Intrepid Small Cap Fund

Discipline Makes the Difference.

4th QUARTER 2013 COMMENTARY

PERFORMANCE

Average Annualized Total Returns as of December 31, 2013

	Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid Small Cap Fund - Inv.	10/3/05	3.85%	11.79%	11.79%	7.37%	15.55%	11.55%
Intrepid Small Cap Fund - Inst.	11/3/09	3.99%	12.15%	12.15%	7.64%	-	11.54%
Russell 2000 Index		8.72%	38.82%	38.82%	15.67%	20.08%	8.37%^

^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 20.31%.

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 expense (gross) for the Investor Shares is 1.45% and for the Institutional Share class is 1.20%. 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 1.41% and 1.16% through 1/31/14, 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 expenses, excluding Acquired Fund Fees and Expenses, (expense cap) does not exceed 1.40% and 1.15% through 1/31/14, respectfully. Otherwise, performance shown would have been lower.

January 2, 2014

Dear Fellow Shareholders,

At Intrepid Capital, we spend a significant portion of our working hours searching for investment ideas. Many in our industry refer to this activity as "making a shopping list." As we screen for small cap opportunities today, the results are sobering. We feel like we've visited the local, small town supermarket immediately before a Category 5 hurricane is about to hit. The prime merchandise—canned foods, bottled water, matches, etc.—is gone. You can still buy it through secondary channels for 2x or 3x markups to the original prices. The only things left on the supermarket shelves are damaged goods. They are expired, broken, or already opened. Such is the investment landscape today. Most small companies that we would classify as great, good, and mediocre are trading at much higher prices than they were only 12 short months ago. Some other firms are not, but many of these have serious, potentially chronic, issues.

The critical difference between our supermarket analogy and today's investment reality is obvious: People need food and water during a natural disaster, no matter the cost. No one is forcing investors to pay ever-higher prices to adorn their portfolios with small cap bling, although some would argue that Bazooka Joe Bernanke has blown a bubble too juicy to resist. According to Bloomberg, the aggregate net income of the Russell 2000 grew by 1% over the past year. Yet, small cap stocks surged 38.8% (Russell 2000 Index). Virtually all of the appreciation in small cap stocks came from multiple expansion. Multiples are a function of required returns and expected growth rates. Over the past year, there has not been any obvious change to the mainstream opinion on long-term economic growth rates. Therefore, essentially the entire increase in small cap stocks in 2013 can be attributed to a reduction in the discount rate, or return investors require for owning stocks. The typical Russell 2000 small cap is trading for 42x free cash flow today, implying a capitalization rate (discount rate – growth rate) of 2.4%. When the capitalization rate gets to 0%, stocks would be priced at infinity.

Our price targets are less than infinity. In fact, our typical capitalization rate is 7%, implying a 14.3x free cash flow multiple at valuation (1/.07). Since we require at least a 20% discount to our appraised value before purchasing, we have usually paid less than 12x normalized free cash flow for the businesses we own. You can currently find a

couple hundred small caps trading for multiples within our target range. However, the vast majority of these are exhibiting free cash flows above levels that we deem normalized. Many are low quality or declining businesses that deserve to trade at low multiples, in our opinion. Others are generating strong cash flows because of record profit margins that we believe are not sustainable in a more controlled environment for household and government spending. Lastly, there are plenty of firms where high trailing free cash flows reflect the annual volatility of cash production compared to accounting earnings due to changes in working capital and capital spending. To be fair, there are also companies where cash flows are depressed for the same reason.

Top Ten Equity Holdings	(% of net assets)
World Wrestling Entertainment, Inc.	4.0%
Amdocs Ltd.	3.1%
Aaron's, Inc.	3.0%
Bio-Rad Laboratories, Inc.	2.9%
Newfield Exploration Co.	2.9%
Ingram Micro, Inc.	2.4%
Tetra Tech, Inc.	2.2%
FTI Consulting, Inc.	2.1%
Aspen Insurance Holdings Ltd.	2.1%
Global Payments, Inc.	1.6%

Top ten holdings are as of December 31, 2013. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

During the fourth quarter ending December 31, 2013, the Intrepid Small Cap Fund (the "Fund") rose 3.85% compared to an 8.72% gain in the Russell 2000 benchmark. For 2013, the Fund increased 11.79% versus 38.82% for the Russell Index. The principal contributing factor to the Fund's relative underperformance was our cash position. Cash ended Q4 at 66% of assets. Our equity holdings rose 33.2% during the year. We recognize that our cash position is unconventional, perhaps even shocking, in a fully invested world where most portfolio managers believe anything other than a single digits percentage of cash is high. Our substantial cash stake reflects our inability to find undervalued stocks in the middle of a frenzied small cap market. We do not hold positions once they cross above our fair value estimates.

We are often asked by shareholders, "Why don't you buy more of what you already own?" Theoretically, we could be fully invested today if we owned three times as much of each of our existing holdings. There are a few reasons why we don't manage the portfolio that way. First, we generally do not invest more than 5% of Fund assets in a single stock, given our keen focus on downside risk. There is nothing magical about this number. Many talented portfolio managers regularly take larger weights, and we also have in the past, on occasion. However, we aren't activist investors, so our ability to influence the direction of portfolio companies primarily comes from dialogue with management and how we vote our shares in annual proxies. Second, we do not believe in growing our exposure to a name as the discount to intrinsic value decreases. Most of our stocks are trading closer to our judgment of fair value than they were one year ago. It doesn't make sense to us to buy 50% more of a name trading at half of the discount it was a year ago, simply because we sold out of another name trading at full value. Lastly, we understand the value of having cash to deploy when stock prices correct. While we'd prefer to be invested in cheap stocks, we believe that our growing cash position appropriately reflects a small cap market that becomes more absurdly valued with each passing day. We did not purchase any new securities in the fourth quarter.

Over the past three months, we sold Epiq Systems (ticker: EPIQ) and Bill Barrett (ticker: BBG). Epiq is a provider of technology-based solutions for electronic discovery, bankruptcy, and class action settlements. We owned EPIQ for several years. A few years ago, the company was mainly tied to the bankruptcy cycle, with a long tail of business from major cases. Epiq also had a small, high-margin eDiscovery software business. Since 2011, the company has dramatically shifted its profile toward lower-margin eDiscovery services through two large acquisitions primarily funded with debt. The stock price jumped to multiyear highs on the company's recent strong organic revenue growth. Nevertheless, while Epiq is growing revenue, earnings have increased at a much lower rate. We liked Epiq better when we viewed it as a niche software provider with a countercyclical bent and a clean balance sheet. The business mix has become more commoditized and procyclical.

Bill Barrett, the oil and gas producer, was sold during the fourth quarter once the stock briefly touched our fair value estimate. Drilling results on new oil wells near Denver continue to be solid, which validates the attractiveness of the firm's Colorado acreage. Additionally, Bill Barrett announced a major asset sale that will help it deleverage to more

reasonable levels. While our first time owning Bill Barrett was profitable, our second round was disappointing. We incurred a small loss during a period when the market made significant gains. At one point, we were down by almost half, but the stock recovered significantly. Some facets of investing in E&P companies are beyond our control. In Bill Barrett's case, natural gas liquids (NGL) prices fell substantially since our purchase, and the gas and oil futures curves also deteriorated. The company's debt-fueled spending to transition away from gas was more aggressive than we anticipated, partially because of weaker-than-expected commodity prices.

Newfield Exploration (ticker: NFX), Big Lots (ticker: BIG), and Telephone & Data Systems (ticker: TDS) were the largest detractors to the Fund's performance in the fourth quarter. We were surprised by the market's negative reaction to Newfield's updated 3 year production plan that was issued in early December. The stock had performed well after the company's third quarter earnings and asset sale announcement, but the long-term production guidance was treated harshly by the market, even though it was an immaterial shift from last year's plan. Closeout retailer Big Lots dropped after the firm announced another quarter of comparable store sales declines and projected ongoing pressure. Retailers have high operating leverage, and valuations are very sensitive to changes in the top line. We had sold over 40% of our BIG shares earlier in 2013 when the valuation gap closed. Big Lots' new CEO has a sensible plan to stabilize sales by focusing resources on better performing categories including furniture, seasonal merchandise, and consumables. Currently, the valuation multiple is undemanding and far below peers, and the company's owned real estate offers investors some protection. Telephone & Data Systems' stock languished as investors remain concerned with subscriber losses at U.S. Cellular and questionable capital allocation by management. The company hopes to stem churn by now selling iPhones and rolling out a 4G network. U.S. Cellular remains the 5th largest wireless operator and would likely be snapped up quickly by a larger player if the controlling Carlson family was willing to sell.

WWE (ticker: WWE) was by far the largest gainer in the fourth quarter, and its contribution to the Fund was twice as much as the combined impact of the next top two gainers, Global Payments (ticker: GPN) and Amdocs (ticker: DOX). Global Payments, the payments processor and merchant acquirer, saw its multiple expand closer to peers' levels as the company demonstrated stabilization in its key Canadian market and posted strong growth of higher margin direct merchant relationships. We sold more than half of our shares. Amdocs is a larger Fund holding and was up modestly more than the overall market. Management indicated they might be willing to allocate a greater percentage of cash flow to share repurchases.

WWE's stock appreciated rapidly in the fourth quarter and more than doubled in 2013. Investors have become increasingly confident that the company's earnings will reset at a higher level after WWE renews its domestic television agreements in the spring. A crucial element of our investment thesis is that WWE is paid below market rates for its longstanding RAW and Smackdown programs, which together deliver around $100 million in domestic rights fees (the company receives another ~$60 million from international fees and other shows). We have noted previously that NBC Universal could double the fees it pays WWE just from advertising revenues alone, without the network even dipping into its lucrative subscription fees that account for over half of revenue. Although we think that a materially higher value on the television renewal is likely, we recognize that there are a limited number of buyers for wrestling-based content. There are less than half a dozen networks that would be interested in WWE's product, which delivers high, reliable ratings 52 weeks per year. Still, we think there are enough interested parties to drive the contract's pricing closer to market value. Based on a 10x EBIT multiple and assuming no other adjustments to the company's expenses, we believe the shares are pricing in an increase in domestic rights fees of around 70%, or an increase in global rights fees of 40%.

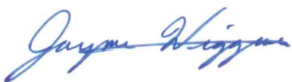
The other pillar of our WWE investment thesis was that the company's proposed WWE network would not succeed, and management would ultimately eliminate the spending associated with the network project. We thought it was possible that the company would terminate the endeavor before fully committing to a launch. This now seems unlikely, as there have been indications that WWE will soon launch an "over-the-top" network. This would be delivered to customers like Netflix, so the potential subscriber base would be limited to households with Internet-

connected devices who were willing to watch wrestling in this manner. Previously, the company indicated it was leaning toward a premium channel network like HBO, but it appears they couldn't get cable partners on board. Ironically, we believe management's conviction about garnering higher TV rights fees has made them willing to fund the speculative network project. We will admit that if the network is even modestly successful, it would help stabilize a gradual structural decline in the pay-per-view business. WWE's individual monthly pay-per-views cost over $50, which is pricing many fans out of the market. A network subscription would include almost all of these events plus other wrestling shows for a price closer to $10 per month. What they lose in pricing, they make up in more predictable volume. It's definitely a better business model, if they can sell it. In light of the run-up, WWE's stock is now more fully valued.

We are more than five years past the brunt of negative returns from the credit crisis. Funds can now report five year investment performance that only covers a bull market. Similarly, Morningstar's automated star ratings for funds older than five years, but younger than ten years, are currently based entirely on the relative record during the past five years of rising markets. This includes the Intrepid Small Cap Fund. We are the only force in the universe that has destroyed more stars than a black hole. Others may disagree, but we believe the performance of investment funds should be assessed over a complete cycle, which includes both bull and bear markets.

Many people who invest in funds believe it's not the managers' job to "time the markets" by deviating from a fully invested status. These investors are unlikely to place money with us. Our view is different. We aren't trying to time the market; we are only trying to live up to the promise we made to shareholders that we would seek out and purchase undervalued small caps. From our perspective, companies aren't worth 38.8% more than they were this time last year. As a result, we have sold a lot and bought only a little. Nevertheless, the investment climate will not always be so favorable, and we believe we have something to offer in such environments. Therein lies Intrepid Capital's value proposition. Those who just want plain vanilla small cap market exposure should enlist one of many available robotic, low-cost options. However, if you believe in the merits of a consistent investment approach based on stock valuations that are not influenced by swings in market prices, then Intrepid Capital might be a good fit for you. Thank you.

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 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. 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 subtracting capital expenditures from cash flow from operations. Basis point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Price-to-Earnings Ratio is a valuation ratio of a company's current share price compared to its per-share earnings as calculated by Market Value per Share divided by Earnings per Share (EPS). EBIT is calculated as the company's Earnings before Interest, Taxes and Depreciation. Capitalization Rate is a tool used to value equities, which is defined as the return required for a particular stock minus its expected growth rate of cash flows. Taking the inverse of the capitalization rate results in a multiple some investors use to value a stock.

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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