MORGAN • DEMPSEY
CAPITAL MANAGEMENT, LLC

First Quarter Commentary 3/31/09

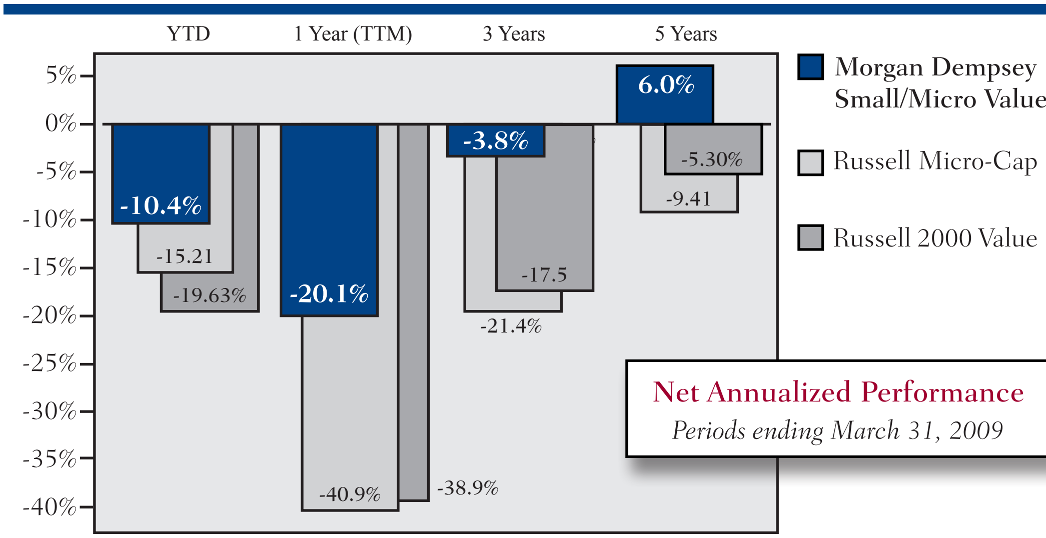
Morgan Dempsey Small/Micro-Cap Value - First Quarter Commentary

Dollar Tsunami

The 71 day post inauguration of the Obama Administration has manifested a sharp redirection to government intervention, supporting the worries of a government sector capturing a future 30% of GDP. Following a speculative period of leverage and spending in the private sector, with consumption spending expanding from 63% to 71% of GDP, the Keynesian infusion of $4 trillion in stimulus has invited the U.S. Government to the same party. The debt clock of U.S. Government outstanding Treasury debt amounted to over $11 trillion as of March 31st, 2009, with more than $1.1 trillion in nominal growth since the last fiscal year close of September 30, 2008.

The net growth of +10% in 6 months represents the cumulative government debt funding from January 1, 1789 to November 1981, or every administration from George Washington to Ronald Reagan. Our prior letter warned of a zero margin of safety from poor policy out of Washington D.C., which is being hedged with enormous quantitative monetary accommodation from the U.S. Government. Our forward perspective indicates that a federal debt % of GDP equal to Greece or Italy at 95% and 104% respectively would limit the U.S. to only another $3 trillion in debt funding. The 1945-46 level of 125% would allow another $6 trillion but would seriously impair the dollar as a reserve currency, and unlike the Cold War 1950's, there exists no vacuum or deficit of global industrial capacity. The Obama Administration should pause to allow liquidity and restructure initiatives to flow through the economy. Credit default swaps premiums on the U.S. Treasury debt have expanded 700% from $13,850 to $97,000 per $10 million bond face value, an ominous trend.

Closer to home the Small/Micro-Cap Value portfolio continued to achieve 700-900 bp positive return spreads against the Russell 2000 Value Index and the Russell 2000 Micro-Cap Index, due primarily to our high credit quality "fortress balance sheets." Five of our top seven positions, which we call our "Locomotive 7," generated negative returns ranging from (3.31%) to (20.77%), with smaller issues in the portfolio offsetting the above mentioned returns with positive performance. Stock leaders in the quarter included a



Disclosures: Please see important investment performance disclosures on following page.

Performance Summary

	Morgan Dempsey Small-Cap (Net)	Russell 2000 Value
Jan	-8.83%	-14.28%
Feb	-10.45%	-13.89%
Mar	9.71%	8.88%
Q1	-10.43%	-19.63%
3 year	-3.80%	-17.54%
5 year	5.97%	-5.30%

Account Information

Management Fee: 1.00%

Minimum Investment: $1,000,000

No lockup period or redemption restrictions

Manager Information

Brian G. Rafn
Director of Research/Portfolio Manager

Mr. Rafn joined Morgan Dempsey in October of 2003. He has over 20 years of experience in securities analysis, portfolio management, trading and trust accounting. He additionally has degrees in Finance, Accounting and Economics.

Portfolio Information

Top 10 holdings as of 3/31/09

6.8% - Granite Construction, Inc.	GVA
6.7% - J&J Snack Foods Corp.	JJSF
6.4% - Aptar Group, Inc.	ATR
5.4% - National Presto Ind.	NPK
4.6% - Jos. A. Bank Clothiers, Inc.	JOSB
4.5% - Utah Medical Products, Inc.	UTMD
4.1% - Gorman Rupp Co.	GRC
3.8% - L.B Foster Co.	FSTR
2.8% - Flower Foods, Inc	FLO
2.6% - Sturm Ruger & Co.	RGR

Total Number of Holdings: 68

3 year annualized turnover: 31.7%

Median Market-Cap: $406 million

Weighted Market-Cap: $696 million

Contact Information

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reflation of oil and gas and building material issues with Dril-Quip +49.68%, Carbo-Ceramics Inc. +24.93 and Eagle Materials Inc. +31.72%. The retail sector exhibited early spring blossoms with Joseph A. Bank Clothiers Inc. posting gains of +6.34%, Cabella's Inc. +56.26% and Buckle +29.53%. The maverick U.S. consumer's flight to gun ownership propelled Sturm Ruger Co. to a gain of +106.53%.

The quarter delivered a positive political/economic development for American business profitability. The modification to FASB No. 157 on mark-to-market accounting. This event will ease pressure on commercial bank balance sheet treatment of toxic asset valuation. Quantitative easing of a flood of dollar liquidity is offset by a decline in velocity of the ratio of money supply divided by the gross domestic product (MZM/GDP), which decelerated from 2.63 to a 1.67 turnover.

Our discussions with management across the portfolio, indicate modest declines only in light manufacture assembly with heavy engineering, such as Aptar Group or Sun Hydraulics content while the heavy foundry business such as Ladish, Hardinge, Hawk or Gulf Island Fabrication remain in severe challenged times. The heightened threat to a continental U.S. security by terrorist attack is countered with our vigil holdings in Lakeland Industries Inc., Mine Safety Appliances Cos, FLIR Systems Inc. and Sturm Ruger Co. which represent 4.42% of portfolio at depressed levels. These companies manufacture various military, police, fire and EMT first responder supplies including haz-mat (CBR) suits, helmets, oxygen tanks, guns and night vision goggles.

The $64,000 question of whether the economy or capital markets will reflate remains chained to the two basic trends prevailing from the early 1980's.

1. East Asia and Latin America "BRIC" countries operate by repressing their currencies to drive their economies via the export window (trade surplus) while the U.S., Canada, UK, Australia and continental European Union leverage and spend. This macro-trend has sourced cheap labor and productivity for the developed world.

2. The debt accumulation of the U.S. consumer fosters 19% of the world's GDP ($52 trillion) through spending while existing as only 4% total world population. The Federal Government sector has transferred the leverage debt accumulation appetite from the consumer which has failed to extinguish the root problem, of spending or consuming beyond production. As consumption spending declines from 71% to below 63% - 64% will the (G) government + (I) investment spending, such as infrastructure, fill this void?

Our confidence and conviction remains in our marquee portfolio of founder/owner/operator small and micro capitalization stocks. While higher taxes and regulation only delay or diminish earnings power without threatening their inevitable survival. Prosperity of the economy leads to wealth creation and is the only source of funding for domestic social spending. A weaker dollar in reaction to the currency debasement, argues a positive for our manufactured exports as we anticipate a subdued reflation in economic activity, toward the early part of 2010. If deficits and fiscal austerity limit government debt, lower nominal and real interest in tandem with the elixir of immense liquidity formation would argue for higher capitalized multiple assignments and stock prices.

On a more worrisome note, U.S. commercial banks have cancelled $500 million of the $4.62 trillion in available or dormant credit card lines in the 4th quarter of 2008. Economists and bank analysts have restricted another call of $2.2 to $2.7 billion in credit lines in 2009, which will impair consumer cash management and the follow-on reflation. As the 2nd Quarter of 2009 unfolds our companies have parked ample cash reserves and continue to spend a minimum of 60 – 75% of depreciation and amortization on capital expenditures. Leading this maintenance of capital stock, Gorman-Rupp Company is finishing a 758,000 square foot plant in Mansfield, Ohio which exhibits a huge testament that American ingenuity and capitalism is alive. Furthermore, senior management expects to extinguish the debt within 2-3 years for a plant with a 40-50 year life span. This is the hallmark of internal organic growth, fiscal austerity and a founder/owner/operator management team led by Jeff Gorman, with a vision and an investment in the future. It is this type of business franchise which has allowed us to prosper during the trepidation facing the global economy. As always, we endeavor to discover and invest in durable business models, fortress balance sheets and inspirational American entrepreneurs.

FORWARD-LOOKING STATEMENT DISCLOSURE

One of our most important responsibilities as an Investment Advisor is to communicate with our clients and consultants in an open and direct manner. Some of our comments in our letters to our clients and consultants are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. You can identify forward-looking statements by words such as "estimate," "may," "will," "expect," "believe," "plan" and other similar terms. We cannot promise future returns. Our opinions are a reflection of our best judgment at the time this report is compiled, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise.

Morgan Dempsey Capital Management Investment Performance Disclosures

1. Compliance Statement: Morgan Dempsey Capital Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). 2. Definition of Firm: Morgan Dempsey Capital Management, LLC is an independent investment management and advisory firm registered under the Investment Advisors Act of 1940. MDCM was established in 1994. The assets reflected in this investment performance beginning with the 3rd quarter 2002 were managed by Brian Rafn, V.P portfolio manager, director of research of MDCM. 3. Composite Description: The small cap value equity composite includes all fully discretionary, fully invested, fee-paying accounts that are managed in the firm's small cap value equity model. The composite includes only U.S. small cap value stocks. The composite does not include any accounts which employ leverage, nor does it include any wrap accounts. The minimum account size for inclusion into the small cap value equity composite is $100,000.00. 4. Benchmark: For comparison purposes, a benchmark of the Russell 2000 Value Index is used. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer of the small-cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate small-cap value managers opportunity set. Securities in the Value Index generally have a lower price-to-book and price-earnings ratios than those in the Growth Index. 5. Calculation Methodology: The composite performance results are net and gross of fees and are expressed in U.S. Dollars for the full historical period. They are time-weighted rates of return presenting total returns, net of commissions and transaction costs. Performance results reflect the reinvestment of dividends and other earnings and are presented gross and net of investment management fees and taxes. Additional information regarding the policies for calculating and reporting returns is available upon request. 6. List of Composites: The composite was created June 30, 2002. A complete list and description of firm composites is available upon request. 7. Total firm assets represent total discretionary assets managed by MDCM. The number of portfolios in the composite is as of year end. The quarterly standard deviation is calculated as the average dispersion from the mean return of all accounts included in the Composite for the quarter. The annual standard deviation is the calculated average dispersion of accounts in the Composite for the full year. Note 1:n/a (<5 portfolios). During 2002 and the first quarter of 2003 results relate to one account and the account used was not the same from year to year. 8. The above table reflects past performance. 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. Returns reflect the reinvestment of dividends and other earnings. 9. Gross performance result calculations include the deduction of securities transaction charges but not investment advisory fees. The results include the reinvestment of all dividends and other income. Actual portfolio returns are reduced by the amount of such fees. Over time, the deduction of fees reduce the value of a portfolio on a compounded basis. 10. Net performance result calculations include the deduction of securities transaction charges and investment advisory fees. The results include the reinvestment of all dividends and other income. 11. Historical net performance numbers are calculated using the highest management fee charged by MDCM. (1.00%). 12. Fees: Standard management fees for the composite are as follows: first $10,000,000=1.00% MDCM will negotiate fees for a structured small account program. MDCM will negotiate fees for accounts of substantial size. 13. Percentage of composite represented by non-fee paying accounts = 0.00%. 14. One-on-One Presentation: This report is used exclusively for one-on-one presentations to qualified individuals, pension funds, universities and other institutions. 15. 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 a 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. 16. MDCM makes no representation or warranties as to the accuracy, timeliness, or relevance of any information prepared by any unaffiliated party. 17. 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. 18. 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. 19. The results shown in this report should not be considered indicators of future performance. 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. 20. Upon request MDCM will provide a complete list of all recommendations made within the past year. 21. Manager ranking data was obtained from Money Manager Review, Nelson Information, Informa/Effron PSN, Morningstar, Evestment Alliance and other consultant databases. These rankings are independently prepared, and we believe them to be objective and statistically valid. Other similar manager rankings may produce different results. 22. 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. 23. Further detailed disclosure information is contained in our Form ADV Part II which is available upon request 24. Periodically, the terms and conditions may be updated and/or corrected to reflect changes in content. 25. Morgan Dempsey Capital Management, LLC has contracted the independent consulting firm of McCoy Associates to market the Morgan Dempsey Small/Micro-Cap Value Strategy. Compensation to McCoy Associates will be provided out of the existing management fee charged by Morgan Dempsey Capital Management, LLC. Compensation will not exceed 20% of the management fee and clients are not charged a higher fee as a result of McCoy Associates' marketing efforts for Morgan Dempsey Capital Management, LLC. 26. Clients having portfolios containing securities other than those used for the style selected, and portfolios subject to tax, client-imposed or other restrictions, would have had higher or lower total account returns than the performance shown. 27. 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. 28. 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. Errors could have occurred in the data, in the calculations, or in the preparation of this report. Therefore, the information contained on this site may not be precise. 29. The composition and market volatility of the Russell 2000 Value, Russell 2000, Russell 3000 Growth, Russell 1000 Value, Russell Micro-Cap and Lehmann Govt/Credit indices, which are unmanaged market value-weighted indices, and the composition and volatility of the portfolios managed by MDCM are materially different. 30. Any question regarding this information should be brought to the attention of Morgan Dempsey Capital Management, LLC.

Year	# of Portfolios	Composite Assets	Firm Assets	Composite Dispersion	Composite Gross of Fees	Composite Net of Fees	Benchmark Performance
2003	1	363,200	137,315,376	0.00	32.87	31.68	46.03
2004	3	2,225,425	72,707,427	0.00	23.82	22.59	22.25
2005	6	3,140,055	68,492,815	0.95	16.60	15.47	4.71
2006	7	3,904,553	190,286,996	0.20	19.73	18.55	23.48
2007	8	4,556,445	186,950,509	0.43	11.94	10.83	-9.78
2008	10	4,642,480	145,295,212.	2.37	-13.11	-13.99	-28.93
YTD '09	10	4,136,561	143,205,598	0.11	-10.21	-10.43	-19.63