMENTARY

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 Small Cap Fund - Inv.	10/03/05	1.35%	3.91%	12.22%	7.75%	13.14%	11.35%
Intrepid Small Cap Fund - Inst.	11/03/09	1.46%	4.05%	12.54%	8.03%	-	11.20%
Russell 2000 Index		2.05%	3.19%	23.64%	14.57%	20.21%	8.27%^

^Since Inception returns are as of the fund's Investor Class inception date. Since the inception date of the Institutional Class, the annualized return of the Russell 2000 Index is 18.76%.

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.*

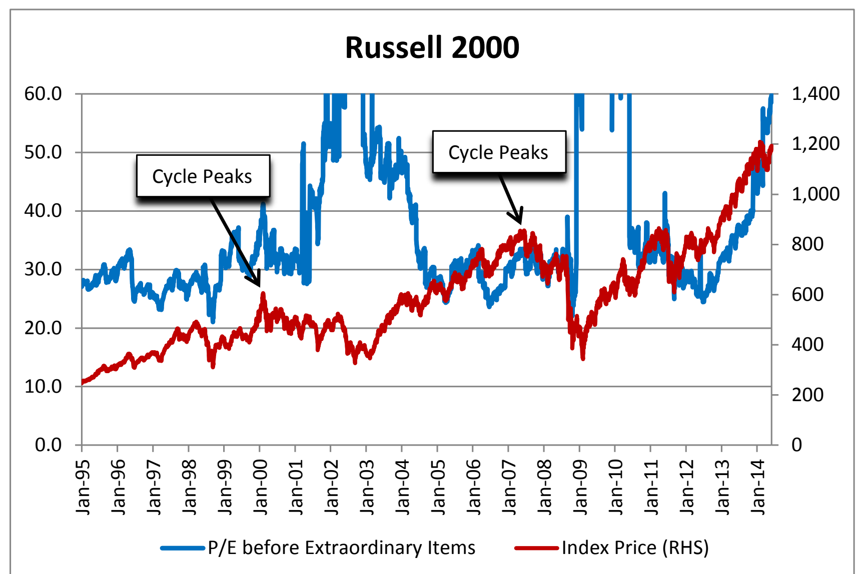
Per the prospectus, the Fund's annual operating expenses (gross) for the Investor Share Class is 1.42% and for the Institutional Share Class is 1.17%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 1.40% and 1.15% through 1/31/15, respectively. Otherwise, performance

July 1, 2014

Dear Fellow Shareholders,

Could this be the worst market ever for a small cap value investor to find bargains? Perhaps. Intrepid Capital was founded in 1995, which happens to coincide with the earliest Russell 2000 data available on Bloomberg. We'll confine our commentary to what we've actually observed and can demonstrate empirically. **We believe small cap stocks are more overvalued than they have been at any point over the last three market cycles.**

The first small cap cycle peak occurred on March 9, 2000, when the Russell 2000 Index hit a record high of 606.1. The Internet bubble was raging. Although large cap tech stocks dominated the headlines, the stocks of many smaller technology companies were caught up in the investment fervor. The Price to Earnings Ratio (P/E) of the Russell was 41x. After the tech bubble popped, the index of small caps fell by 46% before it troughed on October 9, 2002, at 327. As you might imagine, growth stocks were punished severely, but value stocks actually increased slightly over this period. The Russell 2000 Growth Index fell 63.9% from March 9, 2000, to October 9, 2002, while the Russell 2000 Value Index gained 4.1%.

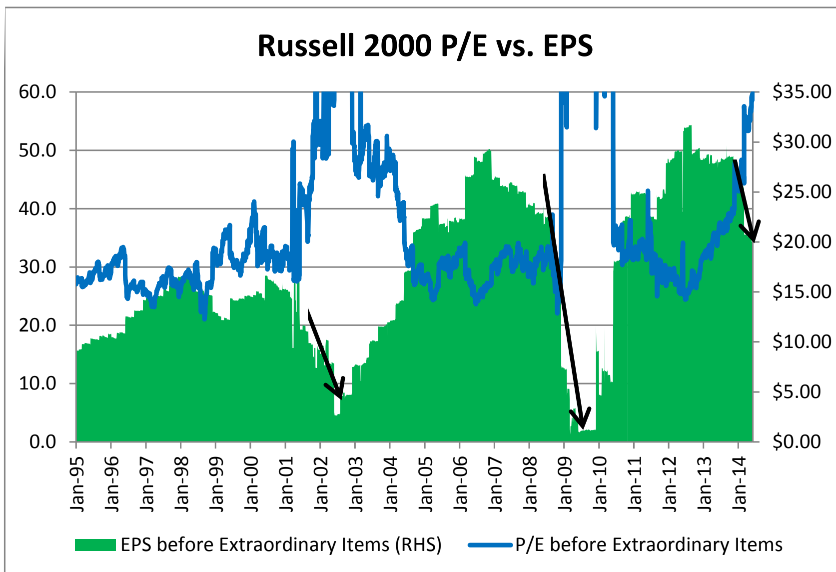


Source: Bloomberg*; Maximum P/E displayed is 60x to preserve chart detail due to periods of negligible and/or negative earnings. Negative earnings treated as zero.*

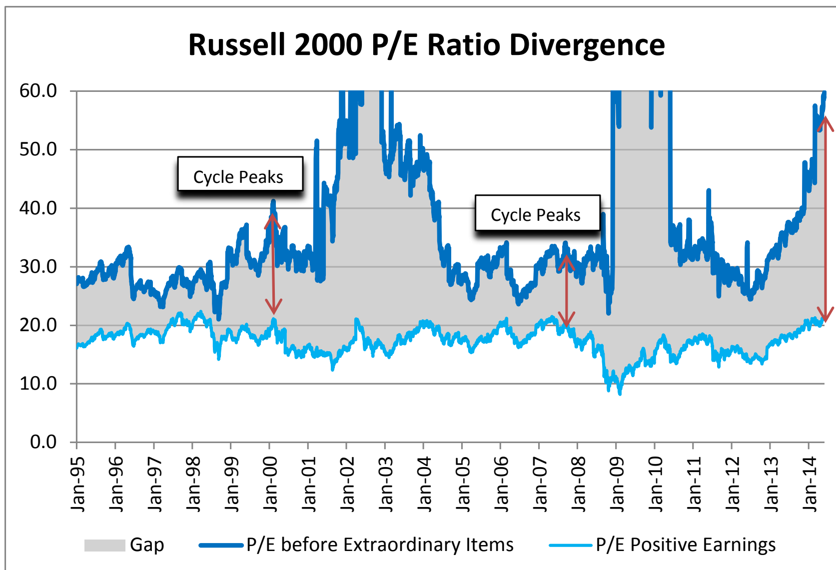
The second small cap cycle peak occurred on July 13, 2007, when the Russell 2000 Index reached 855.8. Record low interest rates engineered by the Federal Reserve helped

fuel a housing boom and never-before-seen levels of risk taking by banks. Corporate profitability reached an apex and the Russell 2000 P/E was 33x. Once the housing bubble busted, the Russell plummeted 59.8% to its March 9, 2009, bottom of 343.8. It was difficult to avoid the pain, as the sharp selloff decimated both growth and value stocks.

Today, July 1, 2014, the Russell 2000 Index is selling for 1,193 before the open of the market. Its P/E based on the GAAP (Generally Accepted Accounting Principles) earnings of its constituents is 118x. The P/E has never been higher in this generation, except for brief periods going into and coming out of recessions when earnings were so small the P/E metric was essentially meaningless. The actual P/E Ratio of the Russell is so unbelievable that it is not referenced by anyone. It's like the first rule of Fight Club: "You do not talk about Fight Club." The Russell 2000 P/E *excluding* items defined as extraordinary and "one-time" by Bloomberg is 60x. Over the last three market cycles, this massaged P/E has only been exceeded during recessions, when corporate earnings fell below normalized levels.



Source: Bloomberg; *Maximum P/E displayed is 60x to preserve chart detail due to periods of negligible and/or negative earnings. Negative earnings treated as zero.*



Source: Bloomberg; *Maximum P/E displayed is 60x to preserve chart detail due to periods of negligible and/or negative earnings. Negative earnings treated as zero.*

Since 1995, earnings before extraordinary items have exceeded GAAP earnings by a median of 63%. As you may suspect, there is little that's unusual about most of these charges as they are a fixture of publicly traded companies seeking to present earnings to investors in the best possible light. Nevertheless, we'll play along. During the last couple of quarters, small cap earnings have started to decline. The last two times we observed a drop in the Russell 2000's EPS of this magnitude, it accelerated as the economy contracted.

Around 29% of companies in the Russell 2000 Index are unprofitable, and they represent 23% of the total market cap of the benchmark. Apparently, the Russell organization is embarrassed by this laughable statistic, since they promote a P/E for the Index that only reflects positive earnings. Therefore, they are taking the spin up another notch from just removing extraordinary items. On that basis, with all losses excluded, the Russell 2000 P/E is a more palatable 22x today. However, this is the same Positive Earnings P/E the Russell 2000 traded for at the last two market tops.

The complexion of the small cap market is not the same as it was at the previous peaks in 2000 and 2007. In our opinion, it's more dangerous today. The overvaluation is broader, and the magnitude of total losses relative to total profits within the Russell 2000 membership is the greatest it has ever been outside of a recession, as represented by

the 38x gap between the Russell 2000's P/E of 60x and Positive Earnings P/E of 22x. For comparison, the gap was 20x on March 9, 2000, and 12x on July 13, 2007.

We find it incredible that the influence of profitless small caps is materially higher today than during the dot com bubble. The table below shows the ten largest companies in the Russell 2000 at the peak of the market on March 9, 2000. Five of these ten businesses were profitable at the time, but most cratered and never recovered. The lone "success" story was SanDisk, which registered a 3.6% annualized return per share over the last 14 years. In contrast, all but one of the ten largest stocks in the Russell at the 2007 top were profitable.

10 Largest Market Caps in Russell 2000: March 9, 2000

Company	Ticker	Industry	3/9/00 Market Cap	Notes	*% Change per share*
BroadVision	BVSN	Application software	20,690	Currently public	***-100.0%***
Celera	CRA	Health care services	10,730	Acquired 5/18/11	***-96.0%***
Millenium Pharmaceuticals	3437127Q	Biotech	10,050	Acquired 5/15/08	***-57.6%***
SanDisk	SNDK	Semiconductor devices	9,910	Currently public	***65.5%***
BravoSolution US	VERT	IT services	9,890	Acquired 1/28/08	***-100.0%***
Mercury Interactive	MERQ	Application software	8,820	Acquired 11/09/06	***-54.8%***
Human Genome Sciences	HGSI	Biotech	8,200	Acquired 8/06/12	***-83.5%***
Peregrine Systems	PRGNQ	Application software	7,790	Bankrupt 8/07/03	***-100.0%***
Emulex	ELX	Computer storage	7,550	Currently public	***-95.0%***
Affymetrix	AFFX	Life sciences equipment	6,700	Currently public	***-93.0%***

Source: Bloomberg; *Dollar values are in millions of USD*

As of last Friday, June 27, 2014, immediately before the annual reconstitution that changes the membership of the Russell indexes, only half of the top ten Russell 2000 market caps were making money—the same proportion as in 2000. The Russell's leadership has transitioned from speculative technology stocks whose prices were only anchored by investors' imaginations in 2000 to a 2014 mishmash of highly levered companies dependent on continued low interest rates (including the REITs, MLP, and even Rite Aid) and unprofitable new age technology companies (SunEdison, Yelp, Zillow). The quality element appears to be sorely lacking.

10 Largest Market Caps in Russell 2000: June 27, 2014

Company	Ticker	Industry	6/27/14 Market Cap	Sales	Net Income	P/E	Debt/ Equity
American Realty Capital	ARCP	REITS	11,350	521	(577)	no earnings	265%
Rite Aid	RAD	Retail	7,000	25,699	201	34.8	no equity
Pilgrim's Pride	PPC	Food	6,950	8,392	593	11.7	61%
NorthStar Realty Finance	NRF	REITS	6,480	679	(249)	no earnings	174%
SunEdison	SUNE	Semiconductors	6,120	2,111	(1,111)	no earnings	1540%
Acuity Brands	AYI	Electrical Components	5,890	2,242	154	38.3	36%
Targa Resources	TRGP	Oil & Gas - MLP	5,780	7,511	71	81.1	2009%
Questcor Pharmaceuticals	QCOR	Pharmaceuticals	5,570	891	328	17.0	4%
Yelp	YELP	Internet	5,570	263	(8)	no earnings	0%
Zillow	Z	Internet	5,530	225	(15)	no earnings	0%

Source: Bloomberg; *Dollar values are in millions of USD*

We are pessimistic about the prospective returns of the small cap market at current nosebleed levels. Cash accounts for nearly three-quarters of the Intrepid Small Cap Fund (the "Fund") because opportunities simply don't exist, based on our valuation standards. We will stay the course of maintaining a large cash balance until that changes.

For the quarter ending June 30, 2014, the Intrepid Small Cap Fund returned 1.35%, while the Russell 2000 benchmark increased 2.05%. The Fund significantly outperformed the benchmark during the first half of the second quarter, when at one point the Russell 2000 was down over 5% year-to-date while the Fund was up more than 2%. However, the Fund meaningfully trailed the benchmark during the back half of the quarter, when risky small cap stocks recovered all year-to-date losses. We try to avoid the most speculative segments of the small cap market, including unprofitable companies, so the Fund's recent performance has been more similar to larger capitalization benchmarks. The equities within the fund rose 7.21% during the quarter.

Year-to-date through June 30th, the Fund rose 3.91% compared to a 3.19% gain for the Russell 2000 Index. Cash ended the quarter at 74% of assets and has suppressed the Fund's gains this year, as the equities within the Fund have increased 17.09% year-to-date. Cash levels increased from the prior quarter due to solid performance among the Fund's holdings, which resulted in us reducing positions that neared our valuation estimates. Our high cash position will constrain the Fund's ability to fully participate if the small cap market continues to rise at the aggressive pace of recent years. However, we would rather miss out on an unwarranted gain than endure a painful but appropriate loss. We strongly believe the small cap market deserves to trade lower, based on any reasonable valuation criteria.

The primary positive contributors to the Fund's second quarter performance were Newfield Exploration (ticker: NFX), Aaron's (ticker: AAN), and Aspen Insurance (ticker: AHL). Newfield is one of the market's best-performing stocks this year. The energy exploration & production company (E&P) shrewdly assembled a new foundational asset located in Oklahoma and is delivering strong returns there on its drilling capital. We initially purchased the stock during the natural gas rout of early 2012, and we experienced 18 months of subpar performance before other investors came to appreciate the extent to which Newfield has transitioned its portfolio toward a handful of key oil and liquids plays with long reserve lives. The stock now better reflects the value of its asset base, and we have significantly scaled down the position.

The shares of Aaron's, the rent-to-own (RTO) retailer, have rallied lately due to excitement over a recent acquisition. Aaron's had long been a taker of market share in the rent-to-own industry, but the company experienced its first ever decline in same store sales this year. RTO retailers have been negatively impacted as their low income customer base suffers from high unemployment, and they also face a growing threat from traditional retailers offering RTO options and new forms of subprime financing. In early February, Aaron's received a $30.50 per share buyout offer from Vintage Capital, a previous Aaron's franchisee and existing shareholder in a RTO competitor. The premium offered was rather small, and it wasn't clear to us if Vintage had the financial capacity to complete a purchase of Aaron's size. Nevertheless, we welcomed the interest.

For the next three months, Aaron's management engaged in a series of actions to stave off Vintage, culminating in the $700 million acquisition of Progressive Finance, which altered Aaron's squeaky clean balance sheet enough to make a leveraged buyout improbable. Progressive is a leading player in the rapidly growing virtual RTO market. It's a software solution integrated into a retailer's (e.g. Mattress Firm) point-of-sale system that enables the retailer to offer a lease-to-own transaction to customers without access to credit. Progressive buys the item from the retailer and the customer typically pays 15% of the retail price each month for a year, so they end up spending 80% more than the retail price. Progressive doesn't have the physical infrastructure to handle returns, so the business model relies on a high "keep rate" of 70-80% of customers paying the full term. Aaron's believes it can utilize its distribution infrastructure to help re-rent merchandise returns sourced from Progressive, potentially creating a competitive advantage in the low barrier-to-entry virtual space. We aren't sure it will be that easy. When the acquisition was announced, Vintage withdrew its buyout proposal, but it remains a major shareholder and has called a truce with Aaron's management. We do not yet have confidence in the durability of the virtual RTO model under recessionary conditions, and we are skeptical that

Aaron's can achieve the 3-5% positive comps management has guided for 2015. We sold most of our Aaron's position.

Top Ten Holdings	(% of net assets)
Amdocs Ltd.	3.6%
Corus Entertainment, Inc. - Class B	3.2%
Tetra Tech, Inc.	3.1%
Bio-Rad Laboratories, Inc.	3.0%
Dundee Corp.	2.2%
Ingram Micro, Inc.	1.5%
Aspen Insurance Holdings Ltd.	1.5%
Telephone & Data Systems, Inc.	0.9%
CSG Systems International, Inc.	0.9%
Royal Gold, Inc.	0.8%

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.

It's not often that we have two companies in our Fund receive takeover offers in such a short time period, and we don't know if we've ever had two management teams concurrently rebuff overtures from prospective buyers. In mid April, Endurance Speciality Holdings proposed an acquisition of Aspen Insurance. The announced premium was 21% over Aspen's prior closing price, but a portion of the deal would be in stock. Endurance's shares fell on the news, reducing the expected premium to Aspen's shareholders like us. Aspen's management team promptly rejected the offer, citing a litany of reasons why the combination would not be a good fit. The back and forth between the companies has been entertaining, and Endurance is now appealing directly to Aspen's shareholders. We sold part of our Aspen stake after the initial spike, but we retained a partial weight. Aspen's stock is currently trading at a slight premium to tangible book value and a similar distance below the takeover price. We see roughly an even chance that the deal happens and expect the short-term downside if it does not occur could be a little greater than the upside if it does. On that logic, you could argue we should be out completely, but Aspen has done a solid job of growing its book value per share. Absent a major natural disaster, we expect that to continue.

The largest negative contributors to the Fund's return in the second quarter were Bio-Rad Labs (ticker: BIO) and Tetra Tech (ticker: TTEK). Neither of the two percentage declines was large, but they are both top five positions for the Fund. Bio-Rad manufactures equipment and consumables for life sciences and clinical diagnostics companies. The company has experienced below-average profitability for the last couple of years due to a high level of investment in a global ERP (Enterprise Resource Planning) system as well as several early stage acquisitions. We believe Bio-Rad's stock also suffers a discount because of the family control voting structure and disclosed inadequancies in internal controls, which we blame on bush-leaguers fulfilling certain financial roles on the management team. However, we believe there is an opportunity for the company to substantially improve margins once the heavy investment cycle has passed in a couple years. The recurring portion of Bio-Rad's revenue stream is approximately 70%, and we believe most investors overlook an equity position Bio-Rad holds in a German diagnostics firm that is worth one-fifth of Bio-Rad's current share price.

Tetra Tech, the water and environmental consulting firm, announced soft quarterly results that were adversely impacted by declines in governmental spending, foreign currency changes, and harsh winter weather. The company also cycled high sales to the mining industry a year ago, but comparisons will become easier. Tetra Tech is shifting its business mix toward higher margin projects, and we think the stock remains at a discount to fair value.

During the second quarter, we purchased three securities, although one of the buys was more material than the other two. Our major purchase was Dundee Corporation (ticker: DC/A CN), which is a Canadian holding company with interests in a variety of resource-based businesses. The firm's founder and CEO is Ned Goodman, a self-described value investor who pens lengthy annual shareholder letters in the fashion of Warren Buffett. Unlike Berkshire Hathaway, Dundee does not hold companies permanently. "*We're not your traditional holding company. We build companies, and sell them. It's a business,*" said Goodman in a 1999 interview. In recent years, and especially following the credit crisis, Goodman has become increasingly convinced of an impending global inflation. As a result, he has gradually positioned Dundee to potentially benefit from rising prices by owning stakes in the real estate, mining, energy, and agricultural sectors.

Dundee's stock is trading at a 40% discount to tangible book value, even though many of the company's assets are public equity investments with transparent pricing. The disconnect between Dundee's price and NAV may partially

relate to the significant transformation undergone by Dundee in recent years. The firm has sold or spun off profitable subsidiaries, leaving the parent with a collection of several nascent enterprises that aren't earning money, as well as a large investment portfolio that accounts for most of the company's value but from which Dundee cannot claim meaningful earnings. As a result, a cursory look at Dundee suggests a company that used to be profitable but isn't any longer. However, Ned Goodman has compounded the company's book value at an attractive mid-teens annual rate over the last decade. Goodman is the Rodney Dangerfield of holding company CEOs—he gets no respect. Given the magnitude of the discount to book value, we do not believe an investment in Dundee shares is strictly a bet on Goodman, who is 77 years old. While it is likely that the company's investment portfolio will shrink along with any broader market pullback, we are establishing a position with what we believe is a significant NAV cushion.

On May 16, 2014, the shares of WWE (ticker: WWE) cratered 43% after the company obliquely announced the outcome of its overhyped television rights renewal with NBC Universal. The data they supplied suggested a 50-60% increase in domestic fees to WWE for its *RAW* and *Smackdown* shows, while many investors had expected a 100-200% jump. Along with the announcement, management provided a business outlook for 2015 and 2016 that gave a profitability matrix depending on certain numbers of WWE Network subscribers. We thought the TV deal was acceptable. While it was clearly below what management had projected, it certainly wasn't devastating, and the combined domestic and international renewals should produce over $90 million of incremental high margin revenue for the company. The problem with WWE's outlook was that, despite the spike in TV revenue, it suggested very weak levels of overall firm profitability at most reasonable subscriber scenarios for the fledgling WWE Network.

We thought there must be something else to the story, so we bought a tiny 0.5% position on the day of the market carnage. After additional research, we concluded that WWE's spending is simply out of control. According to their disclosures, the majority of the monumental growth in SG&A (Selling, General & Administrative) of the past three years is not Network-related. We think it's possible management may be allocating Network expenses to other parts of the company because they are afraid to admit that the subscriber breakeven point for the WWE Network is higher than they initially pledged. If that is not the case, then they should be able to dramatically reduce spending in areas that are not contributing to profitable revenue growth. We continue to believe the Network is a boondoggle for WWE. Early indications suggest we are correct, with post-Wrestlemania subscriber numbers weak. With that said, we think it's possible for management to unearth the value lurking beneath the current bloated cost structure. Vince McMahon has made mistakes, but he isn't in the business of losing money, and WWE has been a cash-generative enterprise for almost all of its public existence. The company has already announced a handful of roster cuts that won't amount to much in savings. Our gut tells us expenses will be rationalized further, but we need to see evidence of this before becoming bullish on the stock.

Lastly, we made a small purchase of one of the preferred stock issues of Pitney Bowes (ticker: PBI). This is an interesting security that is technically perpetual in nature, but its 6.125% coupon steps up by 50% on each call date after October 2016. In all likelihood it will be called on that date. The cash flow of the subsidiary tied to the preferred covers the dividend by 8.5x. The security offers a yield to call of 3%, so we view it as a lower risk way to earn a modest yield over the next two years. The idea was sourced by our high yield investment team, so please see the Intrepid Income Fund letter for further discussion.

Big Lots (ticker: BIG) and Tech Data (ticker: TECD) were the only two positions we completely exited in the quarter. Big Lots' stock rebounded on management's projections that they have turned the corner on negative same store sales. Comps broke into positive territory in the latest quarter. Investors are also encouraged by new initiatives such as cooler installations, SNAP (food stamp) acceptance, and a furniture financing program that just so happens to be sponsored by Progressive Finance, the company recently acquired by Aaron's. Oh what an incestuous portfolio we weave!

Shares of Tech Data, the IT distributor, appreciated beyond our fair value estimate, and the company has started distributing its financial statements after a restatement-related hiatus. We originally purchased Tech Data when the

shares fell on a restatement announcement that we believed was contained. The most recent results indicate an improvement in revenue and earnings trends.

Thomas Jefferson said, "*In matters of style, swim with the current. In matters of principle, stand like a rock.*" Every investor has to ask: Which kind of investor am I? Wall Street is fashionable. We are not. I wore parachute pants and Payless sneakers as a kid. We haven't wavered from our investment principles and believe this will benefit our shareholders once the investment cycle fully plays out. As a result of selling fully valued holdings, we have pruned our portfolio to a state where it is dominated by cash. While the purchasing power of this cash will be slowly eroded by inflation, we think that's no excuse to invest your money in small companies that are, in many cases, selling for more than twice what they are worth. Our goal is to protect your capital in these dangerous times by striving to avoid an ocean of overvalued stocks, while attempting to preserve the purchasing power of your assets by selectively investing in stocks where we believe a discount exists. We have a track record of investing aggressively in the wake of market dislocations. Expect us to be active when fear grips Wall Street. Thank you for your investment.

Sincerely,

Jayme Wiggins, CFA
Intrepid Small Cap Fund Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock 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 Advisor believes that current market conditions warrant a defensive position from the requirement to invest at least 80% of its net assets in equity securities of small capitalization companies.

The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. Companies in the Russell 3000 Index, as ranked by market capitalization. The Russell 1000 Index consists of the largest 1,000 companies in the Russell 3000 Index. The Russell 2000 Biotechnology Index is comprised of the smallest Biotechnology companies in the Russell 3000 Index. You cannot invest directly in an index.

Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income. Price-to-Earnings Ratio (P/E Ratio) is an equity valuation multiple calculated as market price per share divided by annual earnings per share. Basis Point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Yield-to-Call means that the issuer of the bond can redeem the bond prior to maturity by paying the call price, whichever is greater than the face value of the bond, to the bondholder. Book Value is the net asset value of a company, calculated by subtracting total liabilities from total assets. Earnings before extraordinary items excludes the effects of all one-time and extraordinary gains and losses. One-time charges include: realized investment gains/losses, restructuring charges, non-recurring charges/gains, unusual charges/gains, special charges/gains, reserve charges, large writedowns, spin-off/sell-off expenses, merger expenses, acquisition charges, sale of subsidiary expenses, forgiveness of debt, writedown of goodwill, ESOP charges, and acquired research and development costs. Includes only those items that are considered to be recurring in nature and part of a company's continuing operations. P/E before extraordinary items equals the stock price divided by Earnings before extraordinary items.

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

The Intrepid Capital Funds are distributed by Quasar Distributors, LLC.