Intrepid Small Cap Fund

Discipline Makes the Difference.

4th QUARTER 2011 COMMENTARY

PERFORMANCE

Average Annualized Total Returns as of December 31, 2011

	Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid Small Cap Fund - Inv.	10/3/05	8.85%	1.72%	1.72%	19.18%	11.66%	11.94%
Intrepid Small Cap Fund - Inst.	11/3/09	8.94%	1.96%	1.96%	-	-	12.42%
Russell 2000 Index		15.47%	-4.18%	-4.18%	15.63%	0.15%	2.98%^

^Since Inception returns are as of the fund's Investor Class date. The return for the Russell 2000 Index is 14.36% as of the inception date of the Institutional Class.

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 1.51% and 1.26% for the Institutional Share class. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expenses (excluding Acquired Fund Fees and Expenses) do not exceed 1.40% and 1.15% through 1/31/13, respectively. Otherwise, performance shown would have been lower.

Dear Fellow Shareholders,

For the three months ending December 31, 2011, the Intrepid Small Cap Fund (the "Fund") rose 8.85% compared to a 15.47% gain for the Russell 2000 Index. For the full year of 2011, the Fund gained 1.72% versus a 4.18% drop for the Russell benchmark. The Fund's volatility was around half of that experienced by the small cap index in 2011. Our relatively high cash balance and more defensive holdings helped performance in August and September, but held us back, on a relative basis, in the final quarter of the year. Cash and Treasuries ended the year at 36% of assets. Elevated cash levels reflect our view that the current number of attractive small cap opportunities remains limited, although valuations have improved for buyers from the first half of 2011.

When we refer to the Fund's holdings as "defensive," this is obviously an opinion. We believe the companies we own are more reliable generators of free cash flow than the average public small cap and, as a result, their business values should be less prone to fluctuation. With that said, we don't have a portfolio full of utilities (not that there's anything wrong with that). We commit your capital where we find the most attractive risk-adjusted returns. Often, this involves buying into unfavorable news. Frequently the news gets worse before it gets better. We think of this as our routine "Window Undressing"—we sell the names that have done best as they cross our intrinsic value estimates, and we scoop up underperformers, assuming they meet our criteria for a good business trading at a good price. It won't always make for the prettiest quarter end holdings list, but designing conventional "feel good" portfolios is not our forte. Just as you won't find a bargain shopping for a diamond at Tiffany's, we devote our research efforts toward more unappreciated situations. Our best investments have originated from the disciplined analysis and careful purchase of good businesses with sagging stock prices. Sometimes these appear because of general market weakness, and sometimes there are issues specific to the company. Either way, we will always take pleasure in purchasing an undervalued business as opposed to maximizing the portfolio's curb appeal. In the spirit of airing our dirty laundry, we will devote more coverage in this letter to what didn't work for us last quarter instead of what did work.

During the fourth quarter, the largest positive contributors to the Fund's performance were Convergys (ticker: CVG), Brown & Brown (ticker: BRO), and Tekelec (ticker: TKLC). Convergys is one of the world's largest call center operators and also has a billing software division. We purchased the stock during the summertime market fallout, and the combination of a rebounding market and solid company earnings made Convergys our largest positive contributor. We discussed our purchase of Brown & Brown in last quarter's letter. While fundamentals for middle market insurance brokers have not improved since then, we believe investors recognize the high quality of this business. Tekelec's stock appreciated both before and after management announced a sale of the company. We sold before the announcement, so we did not fully capture the gains. Nonetheless, we were happy to recoup much of the loss on this investment, which was the biggest portfolio detractor over the preceding year.

Although the small cap market was very strong in the fourth quarter, we had a few positions with losses. By far the largest negative contributor was American Greetings (ticker: AM), which left a lump of coal in our stockings just in time for Christmas. We were disappointed earlier in 2011 when management announced the company would be spending an absurdly large sum on a new headquarters building, but we felt the stock's ultra-low multiple compensated for this poor decision. The company's pre-Christmas earnings announcement was a big disappointment, and management did a poor job of detailing the reasons for American Greetings' weak operating margins. We have lowered our margin assumptions and increased our discount rate, but we still believe the shares are cheap. We hope management is not a roadblock to realizing full value.

Two other stocks experiencing more modest losses in the quarter were Computer Sciences (ticker: CSC) and Federated Investors (ticker: FII). Since our initial August purchase of CSC, the drumbeat of negative news continued, culminating with a recent announcement that they plan to write off their investment in a major contract. In the near term, more adverse developments are possible, including results of an audit committee investigation. The stock is broadly hated by the investment community, but we believe the shares have become increasingly attractive. CSC will soon select a new CEO, who may help restore the company's image and demonstrate to investors the appealing cash flow characteristics of the business.

Federated Investors has suffered from a trio of negative forces affecting the money market industry. Low interest rates, concerns about European bank debt exposure, and possible reforms by the SEC are all weighing on the stock. Low rates are squeezing the margins on Federated's money market offerings, as they have cut their

Intrepid Small Cap Fund

Discipline Makes the Difference.

4th QUARTER 2011 COMMENTARY continued

management fees in order to deliver a small positive return to investors. While low rates could continue for a while, they are unlikely to exist forever. Federated is already trading for 6x operating income. Future money market reforms could further crimp profitability, but we think the SEC is unlikely to enact measures that will severely disrupt the industry. Furthermore, Federated generates over half of its net revenue from equity and fixed income products, and the firm's stock portfolios have fared better than average in tough markets.

A new purchase in the quarter was ICON Plc (ticker: ICLR), which is one of the largest contract research organizations (CROs) helping pharmaceutical and biotech customers bring their products through clinical trials. While major drug makers are facing patent expirations and have reduced Research and Development spending, they have increasingly outsourced their drug development. ICON was selected in 2011 as one of only two CROs to be used by Pfizer. In building headcount in anticipation of this new business, the company experienced a sharp decline in profitability. We believe that normalized operating margins are more than twice as high as ICON will deliver in 2011. Several of the company's peers have been acquired by private equity players for high multiples.

We also established a small position in Cott Corp. (ticker: COT). Cott is the world's largest producer of private label beverages. Intrepid owned the company's high yield bonds a few years ago. Since then, Cott has experienced a rocky period with Walmart, its largest customer, and it has recently been pressured by rising commodity input costs. Cott's product offering is more diversified than it was previously, and we believe that the firm's significant free cash flow will enable it to deleverage or buy back stock.

Top Ten Equity Holdings	(% of net assets)
Bio-Rad Laboratories, Inc.	3.1%
CSG Systems International, Inc.	3.0%
Teleflex, Inc.	2.5%
Computer Sciences Corp.	2.4%
ManTech International Corp.	2.4%
Securitas AB	2.4%
CoreLogic, Inc.	2.3%
Federated Investors, Inc.	2.3%
Aspen Insurance Holdings Ltd.	2.2%
Brown & Brown, Inc.	2.2%

Top ten holdings are as o December 31, 2011. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

During Q4, we fully exited our positions in Brady Corp. (ticker: BRC), VCA Antech (ticker: WOOF), and Sykes Enterprises (ticker: SYKE). These were small positions that we bought during the summer. They all quickly reached valuation before we could acquire a larger stake. We also sold our longer-term investments FTI Consulting (ticker: FCN) and Weis Markets (ticker: WMK), which both appreciated to fair value.

We have received a few inquiries over the last week about our large year-end capital gains distribution, which amounted to $1.87 per share. Although the Fund only posted a small performance gain for its 2011 fiscal year, we sold several positions during the year that became fully valued. This resulted in a significant distribution, which is taxable to many shareholders. Clearly, this is undesirable to new investors who did not participate in the large gains of 2009 and 2010. However, this is not lost money. Newer shareholders are effectively prepaying taxes, lowering their future tax bill.

We have opted to not let the tax tail wag the investment dog. In periods when several of our holdings cross intrinsic value, we will be sellers and turnover will be higher. Since some of our biggest unrealized losses are in positions trading at the deepest discounts, we will typically not participate in tax-minimizing strategies where we sell stocks with losses and repurchase them after 30 days (to avoid wash sale rules). We can never be certain when the valuation gap will close, as was evident with Tekelec last quarter. The stock jumped over 50% shortly after the end of our fiscal year—when funds normally would temporarily rotate out of losing positions. As of December 31, 2011, three months into the Fund's new fiscal year, the Fund's embedded realized capital gain and unrealized gain were $0.15 and $0.43, respectively.

As we look ahead to the New Year, we will continue to manage your money with the same disciplined process used by Intrepid Capital since its founding. We aim to deliver a strong absolute return over time, and we will use intermittent volatility as an opportunity to help us achieve that goal. Thank you for your investment.

Sincerely,

Jayme Wiggins, CFA
Intrepid Small Cap 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 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. 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. Free Cash Flow measures the cash generating capability of a company by adding non-cash charge (e.g. depreciation) and interest expense to pretax income. Any tax or legal information provided is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. Neither the Fund nor any of its representatives may give legal or tax advice.

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.