

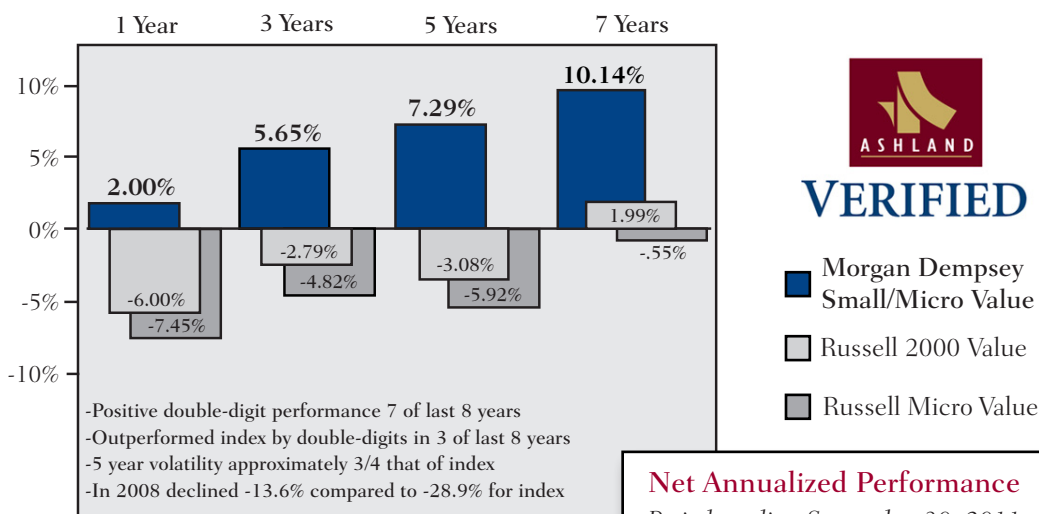
## Morgan Dempsey Small/Micro-Cap Value

### Why Founder/Owner/Operator

We often field questions during presentations about what distinguishes our brand of Graham & Dodd deep-value research from other value managers. First, we focus on the more obscure and inefficient area of Small and Micro Capitalization stocks where many of our companies have no analyst coverage, and where we believe we can develop a significant information advantage. Second, we require companies with strong competitive characteristics and equally strong “fortress balance sheets” with little to no debt and strong free cash flows. Third, we require these companies to be selling at a discount to our conservative intrinsic value estimates. Finally, one of the more important qualities of this in-depth process is our preference for companies with a unique ownership culture that we refer to as Founder/Owner/Operator. Binding the “fortress balance sheets” with the culture of a Founder/Owner/Operator led company, then holding the stock for an average of 6-7 years, and in some cases well over 10 years, is what makes our strategy unique. Below, we discuss some of the cost/benefits of the Founder/Owner/Operator culture:

1. Typically, the origin or legacy of the business was secured by an earlier generation of the family or insider group which yields a discipline to honor past work and sacrifice with prudent financial management. Moreover, a history of challenge and achievement breeds the expectations and ethos of the successor generation.
2. Founder/Owner/Operator companies are ideally managed not for the expectations of Wall Street and the next quarters’ earnings, but for the long term survival and growth of the firm. Many of the firms are managed by a family who view the company legacy as a Trust to be nurtured, grown, and passed from one generation to the next.
3. As such, the financial goals are focused on long-term future shareholder compound growth. This often results in an alignment of goals among the founder/owners, the senior executives, the labor force, and the institutional shareholders. We screen for companies where at least a 10% equity in after tax/open market (ATOM) purchases, not just options and SAR rights, have been accumulated by a Founder/Owner/Operator. Often times, labor is a material owner and equity stakeholder, helping to align their goals and achievement with senior management.

*continued*



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

### Contact Information

Morgan Dempsey Capital Management, LLC  
 309 N. Water Street  
 Milwaukee, WI 53202  
[www.MorganDempsey.com](http://www.MorganDempsey.com)

David Durham

Phone: (414) 319-1080

E-mail: [DDurham@MorganDempsey.com](mailto:DDurham@MorganDempsey.com)

4. The financial culture therefore fosters a strong aversion to debt, and a building up of excess free cash flow, and in some cases, self-funding balance sheets. This adds a layer of stability or a margin of safety that must not be underestimated, especially in times of trepidation where credit standards are severe. Our companies have ample free cash flow to operate and grow their businesses without debt. The Founder/Owner/Operator culture fosters, nurtures, incubates, and defends the solvency of the business as a going concern and tends to ensure survival.
5. Many of our companies are niche size operations that act as “flexible first movers” with a natural “survival and sense of urgency” culture. Trepidation is the mother of innovation which acts as a catalyst to enforce a cost sensitive, fluid and flexible culture and an adaptive to change attitude. Sheer size and scale often breed complacent mediocrity rather than an intense passion to achieve. Problems or challenges are viewed from the lens or frame of reference of a pre-emptive or at least pro-active aptitude in the business model versus a reactive approach which too often includes litigation, labor strikes, and government audits.
6. Further reinforcing the loyalty of the work force is a relatively flat and transparent salary/wage compensation of 7-15:1 between the CEO and janitor vs. 400-800:1 levels found in some Fortune 500 companies.
7. We often find in our companies a corporate paternalism that favors ESOP stock plans, Defined Benefit Pension plans as well as insurance with low levels of co-pays, low deductibles, and low premiums. Some of our companies offer assistance with their employees’ children college tuition, first time home buyers mortgages, counseling services, and fitness programs. These benefits lead to low employee turnover, skills retention, low absenteeism, and cements multi-generational employee family loyalty.
8. The visibility and transparency of GAAP accounting, fiscal austerity and conservative interpretation of the accounting principles generally flow from a paternalistic ownership which respects the law, employee relations, a community tax base, and the local environment where they live and raise their families. Rarely do we witness a paternalistic Founder/Owner/Operator who behaves in an antagonistic, abrasive or deceptive manner.

The culture of Founder/Owner/Operator is the qualitative cement which bonds the organization of our companies together. We require a qualitative superiority, not just superior financial metrics. Wall Street sell-side brokerage research focuses on merger and acquisitions deals and headcount reductions. This technical, antiseptic and impersonal mantra is just rhetoric for the firing and disposal of human talent. Our companies generally invest in human talent and nurture personal growth in an entrepreneurial, honest and forward thinking organic business philosophy. The engine and drivers of economic growth in the United States are Small and Micro Capitalization size institutions which generate 80%-90% of payroll jobs in the U.S. and are the “Emerging America”. Our strategy and performance is in large part based on finding, screening, and investing in those types of companies. We view the Founder/Owner/Operator companies in our portfolio as the qualitative cement that binds our “Fortress Balance Sheet”, our long duration holding period, and other requirements and characteristics together into a cohesive investment philosophy.

**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.

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 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.

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.

Any question regarding this information should be brought to the attention of Morgan Dempsey Capital Management, LLC.



**VERIFIED**