MORGAN • DEMPSEY
CAPITAL MANAGEMENT, LLC

Fourth Quarter Commentary 12/31/08

Morgan Dempsey Small/Micro-Cap Value - Fourth 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.

Day(s) the Credit Market Stood Still

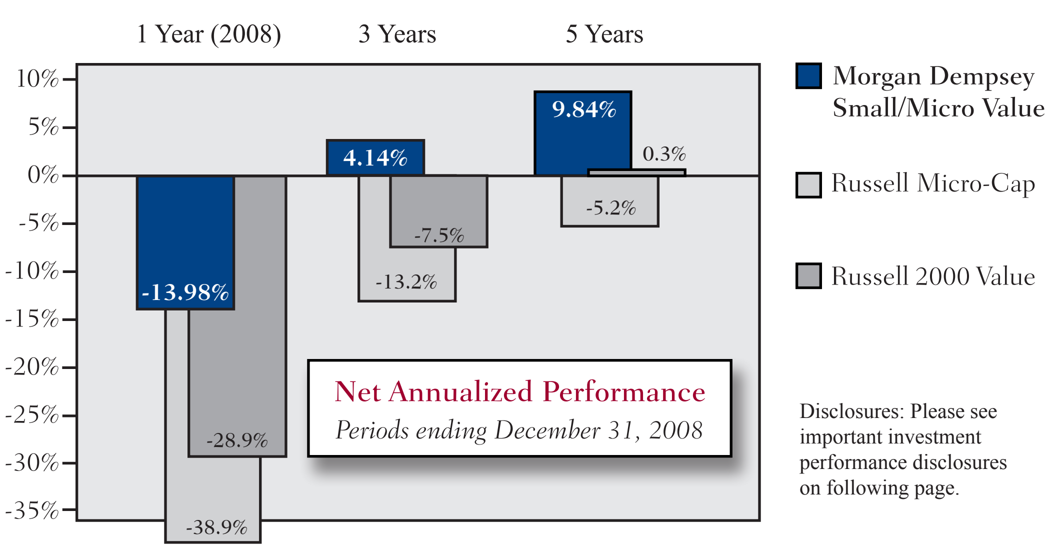
The tremors resulting from the deflationary spiral introduced by the collapse of sub-prime loans and Alt-A mortgages in August 2007 culminated in a 10-day abyss which assailed the stock and bond markets during the beginning of October 2008.

The quotational value of our small/micro-cap holdings fell -13.74% in October, accounting for nearly our entire yearly deficit. After five straight years of double-digit positive performance, we are disappointed with our decline of -13.98% in 2008, but our clients can take some solace knowing that our strategy performed more than twice as well as our closest benchmark, the Russell 2000 Value Index (-29%) and nearly three times better than the Russell Micro-Cap Index (-39%).

Our value portfolio attempted to navigate the trepidation and volatility in 2008 with increased weightings to 18 of our core holdings focusing on infrastructure (22%) and packaged foods/grocery stocks (25%).

We swapped defense stocks during October scaling down our Herley Industries (HRLY) position and significantly increasing our position in National Presto Industries Inc. (NPK). We began buying at NPK at $47.50 as it rebounded during the year to the low $80s. National Presto now ranks as one of our top seven "locomotive" holdings.

We believe in the benefits of concentration and the portfolio typically provides a tilted weighting of 4%-8% to roughly 1 out of every 10 holdings. (A total of 68 holdings results in 7 "locomotive" positions.) NPK is a company we have owned since 2005 and we have become increasingly



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

Performance Summary

	Morgan Dempsey Small-Cap (Net)	Russell 2000 Value
Oct	-13.74%	-19.98%
Nov	-4.07%	-11.58%
Dec	4.77%	6.15%
Q4	**-13.31%**	**-24.89%**
2008	-13.98%	-28.93%

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 12/31/08

7.1% - Granite Construction, Inc.	GVA
6.5% - Aptar Group, Inc.	ATR
6.2% - J&J Snack Foods Corp.	JJSF
6.2% - National Presto Ind.	NPK
4.7% - Gorman Rupp Co.	GRC
4.3% - L.B Foster Co.	FSTR
3.9% - Jos. A. Bank Clothiers, Inc.	JOSB
3.9% - Utah Medical Products, Inc.	UTMD
2.9% - Cubic Corp.	CUB
2.6% - Flower Foods, Inc.	FLO

Total Number of Holdings: 68

3-Year Annualized Turnover: 32%

Median Market-Cap: $424 million

Weighted Market-Cap: $777 million

Contact Information

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comfortable with both their management and business prospects. The recent volatility allowed us to increase our position in this company from 1.77% to 6.16% at what we felt to be bargain prices. National Presto performed quite well for us during the year rising 47.5%.

Along with NPK, a few of the other "locomotive" stocks in our portfolio also provided meaningful returns and helped buoy our overall performance for the year including Granite Construction, Inc. (GVA +22.6%) and J&J Snack Foods Corp. (JJSF +15.9%).

The historic volatility exhibited during the October/November 2008 bear raid saw the VIX volatility index hit 90 and the unprecedented collapse of the stock market in a mere seven weeks. The M&A deals and IPO underwriting trends evaporated as markets seized up and our portfolio recorded only a single deal with the GE Healthcare acquisition Vital Signs (VITL) on July 24th for $74.50 ($860 million.)

Vital Signs was a meaningful position for us, having been in the portfolio for many years and ranking as one of our top 10 holdings at the time of acquisition. While one hates to lose a meaningful position whose future prospects were bright, we were pleased with the 26% premium we received during a rather slow time in the market.

Our focus on fortress balance sheets remains a secular religion rather than fashion. The recent market volatility afforded us the opportunity to rotate out of overvalued energy stocks and less discounted positions and into positions in Columbus McKinnon, Inc. (CMCO), Graham Corporation (GHM), Harman International Industries, Inc. (HAR), Mine Safety Appliances Company, Inc. (MSA), Hawkins Inc. (HWKN) and Tootsie Roll Industries, Inc. (TR). All of these are companies which, in addition to trading at significant discounts, should benefit from a variety of catalysts in the near future.

In 2009, we believe the following trends will emerge as we transition to an era of higher savings, de-leveraging of consumer balance sheets and fiscal austerity.

1. The shortfall in consumption spending from a 71% of GDP peak in 2006/2007 to a new 60%-62% level in 2008 will need to be offset by an increase in infrastructure spending. Infrastructure spending estimated at $1.2 – $1.6 trillion will be required to compensate for the shortfall of approximately 11% of GDP.

2. A formalization of a strategic U.S. Energy Policy to develop a portfolio of diversified sources—oil petroleum, natural gas, coal, nuclear, geothermal, hydroelectric, wind, solar, tidal wave, oil shale/tar sands and biomass, limiting OPEC exposure.

3. Following the resolution to the current panic, the federal U.S. Government should avail itself of Eisenhower Era 1950's yields after liquidating TARP debt and guarantees at a premium.

4. Supply-side tax stimulus via lower statutory corporate tax rates of near 25% along with accelerated depreciation and small business tax credits.

5. Reversion to the principal loan underwriting function of credit analysis, funding and service.

6. Update the 1930's regulatory structure to consolidate the FEDERAL RESERVE, O.C.C., FDIC, SIPC, CFTC, FINRA and PBGC.

7. A reduction in the export of petro dollars as imports from international oil fields decline, evidenced by the reduction from annualized rates of $738 billion in July 2008 to the current $155 billion.

Looking to the future, we believe the Keynesian stimulus for infrastructure spending and a rollover decline in commodity feed spot prices (energy, grains, fertilizers, metals) coupled with high price inflation to consumers will support increased margins for package food stocks. These themes will continue to be a focus for our value portfolios in 2009. We additionally look to be proactive in building our natural gas and oil field services holdings which trade at attractive, albeit depressed, valuations and should benefit from a national U.S. energy policy.

Equity markets will likely exhibit a grinding basing formation throughout early 2009 with episodic spasms of volatility. The bond market should foster credit quality spread declines, as the term structure of corporate rates shift along the yield curve toward government paper. We anticipate sentiment bias should navigate a bullish course supported by stimulus funding from the Obama government, although we expect earnings power weakness could likely prevail during the 2009 quarterly earnings seasons.

Alan Greenspan described the monetary policy of the Federal Reserve as an exercise similar to steering the helm of a barge in the fog of a narrow shallow river, where steering turns are initiated two miles before the fork or bend in the river at night. With a similar perspective, we believe the economic deflation of 2010-11 could manifest its influence on stock returns as early as the summer or fall of 2009.

Research from Satuit Capital Management shows that in the two years following the last 10 recessionary periods (post WWII), the annualized returns of micro-caps have outperformed large-caps an astonishing 90% of the time. Moreover, the average annualized return for micro-caps coming out of these periods was 26.35%.

Even though the evidence convincingly points to micro-caps as the most rewarding asset class to have exposure to post-recession, the decrease in market value of the Russell 2000 Value Index has many small-cap managers shifting their portfolios to larger names as a perceived flight to safety. We believe our understanding of the micro-cap universe and our ability to pursue smaller names will benefit us greatly as the economy recovers.

While historians and economists will analyze the fourth quarter of 2008 many years down the road, our eventual success will be determined not by what has happened in the past, but by our ability to position ourselves in companies who leverage future economic opportunities at a profit. Our enthusiasm as value miners is tempered by the time required to stabilize markets and re-ignite capital formation, along with the temptation of government to control capitalism. As always, we will continue to sift through 10Ks and dig into balance sheets as we prospect for durable business franchises priced at a discount.

Morgan Dempsey Capital Management Investment Performance Disclosures

1. Compliance Statement: Morgan Dempsey Capital Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). 2. Definition of Firm: Morgan Dempsey Capital Management, LLC is an independent investment management and advisory firm registered under the Investment Advisors Act of 1940. MDCM was established in 1994. The assets reflected in this investment performance beginning with the 3rd quarter 2002 were managed by Brian Rafn, V.P portfolio manager, director of research of MDCM. 3. Composite Description: The small cap value equity composite includes all fully discretionary, fully invested, fee-paying accounts that are managed in the firm's small cap value equity model. The composite includes only U.S. small cap value stocks. The composite does not include any accounts which employ leverage, nor does it include any wrap accounts. The minimum account size for inclusion into the small cap value equity composite is $100,000.00. 4. Benchmark: For comparison purposes, a benchmark of the Russell 2000 Value Index is used. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer of the small-cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate small-cap value managers opportunity set. Securities in the Value Index generally have a lower price-to-book and price-earnings ratios than those in the Growth Index. 5. Calculation Methodology: The composite performance results are net and gross of fees and are expressed in U.S. Dollars for the full historical period. They are time-weighted rates of return presenting total returns, net of commissions and transaction costs. Performance results reflect the reinvestment of dividends and other earnings and are presented gross and net of investment management fees and taxes. Additional information regarding the policies for calculating and reporting returns is available upon request. 6. List of Composites: The composite was created June 30, 2002. A complete list and description of firm composites is available upon request. 7. Total firm assets represent total discretionary assets managed by MDCM. The number of portfolios in the composite is as of year end. The quarterly standard deviation is calculated as the average dispersion from the mean return of all accounts included in the Composite for the quarter. The annual standard deviation is the calculated average dispersion of accounts in the Composite for the full year. Note 1:n/a (<5 portfolios). During 2002 and the first quarter of 2003 results relate to one account and the account used was not the same from year to year. 8. The above table reflects past performance. Past performance does not guarantee future results. A client's investment return may be lower or higher than the performance shown above. Clients may suffer an investment loss. Returns reflect the reinvestment of dividends and other earnings. 9. Gross performance result calculations include the deduction of securities transaction charges but not investment advisory fees. The results include the reinvestment of all dividends and other income. Actual portfolio returns are reduced by the amount of such fees. Over time, the deduction of fees reduce the value of a portfolio on a compounded basis. 10. Net performance result calculations include the deduction of securities transaction charges and investment advisory fees. The results include the reinvestment of all dividends and other income. 11. Historical net performance numbers are calculated using the highest management fee charged by MDCM. (1.00%). 12. Fees: Standard management fees for the composite are as follows: first $10,000,000=1.00% MDCM will negotiate fees for a structured small account program. MDCM will negotiate fees for accounts of substantial size. 13. Percentage of composite represented by non-fee paying accounts = 0.00%. 14. One-on-One Presentation: This report is used exclusively for one-on-one presentations to qualified individuals, pension funds, universities and other institutions. 15. The information herein is for informational use only. Under no circumstances does this information represent a recommendation to buy or sell securities. Information contained herein should not be a construed as a solicitation or offer of any services in a jurisdiction where Morgan Dempsey Capital Management, LLC is not registered to do business or does not qualify for an exemption or exclusion from registration requirements. 16. 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Periodically, the terms and conditions may be updated and/or corrected to reflect changes in content. 25. Morgan Dempsey Capital Management, LLC has contracted the independent consulting firm of McCoy Associates to market the Morgan Dempsey Small/Micro-Cap Value Strategy. Compensation to McCoy Associates will be provided out of the existing management fee charged by Morgan Dempsey Capital Management, LLC. Compensation will not exceed 20% of the management fee and clients are not charged a higher fee as a result of McCoy Associates' marketing efforts for Morgan Dempsey Capital Management, LLC. 26. Clients having portfolios containing securities other than those used for the style selected, and portfolios subject to tax, client-imposed or other restrictions, would have had higher or lower total account returns than the performance shown. 27. Factors such as the size and performance of specific securities positions in accounts, the length of time certain positions are held, the timing of purchases and sales during the reporting period, client objectives, cyclical securities price trends, favorable and unfavorable news pertaining to securities, market trends and other factors all influence performance results materially. For these reasons, actual client account performance for any style would only match MDCM's total performance by coincidence. 28. The data used for this report was obtained from sources deemed reliable and then organized by the staff at MDCM. Performance calculations were prepared using standard industry software and were not audited by any third party. Errors could have occurred in the data, in the calculations, or in the preparation of this report. Therefore, the information contained on this site may not be precise. 29. The composition and market volatility of the Russell 2000 Value, Russell 2000, Russell 3000 Growth, Russell 1000 Value, Russell Micro-Cap and Lehmann Govt/Credit indices, which are unmanaged market value-weighted indices, and the composition and volatility of the portfolios managed by MDCM are materially different. 30. Any question regarding this information should be brought to the attention of Morgan Dempsey Capital Management, LLC.

Year	# of Portfolios	Composite Assets	Firm Assets	Composite Dispersion	Composite Gross of Fees	Composite Net of Fees	Benchmark Performance
2003	1	363,200	137,315,376	0.00	32.87	31.68	46.03
2004	3	2,225,425	72,707,427	0.00	23.82	22.59	22.25
2005	6	3,140,055	68,492,815	0.95	16.60	15.47	4.71
2006	7	3,904,553	190,286,996	0.20	19.74	18.46	23.48
2007	8	4,556,445	186,950,509	0.43	11.90	10.83	-9.78
2008	12	4,642,479	141,315,924	2.37	-13.11	-13.98	-28.93