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FRNKX, FNKCX, FNKIX

Fourth Quarter, 2011

To our fellow shareholders,

The Frank Value Fund Investor Class returned 8.00% in 2011 versus 2.11% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information.

We are humbled. Our humility stems from two events, one great, one scary. First, the good: our 2011 performance is better than 98% of funds in our Morningstar Category and 97% of funds in our Lipper Category. More importantly, the long-term record of the Frank Value Fund is better than 86% to 93% of our peers regardless of how you categorize the fund. Even more stunning to us is the fact that 2011 marked the downfall of several investors we respect, with their abysmal performance and massive shareholder redemptions forcing some into early retirement. As interested observers we learn that becoming asset-bloated or married to your ideas can lead to disaster – it is imperative we constantly learn from our and others' faux-pas. Amidst this carnage we have not only survived but thrived, armed only with our simple yet unwaveringly strict strategy. Given the amount of tumult in 2011, as well as the number of global crises jam-packed into the Frank Value Fund's first seven years, we are proud of the all-weather strength of our process.

Rather than risk an ego-burn by sunning ourselves in the glow of past performance, it is with immense humility that we look forward to 2012 and beyond. Our introspection is a result of wide range of possible outcomes we see due to a rapidly worsening European sovereign debt crisis. A quick look back at our Q3 letter showed a lot of defiance of the stock market action, and to be emphatic, we are still convinced stocks are the best asset to weather possible recessions, sovereign defaults, inflation, and falling bond prices. However, the events of this past November made us more cautious of some specific types of businesses, especially those with exposure to the European economy. With a spike in Italian government bond yields and the crisis moving from the peripheral to the core European countries, we are forced to question the sustainability of the "E," or earnings, in the low P/E ratios we are seeing in numerous businesses.

As a result, we sold our entire stakes in American Repographics (NYSE: ARC), Corporate Executive Board (NASDAQ: EXBD), and Wellpoint Healthplans (NYSE: WLP). We also reduced our holdings of Intel (NASDAQ: INTC) and Humana (NYSE: HUM). EXBD sells best practices data to corporations, and we were able to purchase this company in the last recession because the market punished EXBD for being one of the first expenses corporations cut in a downturn. Though the recovery in 2010-11 was mild, it was enough for EXBD to rebound over 200% off its 2009 lows! In fact, ARC is the lone loser of the bunch. We were early on ARC in our belief a recovery in commercial and residential construction would boost this provider of digital blueprints, and the lack of a rebound, restrictive balance sheet, and potential for further malaise in the housing sector prompted the loss-taking.

Both Wellpoint and Humana are also large winners for shareholders, with our initial 2009 purchases being done at prices at or below potential liquidation value due to worst-case fears of the Obamacare legislation. As the plan became public, its favorable treatment to large health insurers only boosted the price appreciation we were expecting from these names. We happily rode WLP and HUM up multiples of their stock prices from initiation and up an additional 22% and over 50% in 2011 respectively. The aforementioned sales increased our cash from roughly 2% to over 15%, above our long-term average of 10% and we stand ready to take advantage of any market upheaval.

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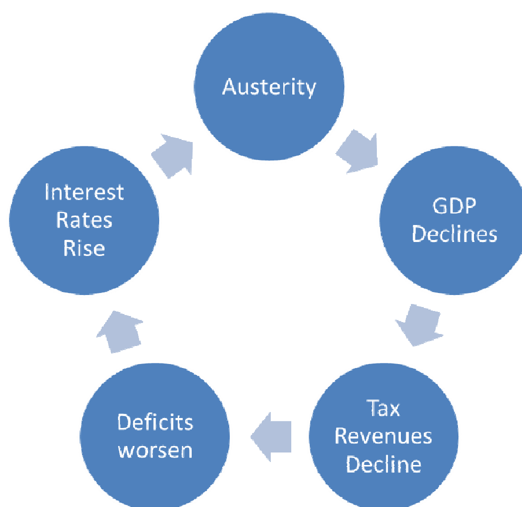
The last few months of 2011 have mandated an immersion in macroeconomics. As copious readers of business annual reports, it should carry more weight when we proclaim macro research, at its best, tedious! However, tumultuous times necessitate such study, as we believe potential defaults on sovereign debt and additional bank failures are the millstones

hampering global economic growth in the next few years. Our company by company analysis is intensely focused on the enterprise's ability to at least maintain current cycle average earnings into the future. By looking at the large and rising component of government spending as a percentage of GDP, our bottom-up research inevitably questions the sustainability of government spending in the medium to long-term. Government contracts are an obviously important part of defense contractor, civil engineering, and medical device maker revenues, but even companies fueled by consumer spending are potentially vulnerable. More and more consumers are reliant on the government for spending money, whether through social security, public pension payments, food stamps, welfare, or unemployment benefits. Additionally, the European banking crisis as well as worldwide risk aversion to lending could cause the gears of the global economy to screech to a more immediate halt.

Rising rates in major countries such as Spain and Italy show the fears bond market investors have as total debt loads rise over 90% of gross domestic product. Rising yields around Europe mean price declines in bonds, and this, along with an extreme slowdown in interbank lending, is putting tremendous pressures on banks. Banks purchase government debt as a "risk free" asset to safeguard precious customer deposits, but even the optimistic scenarios have holders of Greek sovereign debt losing 40-50% of their net present value, calling the risk-free nature of these bonds into question. As potential losses on Italian and Spanish government bonds are entering the conversation, banks are at the mercy of marking to market as well as the continued support of jumpy investors to fund government debt rollovers. The high leverage ratios of European banks compared to their American counterparts[1] shows just how slim the margin for error is. Even small losses on core Europe sovereign debt would create large capital holes in European banks. As harrowing as the European banking crisis is, it is unfortunately only a symptom of the greater doubts and uncertainty of European sovereign debt.

Bluntly, we believe numerous European sovereigns are beyond the point of no-return and will ultimately default on their government debts. Efforts to ring-fence, bailout, and preempt this are futile exercises in circular references and are too late and politically impossible. Most importantly, we also believe equity positions in companies like the Frank Value Fund holds are one of the few assets that will protect purchasing power against a wave of currency printing. Printing will be necessary to support investor losses, and it will also be required to prop up the banking system. In highly inflationary environments, cash, commodities, and especially bonds will suffer significant and permanent losses. Investors, now flocking to loan at a long duration to governments at a sub 3% rate, will be stepping upon bloodied shoulders to flee these markets if and when inflation further erodes purchasing power. Thus, our concentration on companies wielding pricing power and pristine balance sheets is evermore at the forefront of our strategy.

Generous lending from the European Central Bank to European banks is merely a desperate effort to increase bank liquidity, while the risk-free nature of banks' sovereign debt holdings becomes increasingly doubtful. New technocratic governments like Italy's are finding religion too late, with cuts in government spending sure to throw the country into recession, thereby reducing tax revenues and having the opposite of the desired effect by worsening government deficits. Greece has been in recession since commencing austerity measures, yet deficits have increased and bond issuance has gone to zero. This chart shows the downward spiral of a government trying to stave off default through austerity.



Additional extreme measures like Euro Bonds and joint fiscal sovereignty are currently shunned by the Germans, but even if Germans are eventually forced into vouching for the debts of the spendthrift nations, adding more debt to a debt crisis is equivalent to fire departments deploying flamethrowers in an effort to quell a burning building. Structural changes need to be made to government budgets and therefore investors in European debt must suffer losses. Whether these losses are taken in an orderly or disorderly fashion, we believe we have positioned the Frank Value Fund to maintain our investors' purchasing power, take advantage of panicked markets, and dominate the aftermath with strong businesses poised to absorb the customer bases of extinct competition. As mentioned at the beginning of this letter, the range of outcomes is quite wide. We could easily see a significant stock market rally in nominal terms next year that is merely keeping up with inflation in real terms. We could also believe a correction is on the horizon with banks and institutions forced to raise cash by selling their equities at any price. Neither would surprise us, but the take away here is we are prepared for both extremes, and instead of paralysis due to the cognitive dissonance of black swan events, we will be scouring the corners of the markets for excellent long-term investments and fighting inflation with high quality companies.

The road ahead is treacherous, but we are convinced the path of least resistance for central banks and governments is printing their way out of crisis (the alternative being a Great-Depression-style deflationary environment). The exact timing of these actions is unknowable, but the outcome is inevitable in a world of increasing deficits, weakening economic activity, frozen credit, and jittery sovereign bond investors. Remaining invested in our highest quality companies while maintaining a larger than average cash position to take advantage of forced sellers is the logical conclusion to our outlook. Building a bomb shelter replete with mattresses for all your cash will surely result in regret if central banks continue to materially increase the money supply, and we are also skeptical of the paper claim of ETFs on gold supplies and the ability to sell bonds to a bigger fool when inflation demands.

High quality companies are our best defense against sovereign defaults. These views are unpleasant to talk about, but making our outlook known will hopefully give our shareholders the confidence to act now to avoid long-dated bond losses due to inflation and the confidence to remain invested in our holdings while the sovereign default storm passes. Opposing viewpoints are light on details and heavy on sound bites such as "we will muddle through." Interestingly, if we are dead-wrong and the economy continues to grow and Europe finds a miraculous sovereign debt solution without increasing inflation or dropping into recession, our portfolio is invested in exactly the same companies we would want in a global growth environment.

Thank you for your continued investments and support!

Very truly yours,
Brian Frank
Frank Value Fund Lead Portfolio Manager

[1] Taken from third quarter report balance sheets, assets/equity ratios of the following companies:

- Deutsche Bank (Germany) = 43.0:1
- BNP Paribas (France) = 25.2:1
- Unicredit (Italy) = 17.1:1
- Bank of America (US) = 9.6:1
- Citigroup (US&Global) = 10.8:1

Performance as of 12/31/11	Average Annualized Total Returns				Total Return
	1 Year %	**3 Year %**	**5 Year %**	**Since 7/21/04 %**	**Since 7/21/04 %**
Investor Class (FRNKX)	8.00	21.29	2.89	5.83	52.55
Class C (FNKCX)	7.34	20.54*	2.14*	5.08*	N/A
Institutional Class (FNKIX)	8.21	21.54*	3.14*	6.08*	N/A
S&P 500 Total Return	2.11	14.11	-0.25	3.87	32.69

* Represents an estimate based on the performance of the fund's oldest share class, adjusted for fees.

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Non-FDIC insured. May lose value. No bank guarantee. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling 1-800-869-1679. Please read it carefully before you invest or send money.

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