Intrepid Income Fund

Discipline Makes the Difference.

3rd QUARTER 2012 COMMENTARY

PERFORMANCE

Average Annualized Total Returns as of September 30, 2012

	Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid Income Fund - Inv.	7/2/07	1.67%	4.82%	7.79%	6.22%	5.12%	5.00%
Intrepid Income Fund - Inst.		1.74%	5.01%	8.17%	-	-	5.99%
BofA Merrill Lynch High Yld Master II Index		4.64%	12.02%	18.94%	12.62%	9.07%	8.70%^

^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 B of A Merrill Lynch High Yield Master II Index is 10.77%.

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 less than 30 days. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Per the Prospectus, the Fund's annual operating expense (gross) for the Investor Shares is 1.32% and for the Institutional Share class is 1.08%. 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 1.16% and 0.91% through 1/31/13, respectfully. In addition, the Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense, excluding Acquired Fund Fees and Expenses, (expense cap) does not exceed 1.15% and 0.90% through 1/31/13, respectfully. Otherwise, performance shown would have been lower.

October 5, 2012

Dear Fellow Shareholders,

Investors continue to push funds into the high-yield asset class in search for yield. With the Fed pledging to keep short-term rates low for an additional year into 2015 and announcing another round of quantitative easing targeted at deploying $40 billion per month into mortgage-backed securities, high-yield is essentially the only fixed-income asset class offering even a sliver of income. Since most managers are forced to put new cash to work, the current environment seems to be the result of supply and demand imbalances. There is simply too much cash chasing too few bonds. In our conversations with bond dealers, the most common phrase we hear is "there is just so much cash out there." The high demand has served as a major tailwind for returns this year, while further limiting future potential returns. On September 19, 2012, the yield-to-worst on the Bank of America Merrill Lynch High Yield Master II Index (the "Index") reached an all-time low of 6.2%.

In the quarter ended September 30, 2012, the Index rose 4.61%, while the Intrepid Income Fund (the "Fund") returned 1.67%. In the Fund's fiscal year ending on the same date, the Fund returned 7.79%, while the Index rose 18.89%. Our underperformance is primarily due to the Fund's large cash position, which increased through the quarter as noted in our previous commentary. Additionally, our portfolio is composed of higher-quality, shorter-duration credits that generally underperformed riskier, longer-dated bonds in the risk-on environment.

The Fund was a fairly active buyer in the quarter, establishing four new positions and adding to six existing holdings. We increased our position in Energy Partners Ltd 8.25% due 2/15/2018 by 50%, but the remainder of our buying was done to opportunistically top off certain holdings.

The largest of our new positions is Ruby Tuesday 7.625% due 5/15/2020. Ruby Tuesday restaurants operate in the highly competitive casual dining industry. The company has seen success in the past, but has struggled recently due to a weakened consumer, coupled with a shift away from the unhealthy bar-and-grill restaurant concept. Several years ago the company fought the shift by redesigning their restaurants and menu away from bar-and-grill, and towards casual dining. Recently they have begun investing heavily in TV advertising, something most of their competitors already do. The capital expenditures required to remodel the stores have been completed, and the increased marketing expenditures can be cut if unsuccessful. The final piece of the puzzle that solidifies our thesis is the company's strong asset coverage – it owns the buildings and the land of almost half of its 750 company stores and the buildings of 250 others. The company has been paying down debt and should continue to do so with proceeds from sale and leaseback transactions on their owned properties. Our initial purchase of these notes provided an attractive 8.9% yield-to-worst and was a top ten performer for the quarter.

Top Ten Holdings	(% of net assets)
Gibraltar Industries, Inc., 8.000%, 12/01/2015	4.51%
Speedway Motorsports, Inc., 8.750%, 6/1/2016	3.94%
PEP Boys Manny Moe & Jack., 7.500%, 12/15/2014	3.84%
Spartan Stores, Inc., 3.375%, 5/15/2027	3.79%
PetroQuest Energy, Inc., 10.000%, 9/1/2017	3.67%
Smith & Wesson Holding Corp., 9.500%, 1/14/2016	3.59%
Intertape Polymer, Inc., 8.500%, 8/1/2014	3.04%
Energy Partners, Ltd., 8.250%, 2/15/2018	2.90%
Bill Barrett Corp., 9.875%, 7/15/2016	2.84%
FTI Consulting, Inc., 7.750%, 10/1/2016	2.71%

Top ten holdings are as of September 30, 2012. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

A second new position worth highlighting is Thermon Industries 9.500% due 5/1/2017. Thermon is the world's second largest manufacturer of electric heat tracing equipment, which provides the necessary function of heating pipes and valves of industrial plants and utilities so that the liquids inside do not freeze. New build demand can be very cyclical, but Thermon's large installed base provides high-margin, recurring maintenance business. The company has been diligent about reducing debt and now has a very manageable capital structure, and we believe management will attempt to buy bonds in the open market. The bonds will likely be called in May 2014, offering us an attractive potential return for short-dated paper.

We remarked in our previous letter that we expected several holdings to be called through the summer. Eight holdings were called in part or entirely in the quarter, the largest of which were Amscan Holdings 8.750% due 5/01/2014, Ashtead Capital 9.000% due 8/15/2016, and HSN Inc 11.250% due 8/01/2016. We exited three positions, all of which were opportunistic ideas that increased in price. Early in the quarter we sold our small position in Aspen Insurance variable rate preferred stock. The price of our Computer Sciences Corp 6.5% bonds due 3/15/2018 rose to the point where we believed the yield was unattractive. Lastly, we completely exited our position in Potlatch Corp common stock (ticker: PCH) as it reached our intrinsic value estimate.

The two largest contributors to the Fund's performance in the quarter ended September 30, 2012 were smaller positions in equity securities that both rose more than 20%. The top performer was Potlatch, and the second was the stock of U.K auto parts and cycling retailer Halfords Group (ticker: HFD LN). Recall that Halfords was one of the largest detractors in the prior quarter, but we believed that the factors pressuring the stock were transitory and were confident the fundamentals were intact. Smith & Wesson 9.500% due 1/14/2016 was again a top contributor. The largest detractor was our forward contract to sell British Pounds, which was entered to hedge the exposure of the Pound-denominated Halfords position. The position did not have a material effect on the Fund's net asset value. For the Fund's fiscal year ended September 30, 2012, the top contributors were the Smith & Wesson notes, PetroQuest Energy 10.000% due 9/01/2017, and Central Garden & Pet 8.250% due 3/01/2018. The largest detractors were WWE common stock (ticker: WWE) and Cott Beverages 8.125% due 9/01/2018. The negative contribution of these two holdings was minimal.

At Intrepid, we aren't creating portfolios that hold hundreds of bonds. That approach is largely based on technical factors such as anticipated flows into the asset class and expected default rates. Managers of these products expect to have defaults but believe gains elsewhere will offset these losses. Our strategy differs significantly. Instead, we carefully select 25-40 individuals holdings that we believe offer the best returns for the risk taken. The primary goal, as with all Intrepid products, is to minimize the risk of permanent capital impairment. The most common type of permanent capital loss occurs in a bankruptcy or restructuring, where various claims to a company's assets often receive a fraction of what they were owed.

We also believe interest rate risk can lead to "permanent" capital loss, but this is a much less common concern among the investment community. The price of a 30-year bond will exhibit extreme volatility with only minor changes in interest rates. In the current environment of near record low rates, even a return to "normalized," or historical average, rates would trigger a material decline in the price of long-dated bonds. We used quotation marks above with "permanent" because if the investor's holding period is long enough and the bond is held to maturity, the loss will only be temporary. However, we think many of our investors would agree that they don't want to wait 30 years to recoup this "temporary" loss.

In our quest to limit the risk of permanent loss, we will only invest in securities that we believe offer attractive potential returns for the risk taken. We are not required to invest excess cash as many other managers are. When opportunities are limited, as they are now, our cash position will naturally be higher than normal. Cash and Treasury bills account for about 39% of the Fund's assets. As we have stated in prior letters, the cash allocation is not an attempt to time the market.

While we don't spend as much time analyzing the market from a 50,000 foot view, there are signs that the current high-yield environment is overheated. Recent flows into the asset class have slowed considerably. Newly issued bonds have terms similar to those seen in the mid- to late-2000's, with loose covenants and the ability to defer cash interest payments. Further, those pesky collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs) that were the talk of the financial press just four short years ago (and had largely been extinct post-2008) are coming back into vogue as investors continue the yield search outside of traditional asset classes. While it may seem like eons ago to many investors, the credit crisis is still fresh in our minds, and we will continue to manage your capital with a keen focus on minimizing downside risk.

Thank you for your investment.
Sincerely,

Ben O Franklin III

Ben Franklin, CFA
Co-Lead Portfolio Manager

Jason Lazarus, CFA
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 Bank of America Merrill Lynch High Yield Master II Index is Merrill Lynch's broadest high yield index, and as such is comparable with the broad indices published by other investment banks. You cannot invest directly in an index.

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 a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. Yield-to-Worst is the bond yield computed by using the lower of either the yield to maturity or the yield to call on every possible call date.

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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