

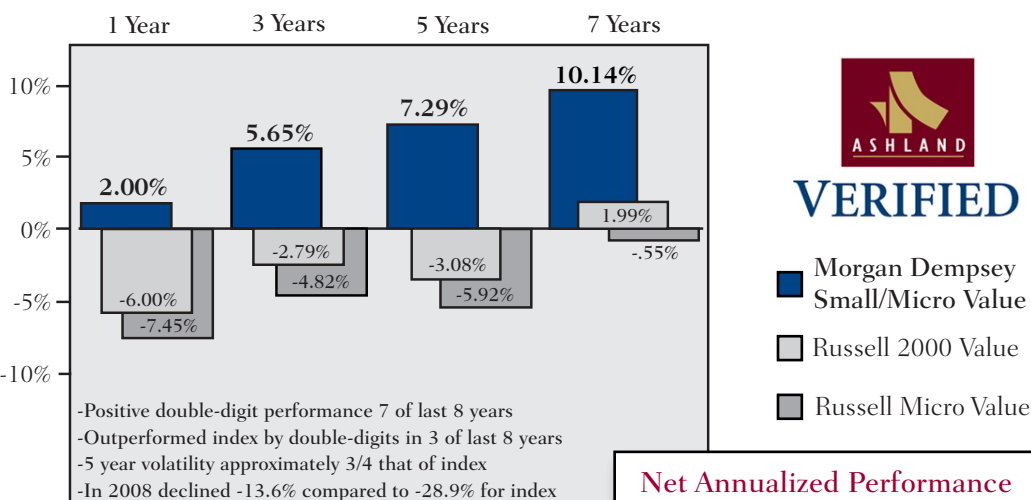
**Morgan Dempsey Small/Micro-Cap Value - Quarterly Commentary 3Q11**

**Requiem for Jobs**

Titan of invention and icon of American culture Steve Jobs passed away October 5th on the heels of the iPhone 4s launch. His 56 years of boundless energy yielded the wonders of Apple Computer and PIXAR Technologies. From the MAC to the iPhone and iPad to 3-D animation, Steve Jobs became a legend as the visionary who was able to harness technical innovation and use it to shape products that changed the world. He had 342 U.S. process design application patents and 43 utility or invention patents, but unlike his peers, Bill Gates, Larry Ellison, or Paul Allen, he had panache and a sense of design fashion and style. His moniker was adding color and ergonomic lines to technology while furthering his fixation on simplistic ease of use, compact size and portability. An aptitude for design fashion and commercial culture also aided him in developing simple user operating architectures and size portability. As computing power increased by doubling computational speed every 18 months (Moore's Law), and size decreased from the vacuum tube mainframes the size of large rooms, to the desktop PC, to the hand held iPad, that design aptitude and ethos became crucial to Steve Job's success.

During an Apple Computer product symposium he was questioned about what caused the eclipse of great technology icons such as IBM, XEROX, Hewlett-Packard or Sun Microsystems. In his razor focused tone, he stated that technology focused companies which conceptualize or invent technology require a product developer or engineer at the helm. The problem according to Jobs was the ascension of sales and marketing executives who tended to try and solicit customers into a specific consumption pattern. They focused on selling products that met their own immediate needs but didn't quite fit the needs of the consumer versus providing the vision to develop the products that will fit the consumer's needs in the coming years. The "white hot" core of innovation at the engineering level then suffered as marketing executives navigated the organization away from their future customers.

His viewpoint of an eclipsed company's lifecycle has an eerie application to Washington politics. As one example, in an encounter with President Barack Obama (the marketing executive), he admonished the President for a lack of vision with H-1 visas specifically for post-graduate MBA and PH.D students who were educated in American colleges and universities. The goal of most foreign graduate students is to stay in the U.S. after they receive their advanced degree. Technology companies need these highly skilled and educated graduate students to stay in the U.S. to enhance their global competitiveness. Making it difficult for them to stay, or not providing enough work visas puts U.S. companies at a disadvantage to our global competition. The President replied with empty rhetoric and a glib answer which met his



Disclosures: See performance disclosure page for full compliance statement.

**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 9/30/11
- 7.2% - Jos. A. Bank Clothiers, Inc. JOSB
  - 5.1% - J&J Snack Foods Corp. JJSF
  - 4.8% - Aptar Group, Inc. ATR
  - 4.4% - Gorman Rupp Co. GRC
  - 4.2% - Granite Construction, Inc. GVA
  - 3.8% - National Presto Ind. NPK
  - 3.6% - Unit Corporation UNT
  - 3.6% - Sturm, Ruger & Co., Inc. RGR
  - 3.3% - Utah Medical Products, Inc. UTMD
  - 2.4% - Ruddick Corporation RDK

Total Number of Holdings: 71  
1 year turnover: 13.9%  
Median Market-Cap: \$482 million  
Weighted Average Market-Cap: \$932 million

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own immediate political needs but didn't provide the vision for the technological and innovation needs of the country now or in the future. Jobs walked away unimpressed, further enforcing his apathy toward politics.

Jobs' philosophy of business could also be summed up in his love of the Beatles where four guys kept each other in check and the sum of the parts was worth more than the individual members. Jobs attributed their success to team focused invention. Our focus on the culture of Founder/Owner/Operator companies with a mission critical passion for organic innovation is exhibited by their research and development (R&D) cost at 3%-4% of sales or a ratio of PP&E capital expenditures to D&A (depreciation and amortization) greater than 1:1.

One of Steve Jobs favorite quotes was from Wayne Gretzky, who famously said, "I skate to where the puck is going to be, not where it's been". So it remains with our discovery search across an oasis of obscurity to find small and micro-cap businesses which yield marathon compound capital growth investments. Our search often results in a portfolio where the majority of companies have no other coverage other than Morgan Dempsey.

As a side note: with a net worth of over 8 billion, Steve Jobs was listed as the 47th wealthiest American and would certainly be considered in the 1% by the 99% Occupy Wall-Street anarchist. We recognize the hypocrisy of the protestors in the visible glow of iPhone and iPad screens in the tents at Zuccotti Park.

### **Economics From 30,000'**

The tepid economic recovery enters its 29th month having turned in July 2009 with 9 quarters of nominal GDP growth (+1.9%-5.5%) and real (chain weighted quantity index) GDP expanding at +1.7%-3.9%. Normal post-recession GDP nominal and real growth rates should range 7%-10% and 5%-8%. However the massive liquidity injection resulting from the Federal Reserve's balance sheet expansion from \$843 billion to \$2.845 trillion indicates a policy of monetary accommodation that should lead to higher implicit internal inflation expectations and subsequent price inflation. The GDP implicit price deflator has accelerated from -0.4% annualized rate in 2Q 2009 (June 30, 2009) to a +2.5% rate during the first three quarters of 2011. This is at the ceiling of the Federal Reserve's tolerance for price volatility.

On a NIPA National Income & Products Accounts basis [GDP = C + I + G - (X+M)], consumption (C) spending at \$10.803 trillion is up a modest 7.65% since 2008 and still amounts to 71% of GDP. Gross investment spending (I) at \$1.918 trillion still trends below the \$2.327 trillion level of 2006 (-17.58%) which includes construction of housing stock, infrastructure and PP&E capital expenditures for factory and machinery. Investment capital formation manifests its weakness from the decline of the construction of factory plant structures to \$332.1 billion in 3Q 2011 from the \$466.4 billion rate in 2008. The Keynesian shock strategy of the Obama administration is exhibited by record government (G) expenditures of \$3.517 trillion in 2009, \$3.456 trillion in 2010 and an estimated \$3.601 trillion for 2011. This generated record budget deficits of

(\$1.413) trillion in 2009, (\$1.294) trillion in 2010 and (\$1.299) trillion in 2011 compared to the (\$160.7) to (\$458.6) billion annual Bush administration deficits that produced an 8 year cumulative deficit of (\$1.770) trillion while fighting two wars. Export trade (E) rebounded to \$2.117 trillion, an increase of 14.63% from the record \$1.847 trillion in 2008. However this is offset by both the import of 13-14 million barrels of oil daily at \$88-115 spot North Sea Brent creating a structural \$490-\$515 billion trade deficit and the (\$230) billion trade deficit with China. Import trade has kept pace at a \$2.690 trillion level in 2011, up 5.21% from the \$2.557 trillion level in 2008.

Levels of corporate after-tax profit (NIAT) recorded \$1.408 trillion in 2010 and expanded to a \$1.470 trillion level through the first three quarters of 2011 at a 1950's record level 8.48% pre-tax NIBT margin. Trends of productivity from computer software investment, benefit restraint, headcount layoffs and foreign labor hiring have added to the lower expenditures of PP&E capital formation. The corporate business sector has stockpiled a record \$4.6 trillion in cash reserves in 34,000 + public private firms and exhibited the strongest financial silo as compared to the government or consumer sectors. Capacity utilization in the corporate manufacturing sector marked a 75.1% level in September 2011 vs. a 79.2% 2007 peak. The monetary and credit markets remain dominated by the Federal Reserve's monetary accommodation policy launched in the 2Q-3Q of 2008 with a zero real interest rate policy.

1. Levels of U.S. commercial/thrift banking system reserves amounted to \$1.683 trillion or about \$54.778 billion less than July 2011 but still at 14.4x the required reserves. A level of \$1.561 trillion in free reserves in a fractional banking system with reserves of 7%-22% on deposits from checking demand deposits to low turnover certificates of deposits implies a 5x multiple or a potential \$7.805 trillion in loan capacity.

2. Total gross debt of cumulative U.S. federal, state, county and city obligations plus commercial C&I, real estate, installment, revolver and mortgage debt amounted to \$36.517 trillion or 240.26% more than the often quoted size of U.S. Federal government treasury debt. Consumer revolver credit card debt remains (17.49%) below 2008 peak levels at \$790.1 billion vs. \$957.5 billion 2008.

3. Structural unemployment persists at 9% of the 154,198,000 civilian labor force. However the Employment Cost Index measures wage/salary inflation at a tepid 1.6%-1.7% from the 3.2%-4.0% rate during the years spanning 2001 through 2010. Moreover healthcare and pension costs are escalating at a rate of 3.3%-4.0% vs. 4.2%-6.7% during the '00 decade. Wage and salary payroll fund consumption spending. Benefits, however, only keep the consumer alive, but not spending.

4. Monetary aggregates have exploded with M1 money supply expanding 12.4%-26% in 2011 and M2 money supply accelerating 10.5%-14.6% since the summer of 2011 which generally indicates a modest loan growth but with continued consumer savings austerity as deposits build.

## Portfolio Highlights

The conflict between conservative fiscal austerity and liberal social welfare, or capitalistic free enterprise and Marxist socialism continues to plague the U.S. equity markets concerning several issues:

1. The collapse and death spiral of European socialism (1946-2010) especially in southern “Club Med” area (Portugal, Italy, Greece and Spain) are illustrated by €2 trillion in distressed high yield debt and TARP rescue funds amounting to only a 10%-12% capital reserve.

2. The liberal civil anarchists of the 99% and OWS Occupy Wall-Street demonstrations draw attention to the real world issue of the increase in 18-24 year olds in the U.S. living with their parents. According to Lawrence Yun, Chief Economist of the National Association of Realtors, the number of males and females returning home increased from 53% and 46% respectively in 2005 to 59% and 50% respectively in 2011. The U.S. Census Bureau reports males 25-34 years old in the U.S. exhibit a 19% rate of living with parents in 2011 vs. 14% in 2005 as unemployment remains above 9.0%. With the inclusion of both the under employed and those who abandoned the job search, the unemployment levels probably are nearer to 15%-17%.

3. The Obama Administration’s focus on wealth redistribution and social justice is exhibited by the Congressional Budget Office (CBO) estimate of \$1.85 trillion in U.S. regulatory compliance costs and the Federal Register at 100,000 pages in 2011. The Office of Information & Regulatory Affairs (OIRA) in the White House reports that the surge in regulations began in 1982 under Reagan with the George W. Bush administration (2000-2008) adding \$60 billion in regulatory costs. The OIRA reported that the Obama Administration reviewed 613 federal rules and adopted 139 rules with significant economic impact of \$100 million plus during its first 33 months in office vs. 643 reviews and 90 adoptions under Bush II. When rules promulgated by Federal Agencies such as the EPA or SEC are included, adoptions of rules favor Obama 214 to Bush 139. Levels of pending pipeline “significant economic” rules greater than \$100 million awaiting review at this time amount to 144 vs. 105 in 2008 and an average of 70 per year 2001-2008. This is choking economic commerce. Milton Friedman stated regulatory compliance was the 2nd rail of government control, with tax levies the first.

4. The failure of the Super-Committee of Republican and Democrat Senators and Representatives to display much beyond the divisive combat between liberal and conservative political factions and the triggering of \$1.2 trillion in automatic budget cuts.

The portfolio peaked in the March/April 2011 period with a 13.46% YTD return and retreated to the zero range in the early fall. Episodic spasms seem to impact the price stability daily while record corporate earnings power, margin levels and negative real interest rates fail to buoy prices. Daily plus or minus 400 point DJIA swings peaked in August with cascading prices followed by some modest stability in September and October.

The rhetoric and inaction in Washington has made a significant contribution to both investor uncertainty and market volatility. The general malaise of leadership and glib liberal rhetoric from President Obama and his “business empty experience” cabinet is exhibited by a complete lack of serious White House involvement in the discussion on deficits and the \$104 trillion in unfunded social entitlements. The loss of the AAA credit rating by Standard & Poor’s Corporation for U.S. government debt is another milestone of the inept Obama Administration. The lack of success of the Congressional Super-Committee and the pending automatic \$1.2 trillion expenditure cuts will continue to pressure stock prices and is the result of the failure to pass either Graham-Rudman type balanced budget legislation or the recommendations of the Simpson-Bowles commission.

While the 3rd quarter of 2011 as measured by price performance was miserable, it generally was a solid one for our companies as measured by fundamental cash flow, earnings power generation and/or balance sheet solvency. Only seven of the 71 common stocks in the portfolio produced positive total returns. They were Atrion Inc. (+4.84%), Erie Indemnity Company Inc. (+0.65%), Marcus Corporation (+0.71%), Utah Medical Products Inc. (+.88%), Sturm Ruger & Cos. (+18.36%), L.S. Starrett & Company Inc. (+5.37%) and Sifco Industries Inc. (+12.17%). The obvious derby winner was Sturm Ruger & Cos. Propelled by 90 million Americans owning over 600,000,000 private guns, FBI criminal background checks have expanded from 8.3-9,000,000 per year in 1999-2006 to 12-16,000,000 in 2007-2011. This is a reasonable proxy for revolver or pistol sales. Nine common stocks produced 0% to (-2%) losses including Sanderson Farms (SAFM) Bar Harbor Bankshares, Inc., (BHB), Cal-Maine Foods, Inc. (CALM), Flower Foods, Inc. (FLO), J&J Snack Foods, Inc. (JJSF), Knight Capital Group, Inc. (KCG), Kirby Corporation (KEC), Monarch Casino & Resort, Inc. (MCRI) and MFRI, Inc. (MFRI). We hold 15.5% of the portfolio in six package food and two grocery retail common stocks as a defensive anchor in the portfolio with brands such as J&J Snack Foods, Flower Foods, Sanderson Farms, Tootsie Roll, Harris-Teeter and Weis.

## Stock & Trade

Our normal company focus this quarter will be replaced by a discussion of general industry and theme exposures. Infrastructure companies are an important component of the small/micro cap value strategy at this time. The portfolio holds 14 of 71 stocks representing nearly 23% of the portfolio in companies that participate in the rebuilding of a wide range of infrastructure projects including highways, bridges, dams, canals, railroads, subways, water & sewage, electric grid, oil & gas pipelines, marinas, airports, military bases and petrochemical facilities. We established the significant exposure to infrastructure by redeploying capital gains generated by our energy holdings from 2003-2008 which peaked at a 27% weighting in the portfolio and is currently 14%. We discuss some of the major areas of focus on infrastructure below.

**Highway Transportation & Railroad** The federal interstate highway system of 46,876 miles constructed from 1956-1991 under

the Federal Aid Highway Act of 1955 for \$425 billion is funded by the Federal Highway Trust gas tax of \$.145 cents per gallon (1993). State, county and local highways, roads and turnpikes constitute another 242,580 miles constructed with various blends of asphalt, concrete and cement aggregate. The 6 year Federal Highway Bills, the most recent SAFE-TE-LEU (2003-2009) fund \$230-270 billion in 6 year cycles, for construction and repair while local roads are controlled by state departments of transportation or the county/city DPW. The U.S. transit infrastructure includes 590,111 bridges of which 70,000+ or 1 in 4 are rated either structurally deficient or obsolete. The American Society of Civil Engineers rates the transit system at various grades of C- to F with an annual \$186 billion in capital investment required for 10 years to rebuild, while railroads need \$200 billion by 2035 to rebuild. Congress is working on a new 6 year bill expected to authorize \$560-670 billion. Highway construction currently is funded by the 11th 3 month extension.

**Water & Sewage** The U.S. freshwater (potable) municipal systems are governed by 64,133 public & private water utilities with water main pipes and meters operating for 25-30 years and 15-20 years life spans. While the commercial water utilities favor scheduled capital expenditures for obsolete water infrastructure, the public municipal water district are more episodic depending on tax revenues. The water infrastructure in the U.S. operates 85,000+ dams of which 4,000 are deficient and 1,819 represent a hazard of failure. The estimated 100,000-300,000 miles of levees, most of which are older than 1960, are operated by local authorities and may be as simple as dirt mounds creating a huge potential hazard of flooding. The inland locks and canals (257) are ancient with 30 constructed in the 1800's and 92 more than 60 years old. Barge traffic on the Mississippi and Ohio rivers alone have massive tonnages of oil, grains, fertilizer and bulk commodities which requires a \$125 billion upgrade. The ASCE rates the water & sewage C- even though the construction cycle of 1991-2006 added major incremental fresh water and sewage facilities to urban areas.

**Electric Power Utility Grid** The municipal U.S. electric grid is organized into 3 regional zones, The Eastern Interconnection, The Western Interconnection and the Electric Reliability Council of Texas. It is operated by 1538 commercial private electric utilities. Electric power is generated by coal (38%), oil & gas (31%), nuclear (22%), solar & wind (4%), geothermal (2%) and hydroelectric (3%). The transmission grid of power lines uses above ground tower suspension or underground cable and is estimated to be composed of 186,411 miles of 138/230/345/500/765 k V power operate by 500 utilities. Yearly power shortages, black or brown outs and storm disruptions from wind, snow or tornadoes/hurricanes and ice cost \$80 billion and EPA pollution controls add another \$10-14 billion. Historic blackouts caused grid malfunction in the East during 1965, 1977, 2003 and in the West during 1996 and 2011. The American Society of Civil Engineers estimates a \$1.2 trillion rebuild cost for the grid and rates it a D+.

**Oil & Gas Pipeline & Petrochemical Plant** U.S. exploration and production generates 6,733,000 barrels of oil daily and 67 billion cubic feet per day of natural gas that is transported on a

2,531,000 mile network of pipelines across the U.S. Heavy mainline pipelines link Cushing, Oklahoma and the Henry Hub Port on the Gulf of Mexico. Due to the hazardous explosive nature of oil & gas, the potential for weld ruptures, seam leakage and sectional ring cracks coupled with underground installation, the miles of pipelines require constant maintenance. The U.S. petrochemical refinery infrastructure of 273 facilities dates to 1950-1978, operates with a capacity of 18 million bbl per day and is in need of upgrade. Further complicating the refining process is the 14 separate blends of unleaded and ethanol based gasoline that is produced. The ASCE rated the pipelines and oil/gas pipelines a C.

The highway transit system is affected by a private U.S. car/truck fleet of 195,126,000 single operators, corrosive ocean salt sea air, salt snow removal or de-icing in the Great Lakes and double trailered truck freight which violate weight restrictions. The I-35 bridge collapse in Minneapolis/St. Paul, MN in August 2007 cost \$58,000,000 and caused 13 deaths. Over the 1991-2001 period, 10,483 pipeline leaks or ruptures caused 401 deaths, \$5 billion in property damage including explosions in San Bernardino, CA which killed 8 and burnt 38 homes after a 1956 weld ruptured on a 28' pipe section.

The American society of Civil Engineers currently estimates a \$2.2 trillion price tag for transit (highway and subway), aviation, marine, water & sewage, landfill waste, schools, canals & locks, dams & levees and petrochemical plants. The 2009 Infrastructure Report ranked these public capital assets at (4) C's and (11) D's mediocre to poor. Failure to invest lowers the productive capacity of U.S. industry and our standard of living.

### **S.O.S for the OWS – Occupy Wall Street**

The folly at Zuccotti Park was finally ended by Mayor Michael Bloomberg and the New York Police Department in November as 4,000+ anarchists and protestors marched to the Brooklyn Bridge. While the faces are new, the protest is an old one; blaming bankers and Robber Barons for economic chaos is a common theme from the 1837 Land Panic, the 1857 and 1873 Railroad Trust speculation panics, the 1893 depression, 1907 silver panic, the 1929 stock crash, the UAL Friday in 1989, the Dot Com collapse in 2000, and the 2007-09 mortgage crisis. American history marks a milestone virtually every 20 years, save for the 1950's, of some leveraged debt or speculative panic brought on by some systemic scheme to corner the market and reap a fortune. Tulip bulbs, railroads, radio, space travel, internet and real estate all serve as examples of disasters brought on by the manipulation of bankers, brokers, lawyers and regulators, the remedy of which is later foisted on the public as the buyer of last resort or the taxpayer to fund the government rescue.

What is interesting about the latest version, "Occupy Wall Street", is the genetic framework and evolution of the demonstration. A Fox News (New York) broadcast TV station sent a reporter to Zuccotti Park where she interviewed various protestors. One former student yelled his goal for a horizontal, mobile, politically leaderless commune society which would outlaw private property (which most likely didn't include iPhones). Another fellow attempted to direct

the reporter to the “hipster” Command and Control side of the park for more articulate answers. A girl explained that where they were standing and where she had been sleeping was a ghetto of unemployed vagrants, criminals, and molesters, some of which were recently released from Rikers Island jail. The reporter questioned the student about the “hipster” elite whom she learned were college educated, iPhone armed, and the strategists of the protest. The reporter asked, “So the decisions to protest, the tactics, the message or targets are decided in the tents over there”? The answer was no, the leaders had an office in the atrium of the Deutsche Bank building at 60 Wall Street. We speculate that they had access to showers and hot meals too. In the 6 weeks of the Zuccotti Park encampment, the rebellion already had a stratified class system and a ghetto. As for the target of their ire, the Wall Street financiers who are men and women with advanced degrees, who venture to work often at 4-5 am and work 6 or 7 days a week for 12-18 hours a day, many of which often have to leave their families to travel the globe on business. The OWS jokers roll-out of their sleeping bags at 11 am, scratch the lice in the knitted Bob Marley hats they slept in, and ramble on over to Starbucks for a Frappuccino and Wi-Fi.

As for the investment counsel business, the issue of sentiment and confidence once restored will reignite capital formation (loans) and credit as well as assigning a more appropriate capitalized multiple to earnings and cash flow. Only 20 minutes (voting booth) and a legislative chainsaw will dismantle Obama’s Marxist nightmare and give America’s citizens their due course: job opportunities, liberty, and an elevated hope in a viable future.

The Founding Fathers warned against the rise of professional politicians concerned only with the mechanisms of power and with being re-elected. A serious focus which seeks to dismantle government programs at the federal level and limits expenditures to 15% of GDP is the only response to the economic malaise. Diminished government regulation and lower taxation are prime stimulants for economic growth as tax revenues are a function of larger dynamic growth in economic commerce. Time is capital and the illusion of the 1930’s Keynesian economic policy and the social revolution of the 1960’s only waste the reserves of the nation. Moreover the U.S. President, Democrat or Republican, must operate with the conviction of American Exceptionalism and the fundamental belief in capitalistic free enterprise. The President must provide a vision that adheres to that spirit of American Exceptionalism and shapes an atmosphere now and in the future that allows our capitalistic free enterprise to flourish. This Administration in contrast has tried to market a version of America that most Americans do not want and that does not exist; his vision is an America that cannot exist if we are to remain a free and prosperous people. Our portfolio of common stocks waits poised for the return of sanity in government affairs and as always we endeavor to discover exceptional business franchises at discounted prices.

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		
9/30/11 YTD	268	108	14	0%	-9.96%	-10.71%	-18.52%	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 June 30, 2011.

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 June 30, 2011. 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.

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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.

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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