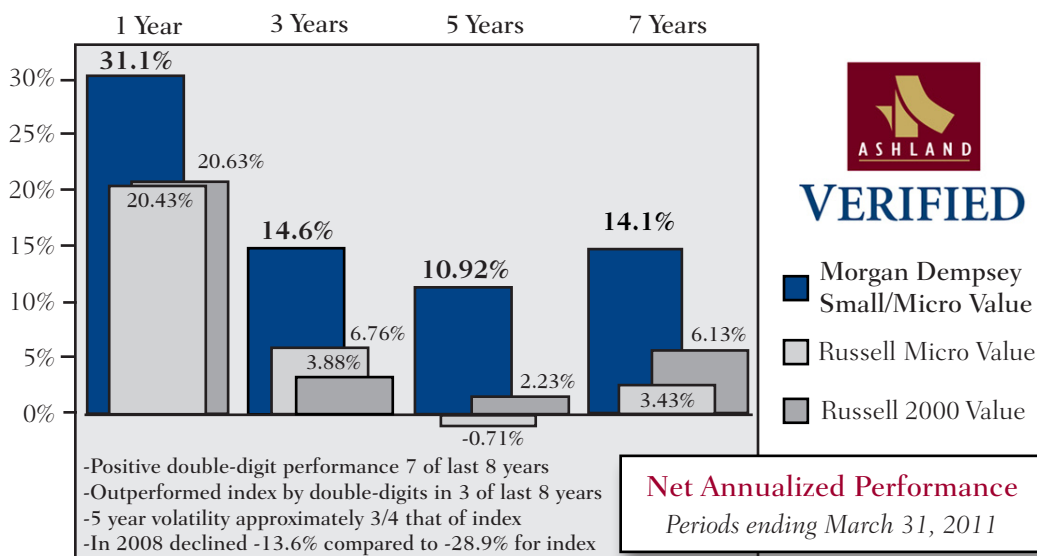


Morgan Dempsey Small/Micro-Cap Value - Quarterly Commentary 1Q11

On Wisconsin!

In the U.S. Constitution the Founding Fathers diffused the concentration of power within the Federal Government by creating three branches of government: the Executive, the Legislative, and the Judiciary. The Constitution also provides an additional check & balance against Federal encroachment by acknowledging the States authority in areas not specifically reserved for the Federal Government. The power and authority of the States has given us a geographic and demographic diversity, and a democratic check on Federal power, which enables the States to act as laboratories to explore issues of governance and public policy that then in turn informs and leads national policy.

The November 2010 mid-term election turned over 676 federal and state legislative seats, primarily going to Republican and Tea Party candidates. We pen this letter from our offices in Milwaukee just 55 miles east of Madison, the state capitol of Wisconsin. Newly elected Republican Governor Scott Walker, and a new majority Republican Wisconsin Legislature, both House and Senate, came to office facing a \$3.6 billion biennial budget deficit for 2012 and 2013. The previous Administration and Legislature, lead by Governor Doyle, (2003-2010), expanded spending by \$5 billion or 6% per year with revenue (tax collections) growing at only 2%-3% over 8 years. The Governor believes that at the core of the State of Wisconsin's financial problems are the collective bargaining rights public unions have enjoyed for 50 years, and the resulting salary and benefit packages so rich they threaten to bankrupt the State. Prior to his post as Governor, Scott Walker served as the Milwaukee County Executive, where he cut his teeth navigating a pension crisis created by the previous County Executive Thomas Amant, who buried actuarial nuances within the pension plan that allowed public county workers to retire with hundreds of thousands even millions of dollars in their pension accounts. When he took the Governor's office, Walker advanced a budget plan that would strip the public unions of their ability to collectively bargain for benefits other than salaries and would require public workers to pay 12% of their insurance premiums, and a 5% contribution to their pension plan in order to prevent statewide layoffs. To put this proposal in perspective, private sector workers typically pay 30%-40% of their employer provided insurance premiums with high deductibles and low coverage caps. Private sector workers have witnessed the decline and near elimination of the corporate defined benefit plans enjoyed by previous generations and have been forced into defined contribution 401k plans to meet their retirement needs. Many of these defined contribution plans are funded only with 100% employee contributions and no match or at best with a 3-6% of gross salary match from the employer. All the while, the private sector



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

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

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workforce lives in an “At Will” state, with no thought of gaining tenure, clinging to their jobs in a 10%-12% unemployment (17% frictional) rate environment, and seeing their net worth plummet with their home values during the 2007-2009 mortgage crises.

Enraged by Governor Walker’s initiative, the public unions descended en force by the tens of thousands on the Wisconsin State Capitol for 26 days. Fourteen democrat state senators went AWOL to Chicago and Rockford, Illinois for 17 days to avoid the necessary quorum to pass the governor’s budget. Arrest warrants were issued and the Wisconsin State Patrol was instructed to interdict senators sneaking home to Wisconsin for clothes and money. State teachers vacated classrooms in order to defend their ability to collectively bargain. When school administrators demanded teachers return to their duties or provide medical excuses for their absences, the unions solicited local Madison doctors to hand out medical excuse notes to the protestors. With no one teaching in their classrooms and always looking for a cause (party), students from the University of Wisconsin - Madison and local high schools joined the fray. Adding fuel to the fire, and knowing what was at stake, unionized out of state police, firefighters, dept. of public works, teachers, and various other civil servants raced to the fight from beyond Wisconsin’s borders. The Saul Alinsky book, Rules for Radicals, instructs protestors to never fail to leverage a good crisis and never admit defeat.

Their first defeat came when the state senate and assembly separated the bill to fund the State from the revision bill to severely limit collective bargaining. The next battle and subsequent defeat came during the April 5th Supreme Court election between sitting conservative Judge David Prosser and Joanne Kloppenburg, a liberal government lawyer. The upset of Judge Prosser would have shifted the balance of the Wisconsin Supreme Court to a liberal 4-3 bias and checked the efforts of Governor Walker. As of this writing, the election is in a statewide recount at the request of the apparent loser, Joanne Kloppenburg, with most experts predicting a win for Judge Prosser and, as such, a win for Governor Walker.

Even with the union’s commitment of money, manpower, and President Obama’s personal support and his political organization’s leadership and resources, the fight to defeat Walker’s budget and change the makeup of the Wisconsin Supreme Court was a failure; the liberals were handed duplicate defeats and the message is resounding across the nation. Governors in Ohio, New Jersey, Florida and New York emboldened by the events in Wisconsin are challenging unions and the collective bargain process. Perhaps with the Tea Party initiatives in Washington and pro-growth fiscal austerity in state governors’ offices nationwide, the Obama deficit spending will be checked and reversed.

Our observations from ground zero, leads us to some interesting conclusions:

1. The political rhetoric between liberal Democrats and conservative pro-business Republicans, which the Pew Foundation estimates

at 23% and 47%, respectively, of adult voters, exhibits a level of hostility not witnessed since the slavery debates of the 1840’s and 1850’s.

2. The Democratic Party has shifted its center of gravity toward the left even though the popular elections indicate America is a centrist right nation.
3. Liberals appear to be agnostic toward economic supply & demand, budget deficits, punitive taxation, regulation on capital formation and job growth, credit quality and default, and the general capitalist philosophy of wealth creation through risk assumption. This capitalist philosophy which aids and fosters the promotion of productivity, flexibility of labor, and risk assumption, supports U.S. business in the combative world of global trade. The Federal Budget reports a 1st quarter deficit of \$(-829) billion yet Obama believes his budget levels at \$(-1.2-1.6) trillion yearly deficits into a 2nd term will not impair the U.S. credit rating or cost of debt.
4. Elected politicians fail to realize their mission is to govern via the allocation of scarce capital inflows (tax receipts) to fund various public policy initiatives. Instead their political agenda is to govern with an eye on the perpetual election cycle giving deference to political action committees, lobbyists and fund raisers.

Governor Walker assessed the budget situation and enacted the fiscal restraint that any business contemplating a “going concern” future would embark upon, yet the unions castigated him for destroying the middle class and/or working families. The lesson of the political circus we witnessed in Wisconsin that we apply to the management of our value strategy is that a divisive or divided culture leads to a loss in productivity and efficiency. The business models of the companies that we own who compete on an ever growing global basis, must maintain a culture that focuses on the long-term. Where management, labor or technical support is indivisible, the company thrives. When there are corporate fiefdoms, hire & fire staffing cycles, 1950’s style union/management relations, and strikes, this results in business productivity and efficiency being retarded. While liberals and conservatives quarrel in Wisconsin, J&J snack foods just launched a refurbished Parrot ice smoothie line, Joseph A Banks Clothiers opened 36 full-line stores and 8 factory outlet stores, Sun Hydraulics is paying 10%-15% in overtime, Gorman-Rupp Inc. is digesting its acquisition of National Pump Company and AptarGroup, Inc. is busy reformulating package sizes and servicing the buoyancy of a rebound in the cache perfume and cosmetics business. The message we convey is, the paternalism and harmony in our company’s cultures act to facilitate loyalty, limits waste, and leverages creativity, which translates into dollars in earnings power.

Economics from 30,000

A battle looms over lifting the national debt limit which will be exceeded in May 2011. The debt to GDP ratio as of April 11th was 96.07% and we have the same concerns today as in past letters.

As the cost of money (interest rates) bases, (having fallen from steadily from 1981 when the yield on a 30 year U.S. Treasury bond hit 15.26%) the stress on the U.S. Federal Budget will be exponential. The U.S. Treasury, as a debtor, should lock-up today's low interest rates (3.55%-4.15%) in order to allow them to repay this debt with devalued currency in the future.

The result of the bond crises in Greece, Portugal, Spain, Italy and Ireland is a loss of confidence in sovereign credits which causes a decline in the value of the currency, leading to inflation and ultimately in increase in the cost of money. The lesson learned is that once confidence is lost it takes a very long time for it to be regained.

The U.S. Federal Debt rose from \$10 trillion to \$14 trillion on the expense of foreign wars, transfer payments (welfare/entitlements) and the various TARP initiatives funded to offset the recession caused by the 2007-2009 mortgage crisis. The issue is that this debt is not collateralized by a fixed asset which generates a return to then service that debt.

In the fourth quarter, 2010, the U.S. economy posted its 6th consecutive quarter of positive GDP growth (+3.1%). The previous quarterly growth rates were +2.6%, +1.7%, +3.7%, +5.0% and +1.6% dating back to the third quarter, 2009. The Employment cost index increased +2.1% and +2.9% in 2010 and 2009, while the CPI and PPI rose at nearly +5.6% for the year ended March, 2011. Money supply grew much faster: M1 +13.9%, M2 +5.3% and MZM 3.3%. One of indicators of the health of economy and the point in time we navigate along this business cycle timeline is the analysis of the adjusted monetary base or adjusted/required reserves and monetary velocity. As of April 11th, 2011 these monetary aggregates exhibit;

1. U.S. commercial bank adjusted reserves approximately \$1.327 trillion with required reserves on deposits at \$104 billion which yields free reserves available for lending credit formation of 11x-12x required reserves, the latent pent-up "dry powder" available to expand the \$9.131 trillion in loans as of Feb. 2011, is massive if only the government moderates its approach
2. Monetary velocity as measured by GDP/MZM or money supply turnover as it lubricates through the pipelines of commerce, historically ranged 2.3x-3.5x 1974-1993. The current levels of 1.45x-1.55x 2011 turnover velocity which is 60% below the peak levels of the 1980's.

The message regarding "economic stimulus" is simple: despite all the government's efforts and manipulations, there has been very limited marginal benefit in 2011. Rather de-regulation which promotes productivity and flexibility of capital to pursue its best return coupled with tax reductions fosters risk assumption which leads to credit formation and higher monetary velocity. We therefore need to coax lending and monetary velocity higher in order to drive sustained economic growth.

Portfolio Highlights

The global landscape in 2011 follows on from the PIGS government bond crisis in Portugal, Ireland, Greece & Spain and includes a new air strike campaign by NATO against Libya on the heels of foreign wars in Afghanistan and Iraq. Add in the 9.0 Richter scale Japan earthquake and the subsequent tsunami and radioactive meltdown of the Fukushima nuclear reactors. Cap those problems with political instability and revolution in Tunisia, Syria, Egypt and Libya creating violent protests on the road to democracy and capitalism. As we survey the 3 primary financial fiduciaries in the U.S. economy, government, business and the consumer at end of the 1st quarter.

Government: U.S. Treasury TIPS exhibit reflation in the inflation premium to 290bp on 30 yr. Federal Budget deficits in trillions unsustainable, \$U.S. dollar decline 53% from 9/11 2006 peak trade deficits inflate by spot oil prices trending toward \$120-\$145 per bbl.

Corporate: Commodity inflation which constitutes 15%-40% of COGS for manufacturers will impair gross margins, cost of money (interest rates %) on secular reflation track from 2008-2009 trough, employee payrolls and salary/wage pressure will rebound, offset with lower statutory tax rates from 35% to a possible 25% and sales revenue growth leveraged to unit volume growth.

Consumer: Modest rebound in net worth to \$74.8 trillion off (-11.56%) from peak 2007 housing in a decade long rebound, unemployment should decline below 8%, \$4.00 a gallon gasoline and 30%-50% food price inflation will be large sustained impairment to consumer spending 70%-71% of GDP.

The small/micro-cap value portfolio posted 11.13% for the 1st quarter ended March 31, 2011 vs. 6.73% and 5.88% for the Russell 2000 small and micro-cap value index. The portfolio returns were fueled by 17 common stocks posting principal capital gains > 20%, 10 issues > 30% and 5 issues > 40%. On an issue specific basis leaders include Sturm Ruger & Cos. (50.63%), Lufkin Industries (50.02%), Koss Corporation (49.43%), Gulf Mark Offshore Inc. CIA (+44.463%) and Hardinge Inc. (+40.71%), leveraged to oil & gas spot price inflation and cyclical industrial rebound. The portfolio sustained 18 issues with principal losses ranging (-1.51%-17.24%) with package food OEM, restaurant & cinema and casino entertainment industries lower, leveraged to fears of food commodity wholesale inflation. The Locomotive 7 stocks exhibited balanced performance with Joseph A Banks Clothiers Inc. (26.24%), Gorman Rupp company Inc. (+22.19%), AptarGroup Inc. (+5.84%), Lufkin Industries Inc. (+50.02%), J&J Snack Foods Inc. (-1.54%), Granite construction Inc. (+2.93%) and National Presto Industries Inc. (-7.04%). Oil&Gas Holdings in the Energy sector represented 6 of the top 30 performance returns, infrastructure issues represented 4 of 30 stocks, Technology sector issues added 4 stocks and Healthcare issues represented 3 of 30 stocks.

Stock & Trade

We highlight a new holding, Orrstown Financial Inc., a commercial bank holding company based in Shippensburg, PA and chartered in 1965. The \$1.5 billion (assets) community bank operates in Cumberland, Franklin and Perry counties of Pennsylvania and Washington County in Maryland, with the core deposit base sourced from south central Pennsylvania. The bank holding company began as Orrstown Bank & Trust Company in 1919. The business franchise typifies our balanced approach to community banking in the small/microcap value tranche, i.e., banks under \$3 billion in market capitalization. We focus on several key business drivers which include:

1. Diversified revenue with balance between interest earned on loans and fee income. Areas of lending focus include agriculture, commercial & industrial and consumer. The Trust company generates fees from providing custody services, asset management & investment counsel.
2. High ratio of premium credit quality loans to assets and accretive interest rate spreads. Orrstown net interest margin averaged 3.72%, in line with peer group averages but, its credit quality is much better. Non-performing loans equal to 1.07% of the loan portfolio vs. 1.73% for the community bank peer group.
3. Overcapitalized balance sheets provide a foundation for loan growth and a margin of safety allowing banks to weather business cycles. Orrstown's Tier 1 capital ratio of 13.5% is comparable to the average for peer community banks but its tangible equity as a percent of tangible capital is slightly better at 9.38% vs. 9.16% and Total Equity/Assets for Orrstown is 10.62% vs. 9.99% for the peer bank universe.
4. Disciplined efficient operating expense control as measured by the efficiency ratio. Orrstown's efficiency ratio, 54.85%, is 6.25 basis points better than the industry average. A St. Louis Federal Reserve Bank study in 2007 weighted operating expense as the No. 1 indicator of profit growth amongst community banks.

The common stock trades on the NASDAQ under the symbol 'ORRF'. It recently traded at a price of \$26.10 and had a 12 month range of \$29.50-\$20.00. The company reported 2010 earnings per share of \$2.18 and our estimates are \$2.31 for 2011 and \$2.55 for 2012. Our analysis suggests 8%-10% annual earnings growth and the stock is trading at 11.29x our 2011 estimate and 10.24x our 2012 estimate. Valuation analytics for commercial banks often focus on price to book value ratios (P/B). The P/B for Orrstown is 1.30x and the dividend is \$0.80 per share or a 3.3% dividend yield. The business was listed as one of SNL Securities Best Community Banks of 2011 and we estimate a 12%-14% annual total return based on 8%-10% earnings growth plus a 3.3% cash dividend yield.

The community bank segment has exhibited several episodic changes which has transformed the business, including:

1. Structural consolidation of banking institutions with merger/acquisition transactions reducing the number of banks from 18,883 in 1980 to 7,941 in 2010, a 58% decrease and loss of 11,000+ institutions.
2. Over 4,000 community banks have been merged or acquired and since the onset of the mortgage crisis in 2007. 220 community banks failed.
3. Community banks leverage personal relationships and nurture or foster long term community support but have suffered from geographic footprint limitations, a lack of retail core deposit funding and technological innovation. International money center, super-regional and regional bank institutions can use their size and scale to garner technological and credit advantages. These types of banks have captured 90% of industry assets up from 82% in 2001.
4. Community banks focus on local knowledge and relationship stability. This allows them to earn higher yields on C&I loans (6.25%) vs. larger banks (4.36%) as of June 30, 2010 for multi-state holding companies. Loan losses from superior due diligence and credit surveillance also favors community banks as Non-Performing Asset ratios reported to FOIC were 1.32% vs. 1.96%.

Nevertheless, the community bank business franchise is still leveraged and correlated to local population growth and the vibrancy of local commerce.

Final Thoughts

Under the current Administration, the US is racking up over \$1.6 trillion per year in debt, or \$4 billion per day. This means that \$0.42 of each dollar spent by the federal government is borrowed and builds nothing, not a military force or highway interstate system or rural electrification. This debt is nothing but economic redistribution. What the Administration fails to grasp is the only way to expand government revenues, is by stimulating the growth of the economy which yields the 19.5% federal tax receipt cash flow to fund public policy. Higher marginal tax brackets (90% in 1970's) choke economic vitality and have never yielded one marginal dime in extra tax, just ask the legions of accountants and tax attorneys who maneuver wealth to tax havens.

We have written extensively on the domestic political affairs that have dominated the post 9/11 American scene. Capitalism is a volatile maverick and often a visceral endeavor. The Obama Administration, with its legions of academic professional central planners, fails to understand the dynamics of this system. CNBC has aired an interview that Milton Friedman granted to Phil Donahue in 1978 on his daily afternoon talk show. Milton Friedman, in his usual pragmatic style, challenged Donahue to tell him where in the history of western democratic capitalism since the 1200's has it been demonstrated that "political self-interest" is somehow more noble than "economic self-interest"? Friedman further rebuked Donahue asking where do we find these political angels that are somehow

going to order society and the economy fairly and what vantage point or frame of reference do they occupy? “Why I wouldn’t even trust you to do that”, Friedman quipped to Donahue. We have spent another \$4 trillion dollars in U.S. National Debt since the Fall of 2008, twice the level that 1980’s budget architect David Stockman thought would have dire consequences for the American economy.

Republican Paul Ryan’s budget proposal limits some of the future funding for the next Highway Bill, to \$230-\$280 billion over 7 years (\$40-\$45 billion annually). This was expected to be about a \$520-\$580 billion bill. Our portfolio is invested in the infrastructure theme with about 26% holdings having a direct or partial leverage to those projects, e.g., highways, bridges, dams, railroads, airports, marinas, oil & gas pipelines or derricks, mass transit buses or subways, electric grid, nuclear waste repository storage, oil & gas refineries and petrochemical plants. President Obama has now suggested restraint on delaying some of these “shovel ready” projects, giving fuel to those who criticize his vacillations and abrupt confused policy changes. Streamline public policy and government, define a mission statement and values culture and focus in a consistent manner to a defined strategy. Sounds like a private sector? How about form a task force with 5-8 draconian CFO types from COSTCO, Wal-Mart, Caterpillar, General Electric or JPMorgan Chase and divest land, buildings, staff or close Cabinet level departments like HEW, Commerce or Energy. Budget calculations should begin with the fixed assumption of tax receipts not tax receipts and debt limit capacity.

The U.S. quarantines continental Pacific and Atlantic Ocean offshore drilling, forbids ANWR drilling and has yet to draft an Arctic Ocean policy while Brent spot crude trades to \$118.50. The green President touts solar, wind, bio-mass, geo-thermal, tidal wave and electric autos which in 2011 account for 4% of the U.S. energy portfolio. Expect 20, 30 or 50 years to build these sources of energy to viable and meaningful venues. Moreover the rural solar or wind turbine generating plants require reclusive locations which require immense construction in building transmission grids. What does the President believe will provide our energy supply in the interim? Focus on our new discoveries of (100 year supply) shale formation natural gas sourced from fracturing and horizontal drilling or let Carbo Ceramics, Lufkin Industries, Gulf Island Fabrication, Dril-Quip, Dawson Geophysical and Unit pilot the wheel house. As we navigate the historically weak period of May into early summer, we remain cautious and guarded with an expectation of mid-teens earnings power and total returns for 2011. We are pleased that a couple of our “Badger” boys, Representative Paul Ryan and Governor Scott Walker, are more in tune with the Founding Fathers and are thus constructive that the debt ceiling negotiation will provide an opportunity to pass a lower tax package. Such a package will be challenged by the following;

1. Cost of money (interest rate %) and demand for credit will increase with the interest rate term structure or yield curve both shifting higher and possibly steeper.

2. Commodity price inflation is on a 20-30 year rebound with demand from 2.4 billion Indians and Chinese, 600 million Central & Eastern Europeans and 340 million Central & South Americans joining global commerce.
3. Zealous and ongoing re-regulation and punitive view of business will not cease until the current Obama Administration vacates the Oval office.

The Obama policy of Keynesian 1930’s economics and 1960’s socialism is “Old Cheese” ideas tested and found short of the mark. And here in Wisconsin (home of the World Champion Green Bay Packers) we know our cheese.

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.

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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.

Any question regarding this information should be brought to the attention of Morgan Dempsey Capital Management, LLC.



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