

MORGAN DEMPSEY SMALL/MICRO-CAP VALUE INFORMATION & FAQs

Included below are answers to frequently asked questions regarding the Morgan Dempsey Small/Micro-Cap Value Strategy. For additional information regarding this strategy including a performance composite or ADV part II, please contact Maury McCoy at Maury@McCoy-Associates.com or (512) 775-0944.

GENERAL INFORMATION	
Investment Management Firm	Morgan Dempsey Capital Management, LLC.
Investment Strategy	Morgan Dempsey Small/Micro-cap Value Strategy
Security Selection Method	Bottom up/Fundamental Analysis
Benchmark	Russell 2000 Value Index
Strategy Inception	Oct 1, 2002
Investment Minimum	\$1 million
Closing	Firm will assess impact of additional contributions at \$300 million in deposited capital.
Market Cap Limitations	Research Universe = \$30 million to \$3 billion. Typical purchases are between \$70 million - \$1.2 billion.
Fees	1.00% of assets under management

INVESTMENT PHILOSOPHY

Describe your investment philosophy.

-We focus on the area of the market where we can gain a significant advantage through fundamental research. Our ability to pursue micro-cap companies in addition to small-caps provides us with opportunities that are off limits to larger institutional strategies.

-We pursue companies with strong competitive characteristics and equally strong balance sheets that are selling at a discount to our conservative intrinsic value estimates.

-We believe that disciplined, fundamental, bottom-up research is the key to gaining an information advantage. We believe in having conviction in our analysis and patience in our convictions.

-We are buy-and-hold investors. We want to be long-term partners with great companies and we want to remain fully invested at all times.

INVESTMENT STYLE

Describe your investment style

We apply a Graham & Dodd value style with a contrarian bias. We believe through focused, disciplined research we can identify small companies trading at a significant discount to our computed intrinsic value and that those companies will produce positive long-term results for our investors.

The process consists of our proprietary valuation model which screens for a number of quantitative and qualitative factors applicable to bottom-up analysis of the stock universe.

Qualitative factors that influence a purchase or sale decision include the company's competitive position in its industry along with the sustainability and durability of a company's business model. We look for an **emerging catalyst** which will drive earnings going forward and prefer a founder/owner/operator structure with a strong heritage and culture.

Quantitative factors that influence the decision to purchase or sell an investment include many investment metrics, but of primary importance is a "**fortress balance sheet**" with little to no debt and strong free cash flow. We wait for the opportunity to purchase these companies at a significant **margin of safety** compared to our computed intrinsic value estimates.

Our value style fosters a capital preservation and risk control philosophy, in conjunction with sensitivity to trading costs and tax liability. While we consider ourselves value investors, many

companies in the small and micro-cap space have prospects for significant growth. Growth is just one of the many factors we take into consideration when computing our intrinsic value estimates.

Our contrarian bias affords us the freedom to be **agnostic to benchmark weightings** and to instead focus on the best companies in the most promising areas of the market.

PORTFOLIO COMPOSITION AND CONSTRUCTION

Please describe the universe from which securities are selected and how this universe is constructed.

Our research universe consists of companies between \$30 million and \$3 billion although purchases are typically made between the range of \$70 million and \$1.2 billion. We have the freedom to purchase micro-cap companies which are technically off limits to much larger institutional strategies.

We focus on the portion of the market with the largest number of opportunities, followed by the smallest percentage of money managers. We make it our business to know more about our companies than our competitors.

Describe a typical portfolio in terms of industry or sector exposure, number of and security weightings, market capitalization, asset allocation? How is your portfolio diversified?

The portfolio will typically hold between 55-75 companies. We will tilt our portfolio weightings towards our strongest ideas.

We purchase both micro-cap and small-cap companies. Historically we have owned nearly equal amounts of both from a number and weighting standpoint.

Our contrarian bias affords us the freedom to be agnostic to benchmark weightings and to instead focus on the best companies in the most promising areas of the market. That said, we will typically have a diversified industry and sector balance at <8% company, <20% industry and <35% economic sector.

Our focus on companies with extremely robust balance sheets, including ample cash reserves and tangible assets gives us an added level of security in addition to diversification.

Under what circumstances would your firm deviate from its disciplines or change the investment process?

We do not foresee any circumstances that would cause us to change our investment process. Periods of irrationality and speculation may make the markets difficult to understand at times, but we feel confident, that over extended periods, our disciplined investment process will produce superior results for our clients.

INVESTMENT DECISION MAKING PROCESS

How are investment ideas generated? Describe your research process including sources of information (internal, external) and the integration of research into portfolio decision-making.

Our research universe consists of small and micro-cap companies between \$30 million and \$3 billion in market cap.

We look at a multitude of sources to generate new ideas including index lows lists, trade journals, finance media, consumer usage statistics, divestiture spin-offs and industries/sectors that are out of favor. We use a variety of data sets to generate our initial research including Bloomberg, Investor's Business Daily and Value Line.

We do not rely on outside research and instead prefer to do our own forensic accounting and analysis. We consult company 10-Ks/10-Qs/8-Ks and will speak with management, competitors, employees, regulators and suppliers as needed. We apply extensive use of governmental, industry and trade association white papers, essays and industry studies. We additionally seek to discover outside factors that may be driving the price of a security as we want to understand why others may be taking positions contrary to our own.

If the valuations meet our requirements and the balance sheet is sound, we will wait patiently for the company's share price to provide us with a margin of safety for purchase.

BUY/SELL DISCIPLINES

Please describe how purchase decisions are made.

We use our proprietary "**Value Franchise Model 15**" to evaluate and identify target companies.

This is a two step process involving 15 fundamental criteria to identify and evaluate potential investment decisions.

The discovery phase attempts to identify small/micro capitalization stocks, which exhibit our “**Margin-Of-Safety 3**”. The three factors (out of 15) which we look for in the initial phase are:

- “**Fortress balance sheets**” - These companies typically have little to no debt, tangible assets, cash reserves and do not have excess goodwill on the balance sheet. The ability to generate free cash flow is paramount. Companies with quality core earnings that generate free cash flow serve as a hedge against unwanted volatility in the portfolio.

-An **emerging catalyst** that will drive earnings power and free cash flow generation. We want to avoid the inertia exhibited by many small company value stocks.

-**A discount to our computed intrinsic value** - We measure the LBO private market value, relative historic value and a discounted free cash flow value in an attempt to find companies selling at a 30%-70% discount to our computed valuations. We target companies with increasing intrinsic values which allow our holdings to grow and build shareholder value over long periods of time.

In the second step, companies that have met the “Margin of Safety 3” are evaluated using more stringent financial criteria to identify businesses that exhibit superior operating and financial metrics. We attempt to purchase companies that have the following characteristics.

- **BUSINESS DOMAIN UNIT ECONOMICS:** The company’s business franchise reflects a viable, core focused, profit-centric, adaptive and pragmatic operation which supplies a demand necessity or luxury, in a monopolistic or oligopolistic industry market share % position. The business franchise is afforded a niche barrier to entry defense, due to a unique proprietary technology, resource reserve, operational skill set or logistical supply and geographic proximity.
- **SECULAR CASH FLOW:** Gross EBITDA and internal organic operating free cash flow generation, which compounds in a consistent + 7% - 11% secular growth rate and yields a > 20% free cash flow residual level, net of PP&E capital expenditures + cash dividends + cash taxes + interest %.
- **CAPITAL SOLVENCY:** A “fortress balance sheet” of a cash adjusted net or straight self-funding debt structure, with consolidated debt < 40% of tangible capital (long-term debt + equity – goodwill).
- **CATALYST INFLECTION:** The initiation or emergence of a catalyst of change, to effect a sustainable and secular growth in intrinsic value and negate the arbitrage discount to price, via capital redeployment or deleverage, technology formation, product/service launches, management recruiting, strategy focus, geographic shifts, margin % accretion and merger/acquisition/divestiture transactions.
- **TANGIBLE ASSET BASE:** Levels of cash reserves > 10% of assets, fluid working capital liquidity and intangible goodwill < 15% of the asset base.

- **ORGANIC EARNINGS POWER:** The internal organic generation of earnings power, at a minimum + 9% - 14% CAGR%, which favors cash denominated, frequency repetitive, usage consumption sales revenue models weighted to unit volume growth vs. price inflation capacity.
- **MISSION, CHARTER & STRATEGY:** Core values and mission charter, which reflect a flexible & fluid change adaptive initiative, a “sense of urgency survival” culture and a non-union entrepreneurial labor /management partnership, which empowers line function decision control.
- **FRANCHISE RESERVES:** Levels of reserve assets or operating competencies, which include patents, surplus funded pension plans, real estate/property, technology, joint ventures & alliances or trademark brands discounted in the financial report disclosures.
- **MANAGEMENT & CONTROL:** A founder/owner/operator management structure which fosters an ethical control and focus upon long-term goals & objectives to build shareholder wealth and alignment with passive stockholders via a > 10% after-tax cash equity.
- **BUSINESS MODEL & STRATEGY:** A secular, internal organic, profit-centric, core focused, viable and pragmatic strategy, which emphasizes “1st mover initiative” and adaptive change, reflecting the durability and sustainability of the business model as it relates to the economic, political, legal regulatory, cultural, social and geographic domains in which it competes.
- **HERITAGE & CULTURE:** A business culture which exhibits honesty, loyalty and paternalism to economic sharing with customers, employees, vendor suppliers, shareholders and civic interests that leverages the company image & brand franchise, code of ethics and sponsors a mutual partnership with all strategic constituents.
- **IRR% INTERNAL RETURN RATES:** Achievement of superior relative and sustainable internal rates of return, including EBITDA/ROC% > 40%, EBIT/ROA% > 30% and NIAT/ROE% > 15% via a minimum of a +150% Sales/Assets Turnover Ratio combined with an accretive margin % structure.
- **VALUE ARBITRAGE:** A tax cost basis or entry trade price which exhibits a (30% - 70%) < arbitrage discount to intrinsic value, as calculated by discounted free cash flow analysis, LBO privatization value and relative valuation criteria, inclusive of P/E, P/BV, EV/EBITDA, Free Cash Flow Yield % etc.
- **GAAP POLICY & DISCLOSURE:** An audit and accounting policy, which fosters visibility and transparency, time sensitivity and a conservative GAAP interpretation in financial reporting disclosure.
- **HISTORIC PRICE TREND:** Historic price and volume trade patterns which exhibit base formations of accumulation for entry, void of speculation or short sale activity.

We are extremely selective about the companies that make it into our portfolio. We have historically added only a few positions every year and tend to hold companies for extended periods of time.

Please describe how sell decisions are made.

We tend to be long-term holders of securities and consider ourselves partners with the companies we own. The majority of our holdings have been in the portfolio for many years. That said, we monitor our holdings closely and will sell for the following reasons:

1. A company's price meets or exceeds our intrinsic value estimate
2. A position becomes larger than 8% of the portfolio
3. A deterioration in fundamentals occurs (liquidity, solvency, profitability)
4. We can replace a current holding with a new holding that has greater potential
5. A failure of thesis, strategic business model or an ethics/governance issue

RISK CONTROLS

Describe your risk controls.

We perform the majority of our risk management before a stock purchase is ever made. We have high standards for inclusion in our portfolio and want to be long-term partners with the companies we invest in.

Of primary importance is our focus on companies with "fortress balance sheets". These companies typically have tangible assets and generate real free cash flow. While we may miss out on opportunities in more speculative securities, we are pleased with the consistent, reliable returns our process has been able to generate. **Our risk controls were perhaps most evident in 2007 and 2008 in which our focus on solid companies with little leverage and robust balance sheets allowed us to outperform the Russell 2000 Value index by 20% and 15% respectively.**

We additionally mitigate risk by remaining diversified in our holdings. We will typically have an industry and sector balance at <8% company, <20% industry and <35% economic sector.

In our strategy, **we do not equate risk with price volatility**. Worrying about short-term price movements which are unrelated to business fundamentals tends to produce poor long-term results. We invite volatility as it affords us the opportunity to add to attractive investments we understand at reasonable prices.

Do you use Derivatives? Hedging? Cash? Stop Losses?

We do not use derivatives, hedging, cash or stop losses as a method of risk control.

TRADING AND EXECUTION PRACTICES

Discuss your trading process; what aspects do you feel are unique? Address any liquidity issues associated with this product.

We are buy-and-hold investors and this approach mitigates many liquidity issues that arise from dealing with smaller companies.

We are infrequent traders - Our gains tend to be earned at the research desk more than the trading desk. That said, we use all the tools available to us to minimize both the explicit trading costs and implicit execution costs associated with less liquid securities.

We tend to scale into less liquid investment ideas on a 45%/35%/20% basis over a period of 90 days. We want to participate in the market not move it. If an idea dictates that we act more quickly, we will do so as necessary.

Do you use soft dollars?

We have very limited use of soft dollars. We rely on our own fundamental, bottom-up research.

What is your typical turnover?

2009	2008	2007	2006	2005	2004
12%	36%	35%	11%	20%	15%

Do you short stocks?

We do not short stocks. We have created our process to identify and research the very best companies. Building a process to do the reverse would double our research efforts. Shorting has a bad payoff profile, unlimited downside, limited upside, short squeezes are worse with less liquid stocks and you're betting against entrenched interests. Additionally, smaller companies are more nimble and are capable of quicker turnarounds than larger companies. We believe the best results can be achieved by forming long-term partnerships where our interests are aligned with those of great managers and owners.

PERFORMANCE EVALUATION AND OUTLOOK

List the relevant benchmarks for comparison and the most relevant time period for assessing your investment abilities and why.

We bench against the Russell 2000 Value Index. Judgment of our investment ability is appropriate on a rolling 3-5 year basis rather than a monthly or even quarterly basis.

For the period ending Dec 31st 2009, The Morgan Dempsey Small/Micro-Cap Value Strategy had **5-year net annualized return of 9.47% compared to a negative annualized return for the Russell 2000 Value Index.**

Our 3-year net annualized return ending 12/31/09 was 4.71% compared to a -8.22% annualized return for the Russell 2000 Value index.

Describe the investment environments in which your strategy can be expected to:

1. Outperform the benchmark and style peers

The ability to invest in micro-caps and in addition to small-caps provides us with a much larger universe from which we can select superior performers. The sheer number of under-followed companies combined with the selective nature of our portfolio gives us the potential to outperform in nearly all cycles. Our emphasis on companies with robust balance sheets and tangible assets provides our portfolio an additional level of protection during market downturns.

2. Underperform the benchmark and style peers

We expect poor relative performance during periods of extreme speculation when valuations tend to be ignored. We can work to anticipate optimism as well as fear in the market place and adjust our portfolio accordingly, but irrational speculation is a game we refuse to play - even though some may find it profitable.

Inflection points at the exit of a recession when poor quality, high debt companies resurrect (2003) are another investment environment in which our strategy may underperform.

Please provide research to support the belief that your process will outperform your best-fit style benchmark in future market cycles.

We hold 55-75 businesses out of a universe of over 9000 stocks. Less than 1% of the universe we research makes it into our portfolio. Our success in outperforming our benchmark will be dictated by the performance of the great companies we choose to own. Those companies we choose to own will be dictated by our disciplined and proven research process.

Our research driven investment process has allowed us to significantly outperform our best-fit style benchmark since inception. **The Morgan Dempsey Small/Micro-Cap Value Strategy experienced positive, double-digit returns each year up until 2008.** In 2008 we failed to post a positive return, but were able to outperform our benchmark by 15%.

UNIQUE ASPECTS OF STRATEGY

What unique features of your investment approach do you feel add the most value over time?

We invest in only the strongest small companies. A focus on robust balance sheets and cash flow generation leads us to companies that portray favorable competitive and cultural characteristics.

We look at true micro-cap companies that are technically off-limits to larger institutional strategies. We have more opportunities than our competitors.

We are a research intensive firm looking at a portion of the market that is typically under-followed. We are able to gain a significant information advantage.

We focus on true small/micro-cap companies measured by the size of their sales, assets and cash flow. We avoid diluting of our portfolio with mid-cap or large-cap companies that find themselves in the small-cap universe after a share price drop.

We target companies with increasing intrinsic values which allow our holdings to grow and build shareholder value over long periods of time. The compound growth of intrinsic value is the foundation of superior total return generation.

Our capacity for aggressive sector, industry and company weight tilts allows us to pursue our best ideas in the most promising areas of the market.

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 manager's 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.

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%	19.73%	18.55%	23.48%
2007	8	\$4,556,445	\$186,950,509	0.43%	11.94%	10.83%	-9.78%
2008	10	\$4,642,480	\$145,295,212	2.37%	-13.11%	-13.99%	-28.93%
2009	12	\$6,547,423	\$172,535,243	0.84%	21.64%	20.44%	20.57%

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advertisements are net of fees and taken from our performance composite for the time period specified. 23. Further detailed disclosure information is contained in our Form ADV Part II which is available upon request 24. 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.