ROBOTTI & COMPANY ADVISORS, LLC

Investment Securities

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October 12, 2012

Dear Client,

We want to reflect on this past quarter, our current positions and give you our thoughts on the future.

Performance Overview

	Value Equity Composite[1], Net	Benchmark[2]
2012 Third Quarter	9.43%	5.85%
2012 Year to Date	18.98%	14.47
COMPOUND ANNUAL GROWTH RATE (THROUGH YEAR END 2011)		
3 Year	16.41%	15.82%
5 Year	0.81%	0.25%
19 year Inception	12.56%	8.05%

Position Changes

While we did not initiate any significant new positions over the past quarter, we did sell our entire holding of Nexen at a slight discount to a proposed takeover offer by CNOOC, a major Chinese oil company. CNOOC's offering price for Nexen reflected a 61% premium to Nexen's prior day closing price. Given the already significant premium offered by CNOOC, we felt that there would be no increase in the offering price and that no competitive outside bids would emerge. Additionally, there was reasonable concern for and opposition to the acquisition due to the fact that CNOOC is majority owned by the Chinese government.

[1] The Value Equity Composite has been defined and created to include all fee paying, discretionary accounts with an initial size of $100,000 or more that are managed with an objective of capital appreciation through the purchase and sale of primarily equity securities that, at the time of purchase, are small to mid-cap and that have been selling for significantly less than their intrinsic value or those that may grow their intrinsic value at above average rates. This composite was created in December 2001. The Investment results of the Value Equity Composite are only for illustration purposes and it cannot be assumed that future results will be reflective of this past performance. Performance of this composite has been calculated using U.S. Dollars. These results were calculated based on reinvestment of dividends and other earnings. Individual account performance may vary.

[2] Inception through August 2011, benchmark was the Russell 2000 Index. September 2011 to present, benchmark is the Russell 2500 Value Index.

In the quarter, we increased our position in two core holdings, Stolt-Nielsen S.A. and CalFrac Well Services. A combination of attractive valuations and increasing conviction drove this decision.

As you may know from prior letters, Stolt-Nielsen is focused on the transportation and logistics of chemicals throughout the world. There are three core parts to its business: a shipping business of specialized chemical carriers, a global terminal business used to store those chemicals and a container business that provides an alternate mode to transport chemicals. Our core investment thesis is that these three businesses have a private market value of approximately $50 per share. The current trading price for Stolt-Nielsen is well below $20 per share. We recently met with the CFO of Stolt-Nielsen to get an update on current business conditions and the future outlook. We came away from our meetings with the impression that recent developments in the shipping segment show that we are approaching a significant inflection point in that business. We believe that the three segments have very good growth opportunities which will further increase Stolt-Nielsen's private market value.

Earlier this year we established a new position in a Canadian oil service company, CalFrac. We have followed the company and visited with management numerous times over the last decade. As is often the case with our initial positions, the company is out-of-favor and continues to trade lower as shareholders become disillusioned and sell to levels we believe to be significantly below the company's intrinsic value. During the most recent quarter we continued to add to our position as the price fell. Today the company has a P/E ratio of less than 6 times its trailing 12 month earnings. The short-term outlook for the business is disappointing and uncertain – two things investors loathe. Our focus, as always, is on the longer-term earnings potential of the business. Over the last five years, the industry has experienced over 30% annual growth. Often when industries experience such growth, capacity will expand past demand, causing an oversupply. In this case, we see the industry demand has also retracted, exacerbating short-term concerns. Despite the concerns, we believe that over the next 3 to 5 years the industry and the company have extremely strong growth prospects, driven by an increase in complex hydraulic fracturing jobs requiring more horsepower. We believe we are buying into a company with an extremely modest valuation and very high growth rates over time. A significant portion of the outstanding shares, over 25%, are owned by insiders. This is particularly important in a cyclical business with strong cash flows, as the timing and diligence of the reinvestment of the cash can have a large impact on building value. Insider ownership aligns incentives, and can improve reinvestment efficiency. Additionally, while we wait for the market to reflect what we feel is CalFrac's intrinsic value, the company pays a $1 dividend with a stock price below $25 per share, giving approximately a 4% dividend yield.

Our Investment Approach

In reviewing the composite's positions today, it is clear that there are two very significant investment themes. One is the North American energy advantage and the second is the reemergence of home building in America.

Since the turn of the millennium, natural gas production had been steadily declining in North America. The same was true of oil production in the US in the late 60's and early 70's. The maturity of oil production meant an irreversible decline in domestic supply, which led to an increased demand for imported oil and thus, higher oil prices. The advent of OPEC and its impact on oil prices exacerbated the situation. Natural gas production was heading in the same direction. The prevalent view at the time was that North America would need to import natural gas. A number of plants were built for this purpose, each costing many billions of dollars. Echoing North America's experience of the 60's and 70's with oil, most of the world's excess natural gas was located in a natural gas OPEC. More concerning was that Russia and Iran, two of the three countries that dominated available supply, were historically not allies of the United States. The advent of shale gas and hydraulic fracturing has effectively turned this dynamic on its head. Over the last 5 years we have seen a huge paradigm shift in energy production in North America. The technology has greatly expanded the accessible supply of natural gas in North America and thus, its production has grown dramatically. As a result, today domestic natural gas prices are at 10 year lows. On a comparative basis, natural gas in North America is approximately 1/3 the price it is in Europe and 1/5 the price in most of Asia. This has created a huge competitive advantage for North America and a great opportunity for the United States. The continued development of technology to drill wells horizontally has completely changed the outlook for natural gas production in the United States. The current price disparity is not a temporary phenomenon but one that we believe will persist for more than a decade. Over the last few years this technology has also been applied to many reservoirs known to contain oil. The result has been a meaningful increase in oil production in the United States. Low cost energy has significant future implications for the US economy. Energy intensive businesses in the United States are now competitively advantaged on a worldwide basis. We have already seen a significant improvement in the earnings for many US industries: chemicals and fertilizers, among others. Given the long-term nature of this competitive advantage many industries will now invest significant capital to expand. We have a multitude of investments which should benefit from this long-term phenomenon.

Another industry in which we've invested heavily is the significantly depressed home-building industry. While on a shorter term basis our exposure to this industry has caused a drag on our performance, we are confident that there remain many reasons to be optimistic about the future. Prior to the downturn in US home-building we invested in the manufactured housing industry. We believed that manufactured and modular homes constructed in an indoor, factory controlled environment not only offered a cheaper per square-foot option than site built homes, but also provided significantly greater quality control. Despite being competitively advantaged due to lower cost and higher quality, manufactured and modular homes were significantly disadvantaged when it came to securing mortgage financing. In recent years, home-building activity has fallen to levels never previously recorded. Through the downturn we continue to invest in companies that we believe have very modest valuations based on what we believe normalized earnings are. Approximately 10% of the composite is invested in companies which can directly benefit from a turn in homebuilding. The key driver for performance in these investments is the amount of home building in America. Harvard University has followed this for a long time based on population demographics. These studies show that long term demand for new home contractors in America is between 1 and 1.2 million homes per year. Even though there have been positive signs recently, we don't know when we will get back to this activity level, but we are confident that it is imminent. Our investment here is very well positioned for vastly improved results. We believe the market's attitude toward these companies will be adjusted to that reality.

Thank You

As always, this is an exciting business. With a talented investment team, instincts, experience, and patience, we continue to guide our investments in to the future. We truly appreciate your support, patience and confidence in us.

All the Best,

Robert E. Robotti

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