

Special Report – Joseph A Bank Clothiers Inc. (JOSB)

Ticker Tape Stock & Trade

We highlight the recent bearish selling and systemic weakness which further penalized our No. 1 holding Joseph A Bank Clothiers Inc. Over 5 days (May 31-June 6, 2011), the stock declined more than 18%. The seismic change in confidence and expectations dialed back valuations in May, and, to our surprise, has also impacted as sound a fundamental a story as Joseph A Bank, the “Hampsted Haberdasher.” Our contrarian instincts surface in situations like this. Our research archive contains (most likely the only) contiguous annual report history from 1994-2010, add to that working papers, press releases, 10-Q’s and articles on men’s apparel dating back 17 years. Our research files allow us to calculate a variety of measures of earnings power which has averaged +22.4% since the 1993 IPO, +35.8% since the 1996 divestiture of women’s apparel, and +29.7% since the current management team of Wildreck/Black/Ullman started in 2000.

In addition to a solid record of exceptional and consistent growth, we note the following attributes of this company’s “fortress balance sheet”:

- Cash reserves of \$252 million or \$9.14 per share, equal to 36.8% of assets.
- Working Capital Ratio is strong at the current 2.04:1
- No long-term debt and the only company in our universe to eliminate their credit line, ending their commercial banking lending relationship, because they self fund.
- Effective inventory management: they maintain a full stock position in both selection and variety as well as size and color depth. Their classic fashion items, with a 3-4 year lifespan, amount to 68% of inventory which turns at 1.0X with a significant distribution and warehouse capacity of over 600,000 square feet.
- Prudent real estate management: they maintain a measured store opening schedule and are viewed by real estate landlords as a destination shopping venue for mens apparel. In some cases, this earns Jos. A Bank a 50% rebate in lease hold improvements from the landlord.

The common stock traded to \$57.14 on May 31st and based on the media’s “horrible” description of earnings, it lost \$10.56 per share on very high trading volume (equal to 25% of the float). We cut our 2011 earnings estimate by \$0.11 to \$3.59 so we find the market’s reaction (on the order of \$1.00 in share price for every \$0.01 change in our earnings estimate) quite excessive. We reduced our estimate on the expectation of a moderation in consumer spending over the coming quarters, increased costs for raw materials like cotton, silk, and wool and higher freight costs. However, we find that the oft-repeated Wall Street analysts’ fears that the company will not be able to compete in such an environment are completely misplaced.

Our forensic analysis has uncovered the following key drivers of future growth :

1. Currently, there are 489 company full-line stores, 14 franchise full-line stores, 7 clearance/liquidator outlets and 5 factory outlets totaling 2,325,000 sq. ft. Management is targeting an expansion to 600 company stores and our discussions with real estate developers would target 700-800. In addition, management is undertaking a build-out of its factory outlet stores. Phase I calls for 50-75 factory outlets with 300-400 possible over time. This suggests that another 295 full line stores and another 400 factory outlet stores (a total of 695 stores and an additional 3 million in retail sales space) are possible, which is equivalent to 15 years of growth assuming they can open 45 new stores per year.
2. Joseph Bank holds only a 1.5% market share in the Men’s U.S. apparel market. It is easy to project that they could increase their share to 3-5% over the next several years.
3. The company possesses a core customer list of 4.6 million U.S. males (profile: 4 year college degree, \$125,000 salary, enjoys travel & golf). This constitutes only 25% of the 18.2 million households with taxable income above \$100,000 (per 2009 IRS tax records).
4. Store profitability matures over 5 years from 13% to a corporate median of 22% EBIT operating margins. 190 stores are in the midst of this margin expansion.
5. Launch of the Big & Tall web-site in 2011 creates access to a \$6 billion niche generally serviced by textile mills tailoring clothing with a chain saw.
6. Re-accelerated store openings: 40-50 planned in 2011 (vs. an average of 30 over the past 3 years).
7. Tuxedo rentals attract a much younger demographic because tuxedo sales and groomsmen by 18-28 year old males will translate into suit sales as they age.

Our strategy, which is based on well reasoned fundamental analysis coupled with our long known maverick style shows itself here. We are retaining our position in Joseph A. Bank. At the current price, the valuation is compelling. Adjusting for net cash, the stock trades at a P/E ratio of just 10.4x our \$3.59 earnings estimate and 9.2x 2012 estimate of \$4.07 (a 16%-17% expected earnings growth rate). In addition, it trades at 6.1x cash flow and has a current free cash flow yield of 7.02%.

This panic is unwarranted as the senior management team has navigated this ship with prudence, austerity and cache and we view this issue as “tailored” for growth.

Brian Rafn
Principal & Portfolio Manager
Morgan Dempsey Capital Management LLC

Morgan Dempsey Small/Micro-Cap Value - Institutional

Our goal is to invest in only the strongest small companies. We apply a Graham/Dodd valuation methodology focusing on inefficiently priced small/micro-cap companies with robust “fortress balance sheets” and ample free cash flow. Our companies tend to grow organically and are run by founder/owner/operators where management’s long term interests are aligned with our own.

Our unique, somewhat unconventional approach has excelled at mitigating risk while also generating significant alpha. We have posted positive, double-digit returns in 7 of the last 8 years and have outperformed our index by more than 10% in 3 of those years. Our lone down year (2008) we declined -13.6% compared to a -28.9% loss for the Russell 2000 Value index.

We do not rely on outside research preferring instead to do our own forensic accounting and analysis. We believe that disciplined, fundamental, bottom-up research is the key to gaining an information advantage. We consult company 10-Ks/10Qs/8Ks and speak with management, competitors, employees, regulators and suppliers. We attempt to find companies selling at a 30%-70% discount to our computed valuations. We additionally look for an emerging catalyst in order to avoid the inertia exhibited by many small company value stocks.

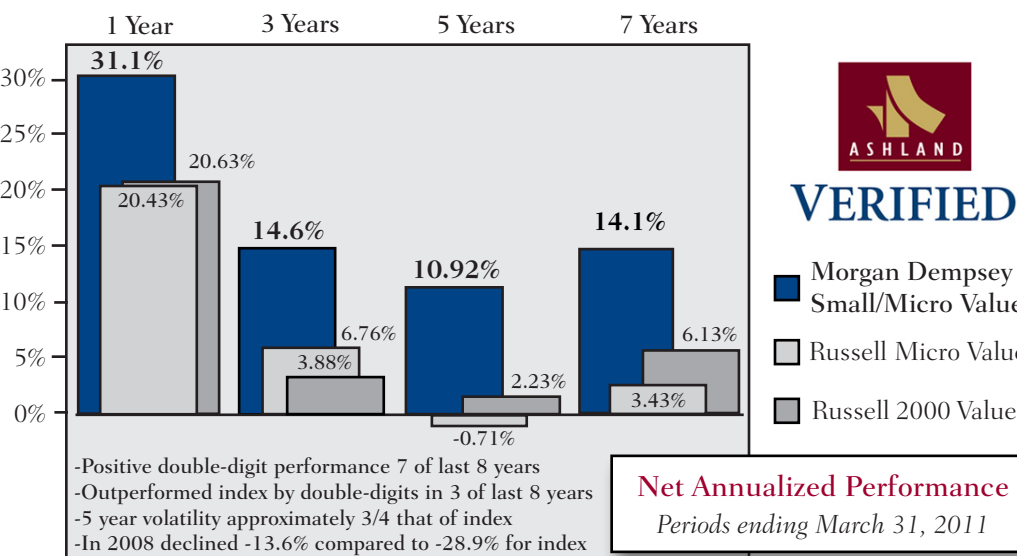
Our contrarian bias affords us the freedom to be agnostic to benchmark weightings and to instead focus on the best companies in the most promising areas of the market.

We are concentrated in our highest conviction ideas and our ability to pursue inefficiently priced micro-cap companies in addition to small-caps provides us with opportunities that are off limits to larger, asset burdened, strategies.

We do not equate risk with price volatility. Worrying about short-term price movements, which are unrelated to business fundamentals, tends to produce poor long-term results. We invite volatility as it allows us to add to attractive investments we understand at reasonable prices.

We are buy-and-hold investors. We believe in having conviction in our analysis and patience in our convictions. We target companies with increasing intrinsic values which allow our holdings to grow and build shareholder value over extended periods of time. We want to be long-term partners with the great companies and exceptional management teams we have assembled.

We believe our strategy offers a unique, non-correlated way of pursuing excess returns. If you are interested in learning how our rigorous, research driven approach to inefficient markets might fit into your overall portfolio, please contact David Durham at (414) 319-1080.



Strategy Highlights

- Fundamental - Bottom up research
- Concentrated in best ideas
- Emphasis on “Fortress Balance Sheets” (Limited Debt - Strong Free Cash Flow)
- Founder/Owner/Operator run companies
- Low Turnover

Team Information

Brian G. Rafn -Principal/Portfolio Manager
25 years of experience in securities analysis, trading and portfolio management focusing primarily on small/micro-cap stocks. Brian holds degrees in Finance, Accounting and Economics and previously served as a family office Director of Research.

Terence V. Pavlic, CFA
24 years of experience including serving on the CFA Institute’s Board of Governors, managing a \$600M mutual fund and past president of the Milwaukee Investment Analysts Society.

Account Information

Management Fee: 1.10%
Minimum Investment: \$1,000,000
No lockup period or redemption restrictions

Portfolio Information

Supplemental Information

Top 10 holdings as of 3/31/11

| | |
|-------------------------------------|------|
| 7.3% - Jos. A. Bank Clothiers, Inc. | JOSB |
| 4.2% - Aptar Group, Inc. | ATR |
| 4.2% - Gorman Rupp Co. | GRC |
| 4.0% - J&J Snack Foods Corp. | JJSF |
| 3.9% - Lufkin Industries | LUFK |
| 3.8% - National Presto Ind. | NPK |
| 3.5% - Granite Construction, Inc. | GVA |
| 2.8% - Utah Medical Products, Inc. | UTMD |
| 2.5% - L.B. Foster Company | FSTR |
| 1.2% - Balchem Corp. | BCPC |

Total Number of Holdings: 74
1 year turnover: 12.01%
Median Market-Cap: \$578 million
Weighted Average Market-Cap: \$1.2 billion

Contact Information

Morgan Dempsey Capital Management, LLC
309 N. Water Street
Milwaukee, WI 53202
www.MorganDempsey.com

David Durham
Phone: (414) 319-1080
E-mail: Ddurham@MorganDempsey.com

SMALL/MICRO-CAP VALUE INSTITUTIONAL COMPOSITE - ANNUAL DISCLOSURE PRESENTATION

| Year End | Total Firm Assets (millions) | Composite Assets (USD) (millions) | Number of Accounts | % of Non-Fee-Paying | Annual Performance Results Composite | | Russell 2000 Value Index | Composite Dispersion |
|-------------|------------------------------|-----------------------------------|--------------------|---------------------|--------------------------------------|---------|--------------------------|----------------------|
| | | | | | Gross | Net | | |
| 3/31/11 YTD | 280 | 56 | 10 | 0% | 11.13% | 10.84% | 6.59% | N.A. |
| 2010 | 213 | 49 | 10 | 0% | 26.86% | 25.68% | 24.51% | .49% |
| 2009 | 173 | 5 | 8 | 0% | 21.96% | 20.83% | 20.58% | .33% |
| 2008 | 141 | 3 | 5 | 0% | -12.75% | -13.62% | -28.92% | N.A. |
| 2007 | 188 | 4 | 5 | 0% | 11.74% | 10.67% | -9.78% | N.A. |
| 2006 | 190 | 3 | 4 | 0% | 19.74% | 18.61% | 23.48% | N.A. |
| 2005 | 69 | 3 | 4 | 0% | 16.60% | 15.50% | 4.71% | N.A. |
| 2004 | 73 | 2 | 4 | 0% | 23.57% | 22.40% | 22.25% | N.A. |
| 2003 | 137 | .4 | 1 | 100% | 32.98% | 31.73% | 46.03% | N.A. |

N.A. -Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Morgan Dempsey Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Morgan Dempsey has been independently verified for the periods June 30, 2000 through December 31, 2010.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small Micro Cap Value Institutional composite has been examined for the periods January 1, 2004 through December 31, 2010. The verification and performance examination reports are available upon request.

Small/Micro-Cap Value Institutional Composite was created June 30, 2010 and contains fully discretionary Small/Micro-Capitalization Value, US domiciled, long only equity, commission based accounts and for comparison purposes is measured against the Russell 2000 Value Index. The minimum account size for this composite is \$100,000. The firm maintains a complete list and description of composites, which is available upon request.

Morgan Dempsey Capital Management, LLC is an independent investment management and advisory firm registered under the Investment Advisers Act of 1940. MDCM was established in 1994. The assets reflected in this investment performance begin with the 3rd Quarter 2002. The number of portfolios in the composite is as of yearend.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Results for Q4 2002 and Calendar year 2003 were from one account managed and researched exclusively by Brian Rafn at a previous investment advisory firm. Beginning January 1, 2010, composite policy requires the creation of a temporary portfolio for a client initiated significant cash flow of at least 10% of portfolio assets. The creation of such a temporary account occurs on the date in which the significant cash flow occurs and the temporary account is combined with the corresponding composite account at the month end after the cash flow is fully invested. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using MDCM's maximum Small/Micro-Cap Value annual management fee of 1.1%, equally applied on a monthly basis. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the Small/Micro Cap Value composite are as follows: first 25 million +1.1%, next 25 million = 1.0%, next 30 million = 0.95 bp, above 80 million = 0.85. Actual investment advisory fees incurred by clients may vary.

Small and Micro-Cap stocks may be subject to a higher degree of risk than more established company securities. Small and Micro-Cap stocks may be less liquid which can potentially increase trading costs. The composition and market volatility of the Russell 2000 Value, Russell 2000 and Russell Micro-cap Value, which are unmanaged market value-weighted indices, and the composition and volatility of the portfolios managed by MDCM are materially different.

Past performance does not guarantee future results. A client's investment return may be lower or higher than the performance shown above. Clients may suffer an investment loss.

The information herein is for informational use only. Under no circumstances does this information represent a recommendation to buy or sell securities. Information contained herein should not be construed as a solicitation or offer of any services in a jurisdiction where Morgan Dempsey Capital Management, LLC is not registered to do business or does not qualify for an exemption or exclusion from registration requirements.

There can be no assurance that MDCM's future recommendations and account performance results will be favorable, or that losses will not occur in any client's account. The information contained herein is not a guarantee, or warranty by Morgan Dempsey Capital Management, LLC, nor its employees for any loss you may incur as result of the given information.

Unless otherwise noted, performance results discussed in company communications and advertisements are net of fees and taken from our performance composite for the time period specified. Further detailed disclosure information is contained in our Form ADV Part IIA which is available upon request.

Factors such as the size and performance of specific securities positions in accounts, the length of time certain positions are held, the timing of purchases and sales during the reporting period, client objectives, cyclical securities price trends, favorable and unfavorable news pertaining to securities, market trends and other factors all influence performance results materially. For these reasons, actual client account performance for any style would only match MDCM's total performance by coincidence. Upon request MDCM will provide a complete list of all recommendations made within the past year.

Due to an error, the number of accounts for 2004 have been updated from 3 to 4 and for 3/31/2011 have been updated from 13 to 10; the 3 accounts reported in the composite as of 3/31 were subsequently added to the composite on 4/1/2011, one day later.

The data used for this report was obtained from sources deemed reliable and then organized by the staff at MDCM. Performance calculations were prepared using standard industry software and were not audited by any third party. Some information provided on MDCM's website or in company communications reflects opinions, and as such are not facts. These opinions are subject to change with changes in economic conditions and new information. Therefore, this information should not be used as a basis for an investment decision.

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