

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

FORWARD-LOOKING STATEMENT DISCLOSURE

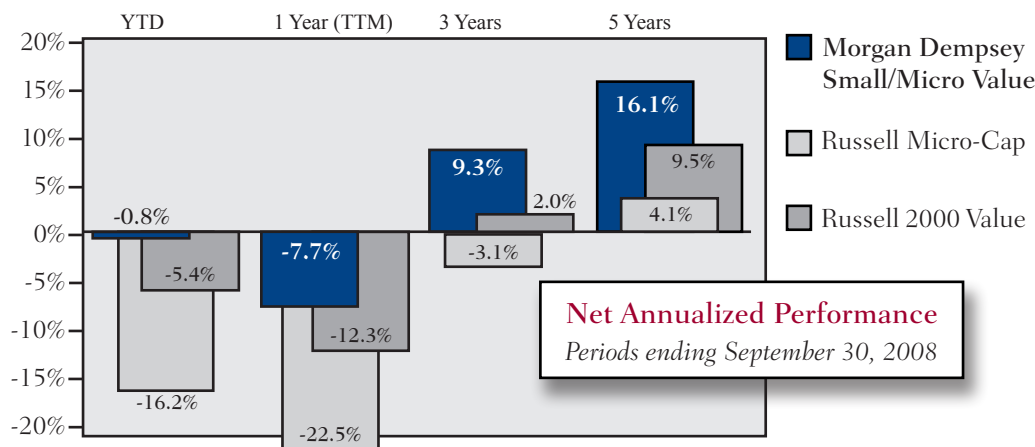
One of our most important responsibilities as an Investment Advisor is to communicate with our clients and consultants in an open and direct manner. Some of our comments in our letters to our clients and consultants are based on current management expectations and are considered "forward-looking statements." 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.

Panic and Falling Knives

The "Twin Titans" of liquidity and solvency, which serve as the foundation and bedrock of our "Fortress Balance Sheet" discipline, have seized the focus and dialogue of business and Congress. The return to vogue of balance sheet solvency and credit quality parallels the leveraged U.S. consumer as they're rediscovering austerity and frugality. The spread of the mortgage loan securitization virus evokes memories of Baron Rothschild's edict in 1871, that the time to buy is when there is "blood in the streets." From our viewpoint in Milwaukee, the Era of Leverage, 1982-2008, sails into history with the Reagan legacy of deregulation and the disinflation in the cost of money. We anticipate a return to business models which practice stability, risk control and balance sheet quality which will afford a greater allegiance to our style of investment.

The Morgan Dempsey Small/Micro Cap Strategy generated a strong start in the first eight months of the year up 6.93% through August and gaining a significant 10.3% lead over our benchmark the Russell 2000 Value Index. The disruptive panic in September spread to cyclical issues and depressed their valuations; specifically, this has affected industrials, energy and materials. The strategy gave back much of our early lead in September leaving us flat for the year with net performance of -0.77% YTD, with our benchmark the Russell 2000 Value down -5.37% YTD.

The 3rd Quarter of 2008 will be noted in history with the seizure of capital formation in the credit markets and the failure of eastern seaboard banks. We are pleased to report that we have largely avoided the catastrophe in the financial sector as our portfolio weighting in financials were one-eighth that of our benchmark index. In fact, our largest exposure to "banks" was not in the financial sector at all but in retail.



Strategy Highlights

- Purchase both Small and Micro-Cap Stocks
- Fundamental - Bottom up research
- Emphasis on "Fortress Balance Sheets" (Little Debt - Strong Free Cash Flow)
- Concentrated in best ideas
- Extremely Low Turnover

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 9/30/08

| | |
|-------------------------------------|------|
| 6.0% - Aptar Group, Inc. | ATR |
| 5.5% - Jos. A. Bank Clothiers, Inc. | JOSB |
| 5.2% - Granite Construction, Inc. | GVA |
| 5.0% - J&J Snack Foods Corp. | JJSF |
| 4.2% - Gorman Rupp Co. | GRC |
| 4.0% - Utah Medical Products, Inc. | UTMD |
| 3.6% - L.B Foster Co. | FSTR |
| 3.2% - Balchem Corp. | BCPC |
| 2.6% - Flower Foods, Inc. | FLO |
| 2.3% - Ruddick Corp. | RDK |

Total Number of Holdings: 65
Annualized Turnover: 52%
Median Market-Cap: \$485 million
Weighted Market-Cap: \$867 million

Contact Information

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Joseph A. Banks Clothiers has been a long-time holding and one we are intimately familiar with, both as customers and analysts. As one of our concentrated “locomotive” positions in the portfolio, we have been following recent events surrounding the regulation of short sales and the habitual stock delivery failures due to naked shorts (SEC Regulation SHO list.) True to the patience and conviction of our deep-value discipline, the small/micro-cap value portfolio reported a resolution to our “bank” problem, the naked short sales of Joseph A. Banks Clothiers. Following the SEC’s increased scrutiny against naked shorts, the company reported a 40,388,100 share volume traded between September 3rd through September 23, 2008, which has removed the 83% short position and currently buoyed the stock from a trading range of \$18-\$25 to a trading range of \$31-\$41, a 60% to 75% increase.

Jos. A Banks has a self-funding (debt free) balance sheet, with \$82 million in cash reserves and has generated a +10.78% (\$2.88/\$2.59) TTM earnings power growth rate. The loan loss charge-off, represents the inventory liquidated below the “lower of cost or book,” a tepid \$1,936,000 or 1.05% of inventory in 2007.

Holiday season 2008 will represent the second season with inventory building funded from cash and internal organic cash flow, which represents the opportunity for a variety and depth selection amongst 39,000 SKU products available to shoppers. Credit line availability and access is impairing retailer’s holiday inventory stocking, but will distinguish Joseph A. Banks Clothiers with the capacity to deliver merchandise not rain checks.

The spot price for natural gas declined from \$12.379 mMBTU on June 1st, to \$7.423 on September 30th or (-40.04%) even with the damage from Hurricane Gustav and Ike. The deterioration in global economic commerce, further dampened sentiment in tandem with oil declining from a \$147.27 peak to \$100.64 (-31.66%) for September 30th spot prices.

The portfolio experienced the cumulative weight of profit selling and rotation panic from oil and gas stocks, which operate as a governor of global economic commerce. The “picks and shovels” focus on the support logistics business in the energy sector has favored our Oil Field Services stocks over the pure play Exploration & Production driller stocks. We remain convinced of fundamental supply constraints of fossil fuel exploration and will continue to weigh the portfolio with a 13%-17% sector weight to energy. Our contrarian bias must emphasize at this juncture that, hurricane damage, terrorist acts, a sub-zero 2008-09 winter and the posture of the U. S. natural gas demand searching for imported Liquefied Natural Gas, is not discounted in the current spot prices. Trading weakness and price erosion accounted for declines of 21%-51% across our ELP and Oil Field Services companies.

Counter to the oil and gas weakness, our consumer staples sector weight of 25.91% (double the 12.23% in energy) in package food, grocery and package & containers, delivered consistent returns in the quarter. The Small/Micro Cap portfolio, with 9 of our top 30 names including: AptarGroup Inc, J&J Snack Foods Inc., Diamond Foods Inc., Sanderson Farms Inc., Ruddick Corporation, Weis Markets Inc. and Balchem Inc., generated gross capital appreciation ranging from 10.90% to 23.71%. The top 7 “locomotive tilt” stocks featured 3 gainers: Granite Construction Corporation, J&J Snack Foods and Joseph A Banks Clothiers Inc., generated returns ranging from 12.60% to 25.61%.

Our sector weights favor global and domestic infrastructure building, aerospace/defense rearmament, food and grocery staples business and the rebirth of “American Iron,” industrial manufacturing, leveraged through our export window. Of note, is the odd bullish trend in trucking transit stocks which continue to defy high diesel fuel cost, HOS legislation and weaker commerce, which afforded the portfolio gains in Marten Transport and Werner Enterprises.

Our position on Financial Services stocks remain guarded for the following reasons:

1. Price discovery in the commercial and thrift bank stocks is based on solvency and balance sheet capitalization, with zero confidence to date in tangible book value stability.
2. The credit cycle deterioration has not abated and unemployment levels above 7% will begin affecting defaults on prime credit loans in addition to sub-prime and Alt-A debt.
3. Credit formation continues to be erratic and seizures in the commercial paper, corporate bond and swaps markets remain daily events.
4. Loan calls, credit line limit reductions or loan approval ratio deterioration continues to accelerate across the globe.
5. Flat yield curves historically argue for poor rate spread % loan environments and consumers are reacting against fee income inflation.
6. M&A deal activity is focused upon bankruptcy rescues or reserves, recapitalizations, not profit incentives since bank charters peaked in 1986 at 14,714.
7. Community banks will now face higher deposit competition from insured FDIC money market funds and will have to revert to a more (principal) traditional loan/service and funding business, vs. the (agency) pass-through underwriting/packaging securitization and sales to FNMA/FHLMC or FHA/VA.

With the Presidential 2008 elections casting a long shadow over the credit crisis, we would argue for fiscal austerity, a matched reduction in U.S. corporate tax rates to OECD levels in the low 30% range, a U.S. infrastructure bank and accelerated depreciation schedules. The portfolio weighting to industrials and infrastructure argue for this stimulus from Washington and favor the infrastructure development around the globe and the rebuilding of decayed public infrastructure in the U.S. The trepidation, volatility and capital erosion prevalent in September, affords our deep-value strategy significant valuation arbitrages forward. As always, our charter is matching fortress balance sheets with free cash flow generators and exhibiting patience with durable business franchises.

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

| 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 | 18.46 | 23.48 |
| 2007 | 8 | 4,556,445 | 186,950,509 | 0.43 | 11.90 | 10.83 | -9.78 |
| 9/30/2008 | 12 | 5,497,870 | 164,684,126. | 0.28 | -0.03 | -0.77 | -5.37 |

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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.