Intrepid Capital Funds *the constant pursuit of value*

INTREPID INCOME FUND

4th QUARTER 2014 COMMENTARY

4Q 2014

DECEMBER 31, 2014

PERFORMANCE

	Inception Date	Total Return Qtr.	YTD	1 Year	Average Annualized Total Returns as of December 31, 2014 3 Year	5 Year	Since Inception
Intrepid Income Fund - Inst.^	08/16/10	-2.82%	-1.01%	-1.01%	2.82%	3.86%	4.01%
BAML High Yield Master II Index		-1.06%	2.50%	2.50%	8.37%	8.88%	7.83%
Barclays US Aggregate Bond Index		1.79%	5.97%	5.97%	2.66%	4.45%	5.23%

^Institutional Class shares of the Intrepid Income Fund commenced operatiions 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 1/31/16. Otherwise, performance shown would have been lower.

January 7, 2015

Dear Fellow Shareholders,

The fourth quarter of the calendar year was painful, to say the least. The Intrepid Income Fund (the "Fund") posted its worst quarterly performance since 2008, losing 2.82% in the period ended December 31, 2014. The high-yield market dropped 1.06%, as measured by the BAML High Yield Master II Index (the "Index"). Since June 30, 2014, when energy prices started falling and the high-yield market began to roll over, the Fund has fallen 3.36%, while the Index declined 2.97%. In the calendar year, the Fund lost 1.01%, while the Index gained 2.50%. Our Bloomberg peer group returned 0.37% in 2014. To add insult to injury, due to our short-duration positioning, we did not participate in the gains experienced in the broader investment grade fixed income markets as long-term U.S. Treasury yields marched consistently lower. Despite nearly every market prognosticator calling for higher interest rates in 2014 as the Federal Reserve's QE program came to an end, the bond market had its own ideas. The ten-year rate declined from over 3.0% in January to less than 2.2% by the end of the year. The longest duration bonds posted some of the best returns in years.

The Fund's underperformance in the quarter and the calendar year is almost solely attributable our investments in the bonds of two energy exploration and production (E&P) businesses. As most readers probably know, energy stocks and bonds have been battered over the last six months. Oil prices tumbled further in the fourth quarter of 2014 after OPEC refused to cut production, sending the U.S. benchmark West Texas Intermediate to levels not experienced since the midst of the financial crisis in the summer of 2009. Spot prices have fallen further in the first week of 2015.

Our process is rooted in deep fundamental credit analysis, and we enter positions when we believe we are being appropriately compensated to bear the operating and financial risk of the target business. We are disappointed by our performance, but we do not attempt to anticipate changes in security prices in the next week, month, or quarter. Nevertheless, it would have been preferable to be on the sidelines as we watched energy bond prices tumble.

Portfolio activity was rather limited. We added slightly to three positions. Our position in the bonds of Swift Transportation

Top Ten Holdings	(% of net assets)
Brown Shoe Co., Inc., 05/15/2019, 7.125%	4.5%
Regis Corp., 12/05/2017, 5.750%	4.4%
Pitney Bowes Intl Pfd.	4.4%
Speedway Motorsports, Inc., 2/01/19, 6.750%	4.1%
Northern Oil & Gas, Inc., 06/01/2020, 8.000%	4.0%
EPL Oil & Gas, Inc., 02/15/2018, 8.250%	3.7%
Ruby Tuesday, Inc., 05/15/2020, 7.625%	3.5%
Smith & Wesson Hld Corp., 06/15/2017, 5.875%	3.3%
Ezcorp, Inc., 06/15/2019, 2.125%	3.1%
AuRico Gold, Inc., 04/01/2020, 7.750%	3.1%

Top ten holdings are as of December 31, 2014. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

(ticker: SWFT) was called by the company. The bonds constituted about 3% of the Fund's assets. We reduced our position in Smith & Wesson's 5.875% notes due 6/15/2017 in the interest of risk control. Recall that we participated in a new bond offered by the company in the third quarter, which pushed the combined position up to 6% of the Fund's assets. We elected to rebalance the combined position to our target level in the mid 4% range. The combined position remains the Fund's largest holding.

We exited our newly established position in Mobile Mini's 7.875% notes due 12/01/2020 for an immaterial loss due to credit quality concerns. Shortly after our purchase, the company blind-sided us with a massive acquisition to be funded with debt senior to our bonds. MINI decided to expand outside of its traditional steel storage container business and purchase Evergreen Tank Solutions. Evergreen rents liquid storage tanks, stainless steel tank trailers, pumps, and other items mostly to downstream oil and gas customers (refiners). MINI paid $405 million in cash, or 9x EBITDA, by more than doubling the size of its secured debt load. The transaction put the $200 million in unsecured bonds below more than $700 million in secured debt and increased the company's total leverage ratio to 4.5x. A leverage ratio of this level isn't immediately concerning considering Mobile Mini's minimal reinvestment requirements and high free cash flow, but the acquired business produces significantly less free cash flow than the legacy steel container business. Further, the recent decline in energy prices could impact the newly acquired business significantly. We concluded the approximate yield of 7% was not compensating bondholders for the additional risk.

The largest contributor to the Fund's performance in the fourth quarter of the calendar year was our relatively recent investment in EZCORP's 2.125% convertible bonds due 6/15/2019. We initiated the position last quarter and added to it as the stock and bond sold off in October. The idea was sourced by our equity team more than a year ago, and was also purchased in the Intrepid Small Cap Fund. Readers can find additional detail about EZCORP in the Small Cap commentary. The second largest contributor in the quarter was our combined position in two Rent-A-Center senior issues. The notes were one of the largest detractors in the third quarter as the investors became concerned about subprime consumers becoming overextended. One of Rent-A-Center's peers has started to experience greater than expected credit losses, which weighed on the group as a whole. We believe that rental operators such as Rent-A-Center and competitor Aaron's have vastly more experience servicing a stressed consumer and can handle the associated credit losses. The position remains one of the Fund's core holdings.

The vast majority of the Fund's losses were the result of large positions we have in bonds of two energy companies, both of which are highly exposed to oil prices. We have owned both issues for quite some time, and both have contributed to outsized returns prior to the recent sell-off. Few market participants expected oil prices to decline with such magnitude, us included, but we knew this outcome was within the realm of possibilities. Despite significantly lower oil prices, both issues are still sizeable holdings. When we purchased these issues, we concluded that both companies could withstand periods of significantly lower commodity prices. We continue to believe this to be true, for reasons we will detail below.

Northern Oil & Gas (ticker: NOG) was our second largest position earlier this year (behind our combined position in two Smith & Wesson issues). We recently had approximately 5% of the Fund's assets invested in the 8% senior notes due 6/01/2020. The company has been discussed extensively in past commentaries. Considering the firm's moderate leverage and heavy exposure to oil prices, it is not surprising that the 8% notes were the largest detractor in both the quarter and the fiscal year.

Since it was founded, Northern has been a non-operating partner in 25% of all wells drilled in the Bakken region of North Dakota and Montana. The company doesn't actually drill any wells. Instead, it holds acreage positions across the region. When an operator wants to drill on the company's land, Northern either elects to participate in that well, or it non-consents. If participating, the company simply pays its pro-rata share of the drilling and operating expenses and receives a check for its share of the well's sales. This gives the company the flexibility to dial back capital spending quickly if the need arises.

The company's non-operating position has been a point of contention among market participants. Investors betting against the company believe the non-operating position is a significant negative. They contend that if Northern needs to conserve cash by non-consenting to a well, then future cash flows from that well would never be realized, and the company would lose the acreage position. Clearly, the company would receive no financial benefit if it non-consents to a well, but this view is too simplistic. Consider the incentives of the operators. When oil was $100/bbl and the markets were willing to provide capital at attractive rates, drillers were exploring fringe areas of the play. But with oil at $50/bbl, drilling activity will shift from marginally profitable areas to those offering the highest rates of return. Much of this fringe acreage is unlikely to be drilled at current oil prices. Northern's acreage includes both high quality areas and fringe areas, so it will have the ability to participate in high-quality wells while maintaining fringe drilling inventory in areas that become attractive at higher oil prices.

There is one additional wrinkle that needs to be explored. There is a limit to how long acreage can be retained without being drilled. Typically, a lease will expire if the land hasn't been drilled in three to five years. Once a drilling spacing unit (DSU) has a certain minimum level of production, the acreage is considered held-by-production and no further drilling needs to take place for the leaseholders to keep the leases. Since Northern is a non-operator, it does not have the ability to drill on acreage that may be at risk of lease expiration. This is a risk some market commentators have noted, but we believe the risk is overblown. Most of Northern's acreage is already held-by-production and the acreage at risk has staggered expiration dates over the next five years. In addition, even in the face of lower oil prices, operators may continue to drill select marginally profitable wells to ensure acreage is held-by-production. Northern can choose not to participate in these low return wells, but it will still benefit from the acreage becoming held-by-production. In addition, most productive spacing units will eventually include numerous wells, so Northern retains the right to participate in future wells drilled on the property.

The process of developing Northern's acreage is an important long-term value creator, but as bondholders we are more focused on the company's proved developed producing reserves. These reserves consist of oil and gas wells that have already been drilled and are consistently producing. Since well production rates and costs are usually not difficult to estimate, we can assess the value of the producing reserves under various energy price assumptions. Liquidity is not an issue in the near-term, as Northern is very well hedged through 2015 and even into 2016, so we are basing the analysis on the state of Northern's producing reserves at the end of 2016. While we do not expect oil prices to remain at current levels indefinitely (see analysis in the Small Cap commentary), our analysis indicates that the notes would recover significant value even if oil remained at $50/bbl for the life of the wells, which could be up to 30 years. The fact that the notes are trading in the mid-70s provides a margin of safety and adds appreciation potential to the 8% coupon.

The other large energy position that detracted materially from the Fund's performance was EPL Oil & Gas 8.25% due 2/15/2018. It was the second largest detractor in the quarter and the year, although the position had been one of the Fund's top performers since it was purchased in early 2012. EPL is an offshore energy producer operating in the Gulf of Mexico. Simplifying our original thesis, we purchased EPL's notes due to the company's low debt levels, strong cash margins, positive free cash flow generation (which has been uncommon among energy producers), and extensive hedging program. In the middle of 2014, EPL was acquired by a larger Gulf of Mexico producer named Energy XXI (ticker: EXXI). Energy XXI funded the acquisition with stock and additional debt.

Since the acquisition would make us creditors of Energy XXI, we analyzed the credit quality of EXXI in the same manner we do any potential investment. We concluded that bondholders were not being compensated appropriately for lending to Energy XXI. However, the restrictiveness of the EPL bond indenture allowed us to remain comfortable with the bond's credit quality. Upon completion of the merger, the EPL indenture limited Energy XXI's ability to create guarantees with the acquired assets. This means that EPL remains a standalone subsidiary, and Energy XXI bondholders have no claim on the EPL assets until the 8.25% senior notes are no longer outstanding. In the event of a restructuring, Energy XXI only has an equity claim on the EPL assets. This means that before Energy XXI bondholders can recover value from the EPL assets, EPL creditors must be paid in full.

Not only do we believe that the EPL subsidiary's credit quality is superior to Energy XXI's, but the new capital structure introduces an interesting dynamic. Energy XXI issued new debt and drew down its revolver to fund the purchase, but this debt has no claim on EPL's assets. EPL accounts for around one-third of the combined company's reserves and production, but only has 25% of the combined entity's debt. Thus, Energy XXI has a strong incentive to not only support the EPL subsidiary in any way it can, but to take out the 8.25% notes to be rid of the restrictive covenants.

If $45/bbl oil is the new normal, our energy bond positions aren't likely to achieve favorable outcomes. But the risks must be viewed through the lens of potential returns. As of this writing, our E&P bonds are offering yields in the mid- to high-teens. With any investment there are improbable, even unfathomable, potential outcomes that may occur. We aren't going to bat a thousand, but you should expect us to intelligently deploy capital into ideas that we believe are compensating us appropriately for the risks. One could argue there are many attractive potential investments in the high-yield energy space. We would not disagree. However, we believe our overall exposure to the sector is appropriate. We have just below 10% of the Fund's assets invested in exploration and production companies, and an additional 5% invested in service providers that we believe are less exposed than the typical energy service business. At the present, we don't intend to materially increase our exposure, but we may alter the positions within the sector.

It's common for investors to hold onto losing positions in the hope of prices bouncing back, so we think it's useful to visualize positions as if they were not yet owned. We ask ourselves, "Assuming we recently discovered these potential investments, would they be attractive enough to purchase for our portfolios?" Our answer is overwhelmingly, "yes." We are hoping that the pain experienced in energy bonds will spread to the broader high-yield markets and allow us to put our cash hoard to work.

Thank you for your investment.

Sincerely,

Jason Lazarus, CFA
Intrepid Income Co-Lead Portfolio Manager

Ben O Franklin IV

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.

Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. EBITDA is calculated as the company's Earnings Before Interest, Taxes, Depreciation and Amortization.

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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