

Why Now for Small/Micro-Cap?

The question currently juxtaposed with a myriad of asset allocation decisions is: Why should investors allocate to small/micro-cap at this time? We attempt to answer this question by highlighting the advantages of the asset class, how the current environment favors smaller stocks, and the unique advantages Morgan Dempsey provides that allow them to capitalize on this opportunity.

Morgan Dempsey Capital Management, LLC manages a domestic equity, small/micro-cap value strategy. The portfolio applies a Graham & Dodd, deep-value methodology with a contrarian bias. The manager, Brian G. Rafn, has 17+ years of experience focusing on the small/micro-cap space and uses disciplined, fundamental, bottom-up research to gain an information advantage. Morgan Dempsey attempts to identify only the most financially sound companies and a “fortress balance sheet” is the cornerstone of all their investment decisions.

Advantages of the asset class:

- **Superior Historic Total Returns** - Capital growth and dividends of 12%-14% for small and micro-cap stocks vs. 8% and 10% for large or mid-cap tiers according to Ibbotson & Associates (SBBI 1925-2008).
- **Breadth and Depth of Opportunities** – 5000 issues in our universe amounting to \$1.7 trillion in market capitalization. Our opportunity set is significantly larger than most managers allowing us to be extremely selective in our holdings.
- **Research Neglect** – We believe significant valuation discounts exist for those willing to do their own research. The loss of sell-side brokerage (analyst) coverage due to foreign coverage, illiquid trade volume or limited syndicate underwriting fees has left a research void on the smaller end of the market spectrum.



Strategy Highlights

- Purchase both Small and Micro-Cap Stocks
- Fundamental - Bottom up research
- Emphasis on “Fortress Balance Sheets” (Little Debt - Strong Free Cash Flow)
- Founder/Owner/Operator run companies
- Concentrated in best ideas
- 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 6/30/09

5.4% - Aptar Group, Inc.	ATR
5.2% - Granite Construction, Inc.	GVA
5.0% - National Presto Ind.	NPK
5.0% - Jos. A. Bank Clothiers, Inc.	JOSB
5.0% - J&J Snack Foods Corp.	JJSF
4.5% - Utah Medical Products, Inc.	UTMD
3.8% - Gorman Rupp Co.	GRC
3.0% - L.B Foster Co.	FSTR
2.2% - Flower Foods, Inc	FLO
2.2% - Sturm Ruger & Co.	RGR

Total Number of Holdings: 68
1 year turnover: 35%
Median Market-Cap: \$437 million
Weighted Market-Cap: \$650 million

Contact Information

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• **Visibility and Transparency** - Companies in a single core business line are easier to analyze and value compared to multi-national conglomerates operating in multiple foreign markets with multiple business lines. This results in more confident valuations of a company's true intrinsic value.

Recent events have made the asset class even more compelling:

• **Powerful Performers Coming Out of Recessions** - 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%. We believe our understanding of the micro-cap universe and our ability to pursue smaller names should benefit us greatly as the economy recovers.

• **Trends Point to a Bull Market** - Smaller companies follow a secular 3-8 bull/bear cycle where the bull cycle averages 68 months (38-116 months) and exhibits superior compound relative and absolute total returns. (1925-2008 T. Rowe Price Associates).

• **Potential M&A Activity** - The size and scope of our core businesses combined with inefficient valuations make smaller companies natural targets for merger & acquisition and divestiture transactions.

• **Flexible First Movers** - The natural "survival and sense of urgency" cultures prevailing in small/micro capitalization companies are a catalyst for them to operate in a cost sensitive, fluid environment that is adaptive to change. Small company business models assume or adopt risk exposure (growth) while large corporate "monoliths" manage and hedge in an attempt to diminish risk.

• **Emerging America** - Small/Micro-cap companies provide equity exposure to niche size, high internal organic growth rate, "job creation" companies of the future while avoiding many of the risks inherent in emerging markets.

Morgan Dempsey's unique approach:

• **Safety Without Sacrifice** - Morgan Dempsey was recently named the top small-cap "Bull & Bear Master" by Informa Investment Solutions (PSN) for their ability to outperform in both up and down markets. The strategy posted positive double-digit returns each of the five years prior to last year and protected investor capital during a trying 2008. (A -13.98%

return vs. a -28.93% return for the Russell 2000 Value Index.)

• **The Importance of Aligned Interests** - A focus on companies where management's interests are closely aligned with those of passive shareholders. Approximately 60% - 70% of the assets in our strategy are made up of firms where founder/owner/operators maintain >10% after cash equity. Nearly all the problems of our recent financial crisis can be attributed to situations where risk/reward incentives were misaligned.

• **Fortress Balance Sheets** - A portfolio-wide focus on companies that have a self-funding philosophy and little debt. In times of economic expansion when inflation accelerates and interest costs trend higher, these companies will have opportunities to leverage profitability and achieve significant growth of market share.

• **The Right Kind of Debt** - Debt financing is limited to "middle market C&I commercial banks" without access in general to more liberal covenant bond market syndicates.

• **Superior Company Cultures** - Compensation structures of senior management are generally transparent with lower range "CEO to janitor" pay spreads as low as 7:1. Furthermore, culture and corporate paternalism favor ESOP plans, defined benefit pension plans and low levels of co-pays for deductibles, premiums and caps. Employee and labor relations, morale, retention and loyalty all score high marks with these entrepreneurial business franchises which survive on innovation not bureaucracy. Our holdings have often been the focus of lists comprising "America's greatest companies to work for."

We believe investors should have a long-term allocation to small/micro-cap stocks and history indicates there is no time like the present to take advantage of this opportunity. Thank you for your consideration.

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.

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	19.73	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
YTD '09	10	4,849,240	154,599,617	0.48	3.17	2.65	-5.17

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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.