

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

The Big Bounce

While there were a number of notable events in our portfolio this quarter, none will be more important to our future success than recent developments at our own company.

Morgan Dempsey is pleased to announce our recent alliance with Terence V. Pavlic, CFA of Pavlic Investment Advisors. Mr. Pavlic is a value veteran who brings 24 years of investing experience to our Small/Micro-cap team where he will join with Brian Rafn as Consultant/Portfolio Manager/Senior Analyst.

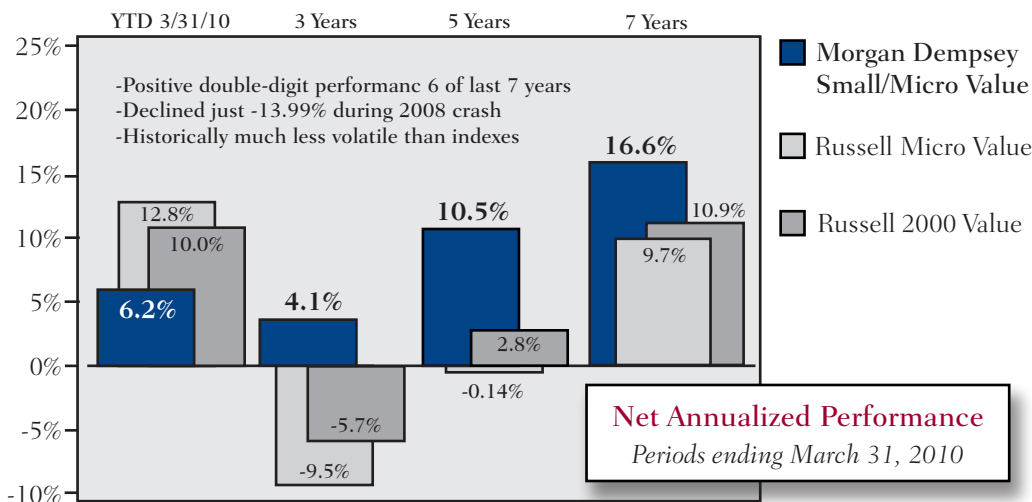
Mr. Pavlic's diverse experience includes serving on the CFA Institute's Board of Governors from 1997-2000, management of a \$600 million mutual fund, vice president of the trust and investment management division of a major bank, research analyst, and principal and portfolio manager for a small "boutique" investment advisor.

He is a member and past president of the Milwaukee Investment Analysts Society and has lectured at the undergraduate business school program at the University of Wisconsin-Milwaukee. Mr. Pavlic has been awarded the CFA Institute's Certificate of Achievement for Continuing Education for 21 consecutive years.

Our ability to add such a respected member to our team is something we feel will be of great benefit to our clients and further emphasizes our goal of increasing our institutional capabilities. We welcome Terry and look forward to his contributions in the years to come.

Economics From 30,000'

The 1st quarter of 2010 exhibited the normal reflation (post recession) of lower credit quality < BBB+ below investment grade, issues. These companies tend to bounce back with the first signs of consumer demand, inventory pipeline building, bid/quote



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: 1.00%
Minimum Investment: \$1,000,000
No lockup period or redemption restrictions

Portfolio Information

Top 10 holdings as of 3/31/10

6.6% - Jos. A. Bank Clothiers, Inc.	JOSB
6.4% - National Presto Ind.	NPK
4.7% - Aptar Group, Inc.	ATR
4.4% - J&J Snack Foods Corp.	JJSF
4.1% - Gorman Rupp Co.	GRC
3.9% - Utah Medical Products, Inc.	UTMD
3.9% - Granite Construction, Inc.	GVA
2.7% - Ladish Co. Inc.	LDSH
2.5% - Lufkin Industries	LUFK
2.4% - L.B Foster Co.	FSTR

Total Number of Holdings: 71
1 year turnover: 12%
Median Market-Cap: \$483 million
Weighted Market-Cap: \$923 million

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activity and expanding exuberance. During the quarter, as speculation and “animal spirits” commanded the helm, poor credit quality and cyclical reflation dominated driving the Russell Small-Cap Value index up 10.03% for the quarter. The Morgan Dempsey Small/ Micro-cap strategy posted a 6.23% net gain by comparison.

We are viewing a modest reversal to inflation concerns as the deflation risk is supported by the massive debt leverage position most sovereign nations face, with G-20 levels at 73%-117% debt % GDP. The balance sheet of sovereign governments still warrants deflation but the corporate P&L income statements are beginning to digest the possibility of inflation based on the following:

1. The level of adjusted free reserves at over \$1.1 trillion approximates 20x the required reserves (7%-22% deposits) established by the Federal Reserve. These reserves if applied to fund consumer real estate or C&I loans could support near \$5 trillion in loan growth.
2. Commodity inflation forming a basing formation or plateau is being signaled by copper (\$.54/lb 2004) \$3.05/lb and crude oil at \$70-80, which is being supported by the China hoard of base and rare earth metals.
3. The dollar appreciated near 400% from 1973-2001 with a deterioration of (-30%) since 9-11-01. The J-curve impact of import inflation may compound at some point if America's demand for foreign products doesn't wane.

In our own portfolio, we are viewing a reflation to the earnings power of our companies with AptarGroup, Inc., Joseph A Bank Clothiers, Inc., National Presto Industries, Inc., Carbo-Ceramics, Inc. and J&J Snack Foods, Corp achieving record historical earnings levels. These companies provide evidence as to why contrarian investing leverages such massive returns as we believe you will never beat the crowd with the crowd.

Portfolio Highlights

The stock derby for the quarter registered several winners in our portfolio including; Joseph A. Bank Clothier, Inc. +34.75%, Sturm Ruger & Company, Inc. +26.94%, KMG Chemicals, Inc. +20.69% and Cabot Micro Electronics Corp. + 14.32%. The portfolio sustained zero (M&A) deals save for a bear raid by Industrias Romi SA (Brazil) targeting Hardinge, Inc. at \$8.00 in a hostile bid.

In our portfolio, we focus on secular earnings stability and the fortress balance sheet credit quality of our founder/owner/operator culture businesses. The following operating attributes define our unique style and strategy:

1. 46 to 70 common stock holdings exhibit zero cash adjusted debt levels.
2. Companies are reinvesting in themselves organically, with Property Plant & Equipment (PP&E) capital expenditures as a percentage of Depreciation and Amortization (D&A) showing a historical base range \$1.15-\$1.90/\$1.00 with zero portfolio holdings spending less on D&A in 2008 and 2009.
3. Only a single holding, Sturm Ruger & Company, Inc. suspended or reduced its cash dividend in 2008 and 2009.
4. A paternalistic culture which fosters defined benefit & end ESOP plans, college and technical school training, non-union membership affiliations, zero mass employee firings and reasonable compensation structures with CEOs making closer to 10x the janitor's salary as opposed to 700x.
5. Several holdings which source international sales revenue as a % of their sales mix including; AptarGroup, Inc. (56%) and Gorman-Rupp Company, Inc. (32%).
6. 27 of 70 common stock holdings posted ROIC % (return on invested capital) levels in the double digits at 10.7%-36.8% during the last 18 month recession. (The worst recession since 1980-1982.)

Stock & Trade

This quarter we want to highlight a relatively new equity position which we initiated on November 20, 2008 during the first abyss in stock prices.

Mine Safety Appliance Company Inc. (MSA): MSA was founded back in 1914 by George S. Deike of Pittsburgh as a manufacturer of the Thomas Edison electric cap lamp to aid coal miners in Pennsylvania and West Virginia. The company now operates a global safety business focusing on a \$19 billion world sales industry, which exhibits a 4%-6% annualized growth rate and generates a 6.0% market share for MSA.

The commercial & municipal safety markets serve police (SWAT), fire and EMT 1st responders, military, oil & gas



field drillers, miners and construction contractors. The product line (23,000 SKU) includes soldiers helmets (21%), SCBA air tanks (24%), gas mask respirators (14%), gas detection sensors (24%) and safety harness/hoists (17%). The company operates a global network of 5 UL (Underwriters Laboratories) approved safety laboratories, staffed by 250 + scientists. The company spends a healthy 3%-4% of sales on R&D which generates 30%-40% of sales in new product technology less than 3 years old.

A young geologist, John T. Ryan Jr. joined the company in 1936 from Harvard University and was later promoted to President & CEO in 1953 due to his pioneering global distribution to South Africa, Canada, Bolivia, Venezuela, Brazil, Australia, Russia, Mexico and Malaysia in the 1940's.

The geographic sales diversification in 2009 is being driven by new global safety codes, uniform safety enforcement and low cost source fabrication with the Americas counting for 54% of sales, Europe 27%, Asia 10%, Africa/Arabia 9%.

The company generated a 20 year compound growth rate of +9.14% for earnings per share and have managed fairly stable margins with net after-tax levels of 6%-9% since 2000. The balance sheet leverage approximates 8.35% of tangible capital with only \$36,457,000 of net debt and good will at 9.68% of assets. The company boasts several superb financial meters:

1. Investment in organic internal growth with \$1.38 in PP&E capital expenditures per \$1.00 in depreciation for the 27 year period from 1983-2009.
2. Generating secular free cash flow with with positive free cash flow in 24 of the last 27 years with 17 of those years generating >20% residual net free cash flow as a % of EBITDA.
3. 45 year history 325% compound growth in cash dividends and 40% distribution rate of EPS for a 3%-5% yield.
4. Number 1 or 2 market share in several anchor product lines such as Cairns fire helmets dating to 1836.
5. Ryan family controls 10,693,595 class A common shares or 27.53% of equity as the Deike family exited in 2003 after a 90 year legacy.

The common stock trades at \$30.00 with a range of

\$30.93 high to \$21.09 low and pays a \$0.96 cash dividend (3.20% yield). We estimate an EPS at \$2.19 2010E and \$2.43 2011E and EBITOs gross cash flow per share of \$5.10 2010E and \$5.95 2011E. Valuation levels which we estimate at a 9.0x multiple on cash flow, equate to a 3 year target of \$53 ½.

Final thoughts

We believe our companies represent the vanguard of a free, mobile, empowered labor force, which is fairly incentivized by a paternalistic management structure.

Notable examples in our portfolio include the Gorman-Rupp Company delivering mixed flow pumps rated at 750,000 gallons per minute in record time (150 days vs. the normal 18-24 months) to a drowning city of New Orleans or bulldozer and asphalt paving crews suffering 110 degree heat for 12 hour shifts at Granite Construction Company.

Employees of these companies are capitalist free enterprise shareholders with vested stakes in company sponsored ESOP trusts (Employee Stock Ownership Plan) or 401K plans which hold their company's common stock. We believe that great things happen for investors when interests are properly aligned.

The unique paternalistic culture of the companies we invest in was perhaps best exemplified by Aptar Group who recently reported record 1st quarter 2010 earnings of \$.58 vs \$.39 per share.

Executive Vice-President COO Stephen Hagge responded to our question on the conference call about the source of this superb performance by adamantly pointing out their firms culture of not laying off employees. The firm believes in preserving the skill sets, productivity and capacity of their laborers to capture the business reflation of orders once a market rebound materializes. Suffice to say, this approach is somewhat of a rarity in a country currently facing a 9.7% unemployment rate.

The long-term mindset of Aptar Group and companies like it are one of the reasons they have enjoyed long-term profits and additionally earned a position in our portfolio as one of our long-term holdings (16+ years). We look forward to the benefits of aligning our interest with the great management teams and employees of companies like Aptar Group for years to come.

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, but does include accounts with bundled fees. 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

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%	19.74%	18.57%	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%
2009	12	6,547,423	172,535,243	0.84%	21.64%	20.44%	20.57%
3/31/2010	14	13,565,143	182,739,878	0.11%	6.49%	6.23%	10.03%

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ditions 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.