Economic Indicators

Economic Indicators: An Update for the 7 Rivers Region reports on a long-term study of regional economic indicators. The research is ongoing and spans a period of time to enable us to understand and report trends. This project is expected to continuously build on a base of economic information and provide decision makers with valuable tools for strategic planning. The information will also provide a basis for comparison with other regions and a measure of our progress.

State Bank Financial sponsors this research project in collaboration with the University of Wisconsin-La Crosse College of Business Administration and the *La Crosse Tribune*. These programs will continuously build on a base of information and provide decision makers like you with valuable tools for strategic planning.

Specific goals of this project are:

- Support business owners in their business decisions by gathering key local economic indicators and trend information.
- Develop specific economic indicators for this region that are not readily available to decision makers.
- Develop tools to assess our progress in economic growth. Prepare baseline measures that will allow comparison with other regions and measure future progress of the region.
- Track the region's participation in the "new economy" and development in the high tech arena.
- Bring professionals together with business owners for discussion about the local economy and related critical issues.
- Create a business recruitment and retention tool by publishing the information.

Core economic indicators cover the following areas:

- Employment
- Income
- Cost of Living
- Consumer Attitude and Behavior
- Real Estate and Housing
- Interest Rates
- Equity Performance

Economic Indicators and Trends

Taggert J. Brooks, Ph.D., UW-La Crosse Department of Economics

Core economic indicators have been tracked since 2001 to have objective measures for our 7 Rivers Region economy.

Note: The number of regional indicators tracked has grown over the years and now far exceeds the space available in this publication. We are working on a solution to provide regular access to updated data on the regional economy. For the moment, you can find a complete PDF of all data we track here: http://www.uwlax.edu/faculty/brooks/may2013indicators.pdf

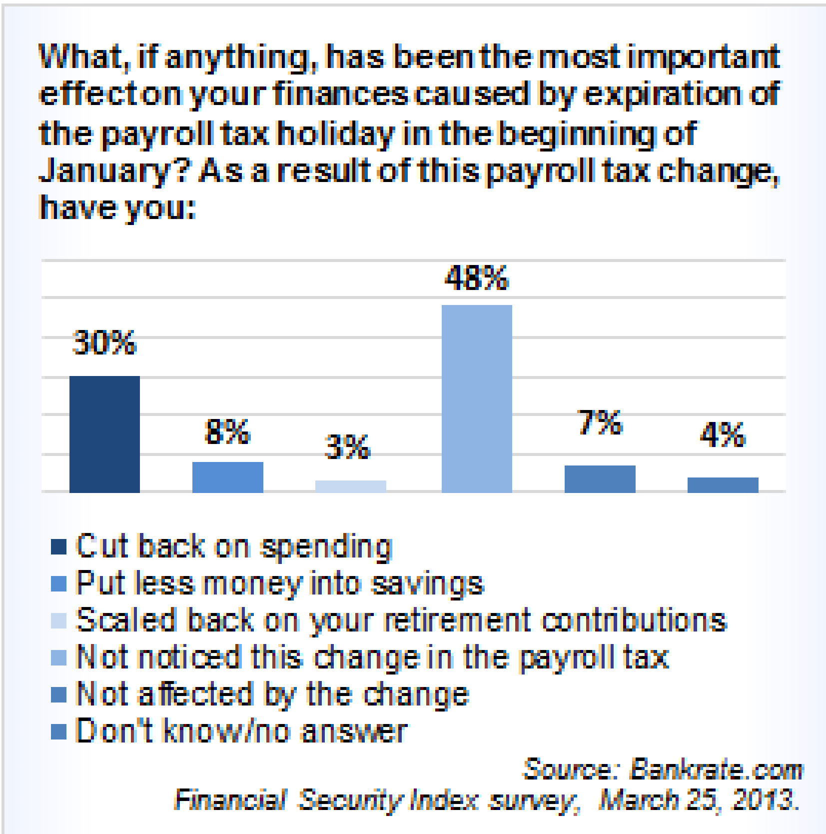
The special topic for this breakfast is "Leveraging regional resources to enhance economic competitiveness and workforce attraction."

May 2013 "The Sequester"

National and regional economic growth faces substantial headwinds in the coming months. The latest source of these winds has come to be known colloquially as "the sequester." However, the headwinds began back in January, when some of the Bush era tax cuts were allowed to expire along with the expiration of other temporary tax cuts. The top income tax rate on income increased from 35% to 39.6%, while the tax rate on long-term capital gains increased to 20% from 15. Since January, dividends are now treated the same as other ordinary income and taxed at a maximum income tax rate of 39.6%, rather than the 15% they had been. While most of these changes bind on higher income individuals, there were other changes that affected the lower end of the income distribution as well. The Social Security portion of the payroll tax increased from 4.2 to 6.2%, close to a 50% increase. Given that many lower income individuals often pay only payroll taxes and not income taxes this represents a sizeable change in their tax burden.

We can take a little comfort in the fact that apparently many people didn't notice. At least according to this survey from Bankrate.com, which appears to show over half of the respondents did not notice a change in the payroll tax.[1]

[1] "March 2013 Financial Security Index charts," Bankrate.com, http://www.bankrate.com/finance/consumer-index/financial-security-charts-0313.aspx



To the degree that people failed to notice the tax hike, they likely failed to change their consumption behavior. Eventually the reality of less money in their paychecks will lead to lower consumption. So while there is some good news in the tepid immediate effects, caution should be exercised as the effects settle in. The end of the payroll tax holiday was only part of the fiscal cliff. The other part is the sequestration I alluded to earlier.

Treasury Secretary Jack Lew testifying in front of the House Ways and Means committee said this:[2]

> *I think that the sequester is very bad policy. It was designed to be bad policy to motivate both sides to come up with a more sensible plan to achieve deficit reduction. I think one thing we can be sure of. When you go out of your way to design bad policy, you get bad policy.*

Bob Woodward agreed that sequestration wasn't intended to actually happen.[3]

> *No one thought it would happen. The idea was to design something … that was so onerous that no one would ever let it happen. Of course, it did, because they couldn't reach*

[2] "The Sequester is Very Bad Policy: Lew," *BloombergBusinessweek,* http://www.businessweek.com/videos/2013-04-12/the-sequester-is-very-bad-policy-lew

[3] Leigh Munsil, "Bob Woodward: Obama 'mistaken' on sequester," *Politico,* October 24, 2012, http://www.politico.com/news/stories/1012/82772.html

> *agreement," he said. "They all believed that the supercommittee was going to come up with a $1.2 trillion deficit-reduction plan, so there would be no sequestration. Of course, the supercommittee failed and so the trigger went off, which has all of these very Draconian cuts."*

So if the sequestration is such bad policy, then where are its negative effects? Turning back to Treasury Secretary Jack Lew:

> *Nobody thinks the sequester was the right solution; it was designed to be something that everyone would hate. Give it some time.*[4]

"Give it some time." I firmly believe our economy is dynamic enough to eventually respond positively, even in the face of extraordinarily bad policy. The problem is it takes time, and the short run growth prospects are negatively affected by bad policy – even if the long run prospects are generally unaffected. The interesting aspect to the current situation is that it will take time for people to realize how bad the policy is, and hopefully in that time policy makers will address the problems. If not we can expect this "bad policy" to drag more heavily on our growth prospects.

The Congressional Budget Office (CBO) provides us some forecasts of what the fiscal restraint from the tax hikes and sequestration brings us. According to them:

> *In the absence of those policies, real GDP would grow about 1¼ percentage points faster between the fourth quarter of last year and the fourth quarter of this year.*[5]

There are some bright spots to the fiscal cliff and sequestration. Higher taxes and less spending means they have reduced the deficit. According to the CBO the deficit is projected to be just 5.3% of GDP this year compared to 7.0% last year. This makes it the third year in a row the deficit has fallen. However, the debt as a share of GDP will be the highest it's been since the 50's at approximately 73% of GDP.[6]

The regional effects are a little harder to identify. The White House issued a statement of the likely consequences to federal spending in the state of Wisconsin.[7] The areas and expenditures can be found in the article excerpted below.

> ***Military:*** *$12.4 million in pay to civilian military employees through unpaid furloughs and Army base funding cuts of about $1 million.*

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[4] Jacob Wolinsky, "Jack Lew: Sequesters Costs 750,000 Jobs," *Zimbio,* March 14, 2013, http://www.zimbio.com/Jack+Lew/articles/ZfPBrbZn989/Jack+Lew+Sequesters+Costs+750+000+Jobs

[5] Wendy Edelberg, "Automatic Reductions in Government Spending – aka Sequestration," *Congressional Budget Office,* February 28, 2013, http://www.cbo.gov/publication/43961

[6] "The Budget and Economic Outlook: Fiscal Years 2013 to 2023," *Congressional Budget Office,* February 5, 2013, http://www.cbo.gov/publication/43907

[7] Steve Schultze, "White House outlines sequester effects on Wisconsin," *JSOnline,* February 24, 2013, http://www.jsonline.com/news/statepolitics/white-house-outlines-sequester-effects-on-wisconsin-0g8tfo0-192910881.html

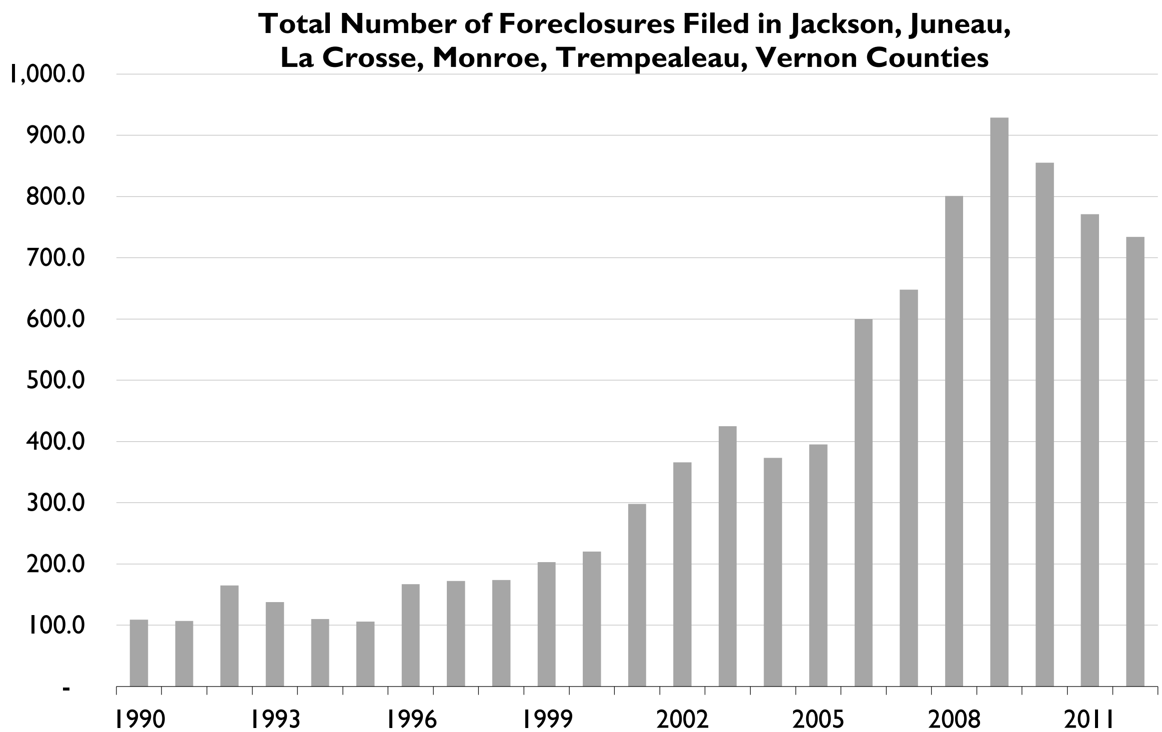
> ***Public health:*** *$1.4 million for substance abuse grants, cutting service to about 2,600 people; $543,000 in cuts for preparedness for public health threats; and $173,000 cut from immunization programs for children.*
>
> ***Environment:*** *$3.9 million in aid for antipollution programs. The state might lose $1.5 million more in state grants for fish and wildlife protection.*
>
> ***Seniors:*** *$653,000 from senior meal programs.*
>
> *The White House report also warned of major delays at airports due to furloughs to security screeners, layoffs of large numbers of air traffic controllers, closures of national parks, reductions of 9.4% in unemployment benefits and cuts in aid for the homeless and those with serious mental illness.*

These negative effects on federal spending may be reinforced if the proposed tax cut by Governor Walker is matched with further spending cuts.[8] This is not to weigh in the side of spending cuts versus tax increases, but rather to note that what is important for the short run performance of an economy is predictability and the absence of change. People eventually adapt to large changes - whether they are large increases or decreases in taxes. But the transition between states is what wreaks havoc with labor markets in particular.

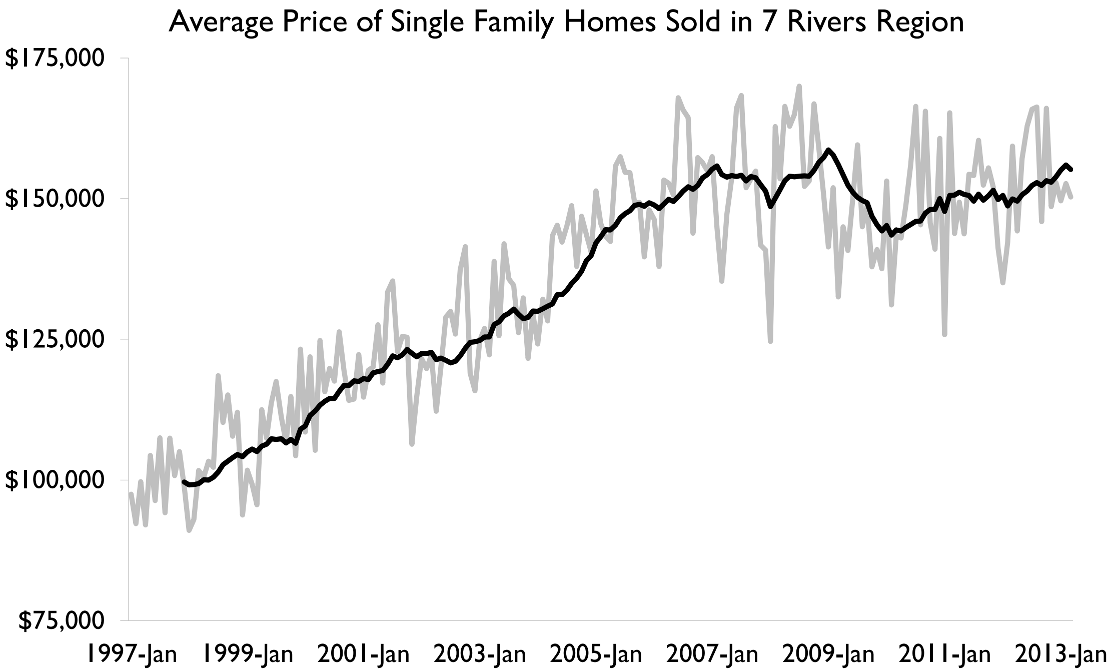
Return of the Housing Market

Meanwhile, despite the fiscal headwinds there are some signs the housing market has begun its return. Foreclosures for the region were down for the third straight year. This is important progress for the local housing market. The excess stock of foreclosed properties increases the supply, putting downward pressure on prices, reducing household wealth and putting a damper on local consumption. Given the size of our housing stock, we need to see the annual rate of foreclosures fall below 600 foreclosures before we see the pressure on the housing stock abate.

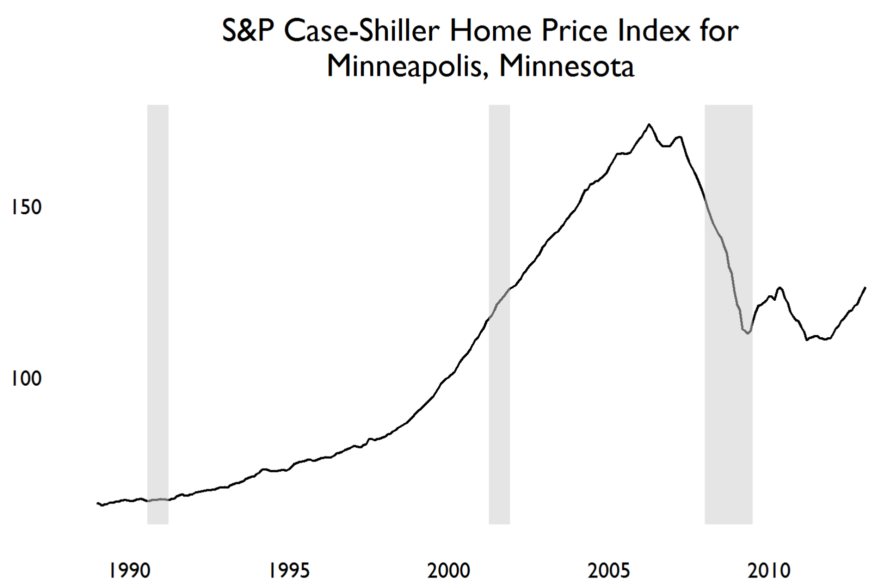
[8] Chris Hubbuch, "Walker tax cut chart," *LaCrosseTribune.com,* February 26, 2013, http://lacrossetribune.com/walker-tax-cut-chart/html_9d640162-8072-11e2-bc3b-0019bb2963f4.html



As the foreclosure pace has slowed we have seen a return of housing prices, albeit at a slower pace of appreciation than in the past. The average price of an existing single family home in the 7 Rivers Region has not fully returned to the level it was at back in January of 2009, though at the current pace of appreciation it should be there within the year.



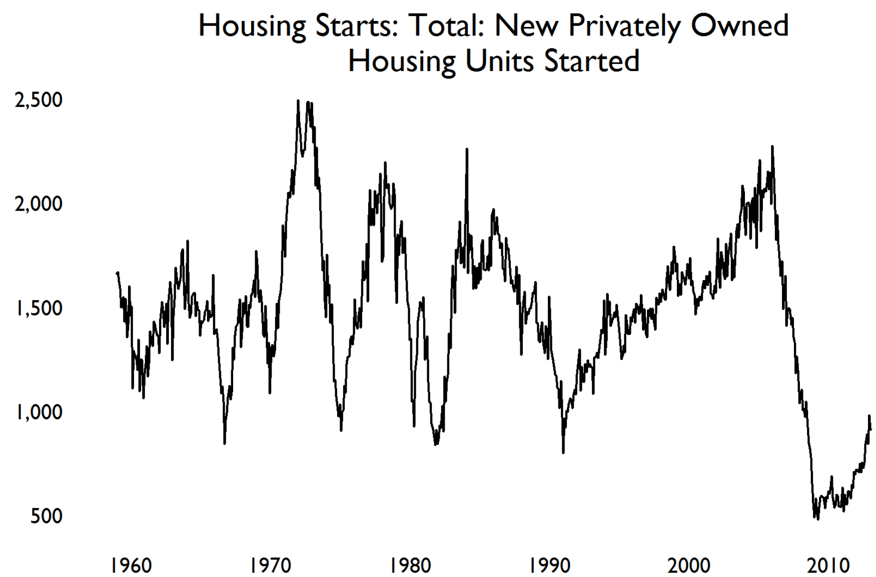
The 7 Rivers Region is not the only region to experience an uptick in existing home prices. We can see from the S&P Case-Shiller Home Price index for Minneapolis (below) that their rebound is also underway. It's worthwhile noting that while it is underway – it is a long way from their previous high in 2006.



While existing home prices have been recovering so has the construction industry. According to a recent Wall Street Journal[9] article:

> *New-home sales jumped 28.9% in January from a year earlier to the highest annual sales pace in four years, according to data released Tuesday by the Commerce Department. Sales of previously owned homes rose 9.1%. The disparate selling pace exists even though a typical new home costs 37% more than one already built, the widest price gap since the figures started being tracked in 1968, according to an analysis of home prices by Barclays Capital.*

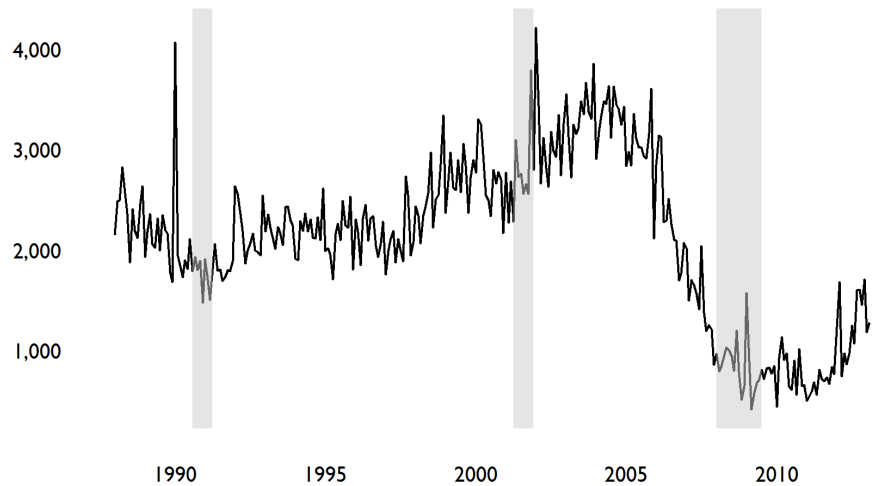
Below you will find the data for new housing starts for the US. While they are nowhere near the peak in 2006, they have begun to recover, despite the price spread with existing homes.



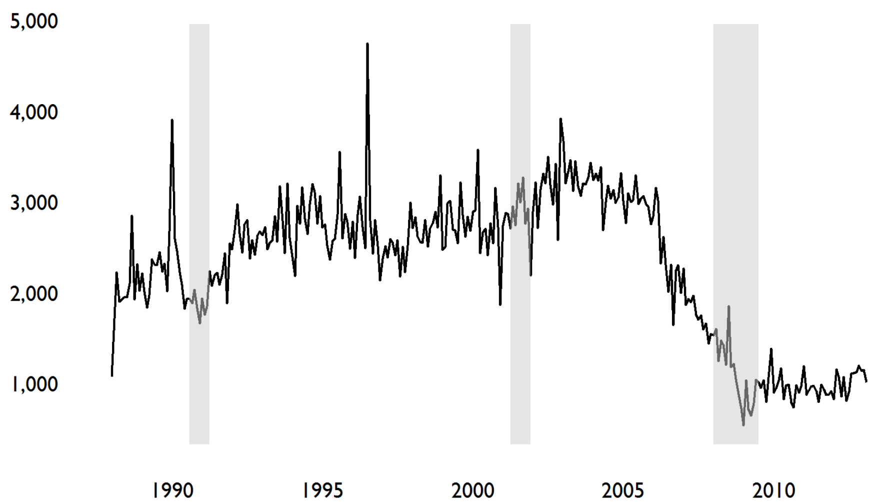
Turning to our broader region and looking earlier in the construction process to the permit phase. We have the number of housing units authorized by permits in each state, Minnesota, Wisconsin, and the data appendix includes Iowa. We see Minnesota appears to be recovering stronger than Wisconsin. This matches what we have seen with each states labor market as Wisconsin has lagged Minnesota in job creation as well.

[9] "Builders Fuel Home Sale Rise," *The Wall Street Journal,* February 26, 2013, http://online.wsj.com/article/SB10001424127887324338604578327982067761860.html#printMode

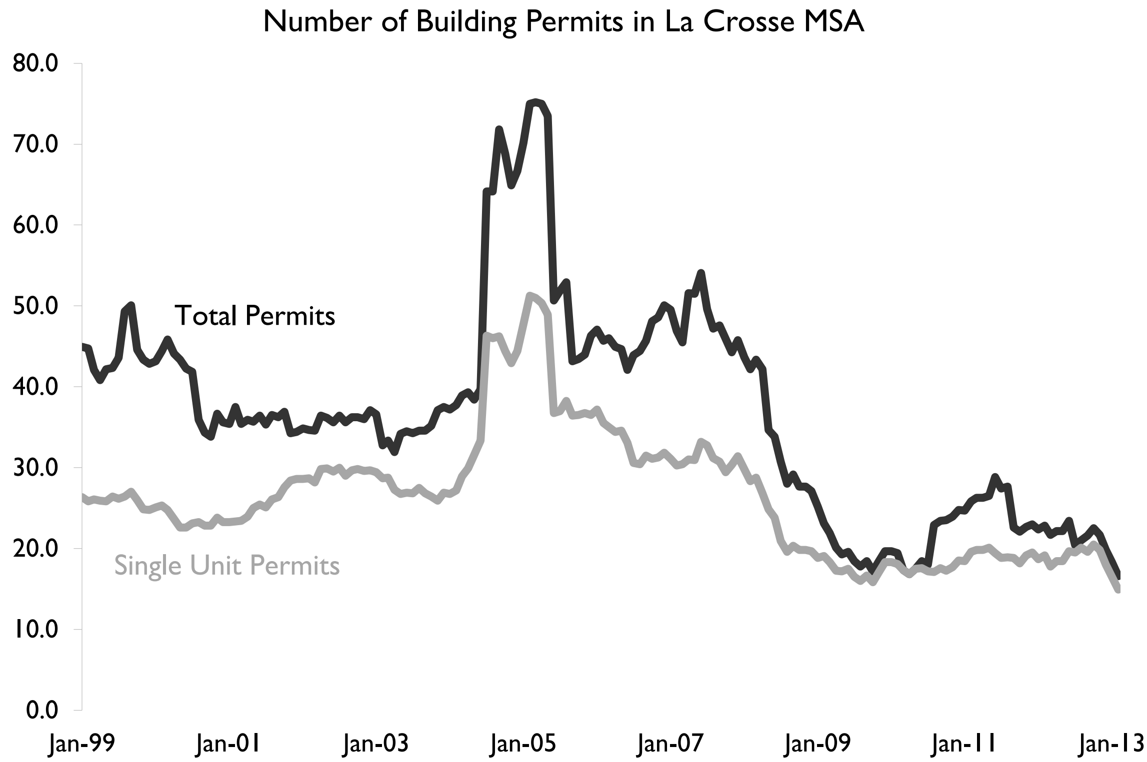
New Private Housing Units Authorized By Building Permit for Minnesota



New Private Housing Units Authorized By Building Permit for Wisconsin

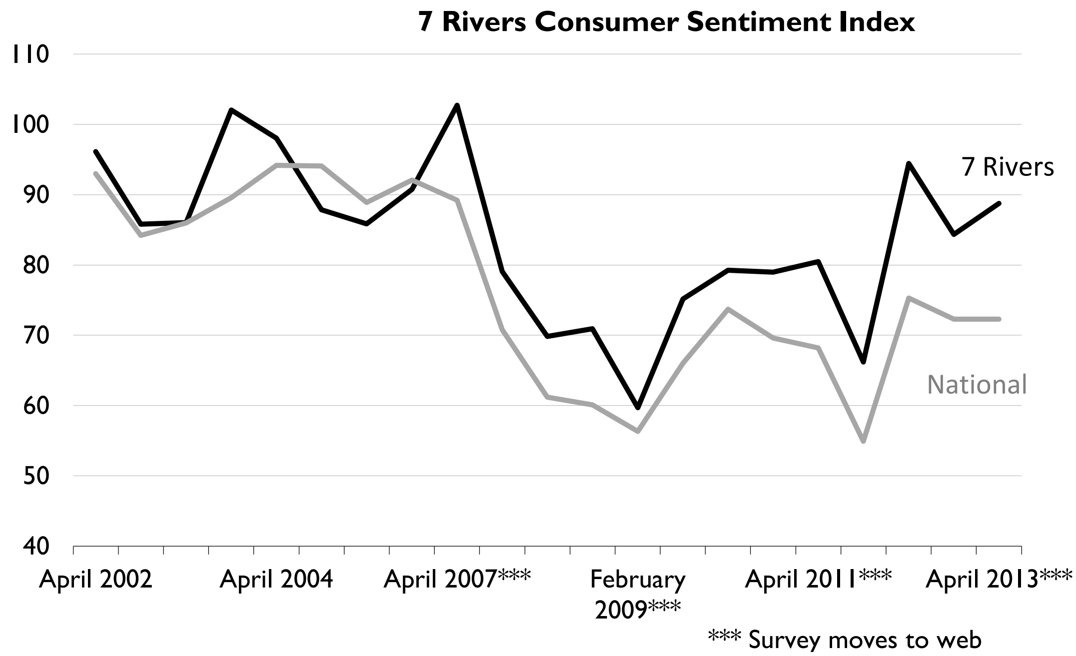


Turning to the local data on building permits, the La Crosse Metropolitan Statistical Area (MSA), which includes all of La Crosse and Houston Counties, also appears to be rather tepid.


Number of Building Permits in La Crosse MSA
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
Jan-99
Jan-01
Jan-03
Jan-05
Jan-07
Jan-09
Jan-11
Jan-13
Total Permits
Single Unit Permits

Regional Consumer Sentiment

In early April I distributed via email the semi-annual consumer sentiment survey to 1397 past participants in programs related to the 7 Rivers Region. I received 283 responses for an overall response rate of 20.3%. A table with all the data since the inception of the regional survey is available in the appendix. We see from February of 2009 to April 2013 the regional overall consumer sentiment index has generally risen, but always remained above the national index. The Current Conditions and the Expectations sub index have both trended upward over the last few surveys.



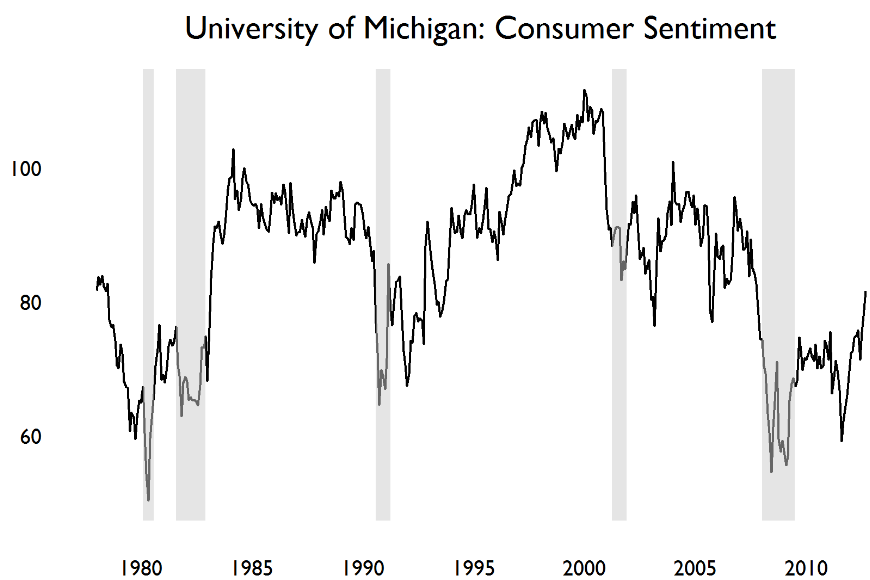
Doing the regional survey intermittently means we miss the month to month volatility that can be seen in the longer range and more frequently collected data in the national index provided in the next graph. The advantage is that we might not be too taken in with a turn in the data, but the disadvantage is that we have a harder time discerning trends. A recent article on Bloomberg.com discusses the national index in the context of recent months – which saw higher levels of consumer sentiment. This recent national result – while identical to August 2012 national figure – was below the level of more recent months. Bloomberg.com highlights a prediction for retail spending from that recent trend.[10]

> *The Thomson Reuters/University of Michigan preliminary index of consumer sentiment declined to 72.3 in April from 78.6 a month earlier. This month's reading was lower than all 69*

[10] Jeanna Smialek, "Consumer Sentiment in U.S. Declines to a Nine-Month Low," *Bloomberg.com,* April 12, 2013, http://www.bloomberg.com/news/2013-04-12/michigan-consumer-sentiment-declined-in-april-to-nine-month-low.html

estimates in a Bloomberg survey that called for no change from the March number. Consumers' assessments of their financial situation deteriorated.

The figures are a sign Americans may be feeling the lagged effects of a higher payroll tax and they follow a report today that showed March retail sales fell by the most in nine months. At the same time, stock prices close to all-time highs and rising property values are helping to improve household finances, which may keep spending from faltering.

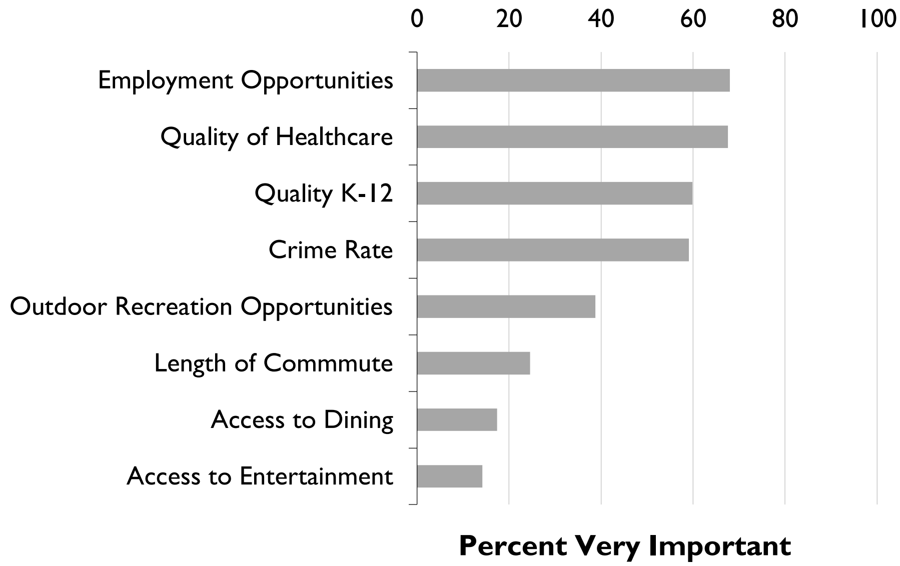


Quality of place

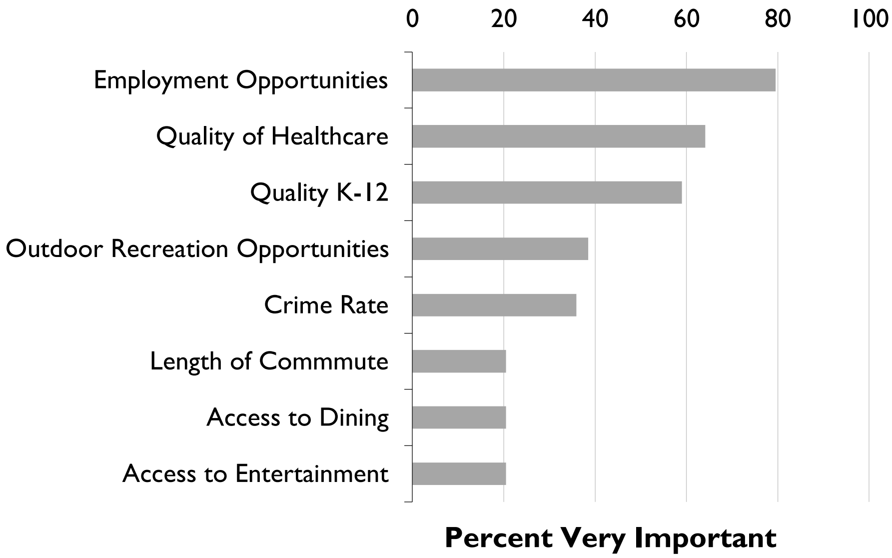
The focus on the spring meeting is "leveraging regional resources to enhance economic competitiveness and workforce attraction." To that end as part of the consumer sentiment survey we also asked respondents:

For the following list of items please select whether the item is very important, somewhat important, not very important or not at all important a factor in your decision to continue to live in the seven rivers region.

Their responses are provided in the next few graphs. The bars represent the percentage of the 252 respondents who felt that the item was very important to their decision to live in the 7 Rivers Region. Percentages based on the 252 who responded to this section and their average number of years they have lived in La Crosse is equal to 30. Employment and quality of health care were the highest two factors in terms of percentage of respondents who felt they were very important.



Of course these are people who have lived here a long time, people that are familiar with the strengths of the region. What would attract newcomers? In order to try and get a glimpse of what might interest more recent migrants to the area, we reduce the sample of the respondents to those who have lived here ten years or less. That leaves us with just 39 respondents. We should be careful in making too much of what the answers from these respondents mean. While looking at people here less than 10 years means we might be looking at new arrivals and what attracted them to the area, it could also just mean we are capturing an age effect. Maybe residents who lived here all their life would have answered the same as these respondents when they were younger. With that word of caution their responses to the same questions are below. Notice that the order of categories stays almost the same – save the importance of outdoor activities. The relative importance of outdoor recreation opportunities and the importance of the crime rate flip positions, with the relatively new residents reporting that outdoor recreation opportunities are more important than the crime rate. The change is largely due to the decreased importance of the crime rate.



This finding could be due to several causes, but is likely due to the fact that the crime rate is lower in La Crosse than many other regions, and for the recent arrivals crime might not be as salient a problem for them here. For those folks who have lived in the region all their life, the recent rise in violent crime as documented in the *La Crosse Tribune* may have led to the difference in relative importance.[11]

I think it is important to understand why the answer of "employment opportunities" is rated as the most important. One of the reasons larger cities are often so attractive is because their labor markets are "thick." That is to say there are – at any given time – lots of openings in lots of different areas. The likelihood of finding a match between your job skills and available jobs is much higher in a larger city.

Basically large cities – and here we are talking in terms of population – mean a larger market for your labor. A recent Monday profile in the *La Crosse Tribune* drives this point home. The article was about a local artist who was moving to Chicago.[12]

> *"I wish I could afford to keep an apartment in La Crosse as an escape," said Duckett after a recent arts board meeting, because La Crosse is really where he wants to be. But he knows he needs to step up his game and the move to Chicago will likely do that.*

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[11] Chris Hubbuch and Anne Jungen, "Crime wave? Despite high-profile killings, alcohol and domestic violence fuel rising crime rates," *LaCrosseTribune.com,* December 24, 2012, http://lacrossetribune.com/news/local/crime-wave-despite-high-profile-killings-alcohol-and-domestic-violence/article_54be9ec4-4add-11e2-891e-001a4bcf887a.html

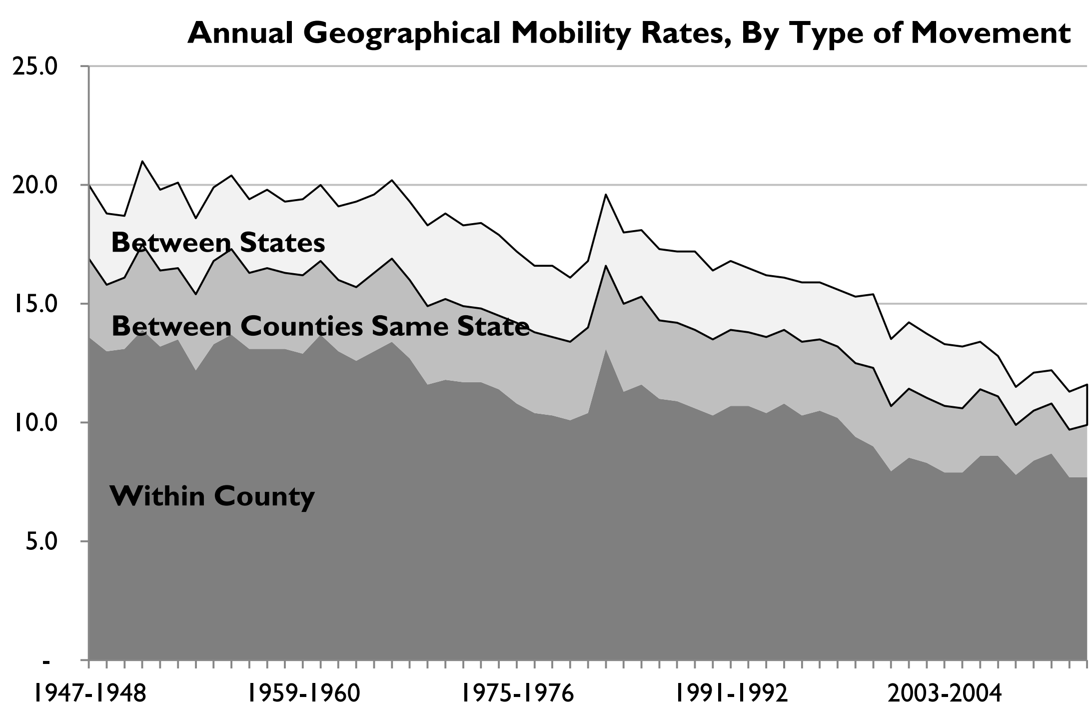
[12] Geri Parlin, "Monday profile: Matt Duckett's life in Chicago won't stop his interest in La Crosse art scene," *LaCrosseTribune.com,* April 8, 2013, http://lacrossetribune.com/news/local/monday-profile-matt-duckett-s-life-in-chicago-won-t/article_42ec899a-a000-11e2-8ab7-0019bb2963f4.html

Bigger markets often have that appeal. Stepping up his game means finding a larger market for his art, which happens to be how he sells his labor. That is no different than what a CPA, or lawyer, or any other individual does when they move to a larger city. Their move increases the potential demand for their services.

What do we know about migration in the US? We have a wealth of data and here are some stylized facts:

1. The US has experienced a large decrease in annual migration rates (percentage of people who move from one residence to another in a given year).
2. US citizens migrate far more frequently than Europeans or citizens of other developed countries.
3. Most US migration is within a county.
4. The next most common type of migration is within state, but between counties.
5. The least common type of migration is between states.

Below you will find a graph of the annual migration rate going back to 1947.[13] The migration rate is the percentage of people who are not in the same residence they were in the year before. Using data from the Census Current Population Survey we can see that at one point 20% of the population was in a different residence this year, than they were the previous year.



Source: U.S. Census Bureau, Current Population Survey

[13] *United States Census Bureau*, November 13, 2012, http://www.census.gov/hhes/migration/data/cps/historical.html

In 2012, the last year for which there is data, only 11.6% of the population moved residences. 7.7% of the population (or 66.4% of the movers) moved within the county. For example, if someone moved from the city of La Crosse to the town of Onalaska they would be in this category. While some areas of the country have counties which span large geographical areas, I think we can generally agree that their amenities and the demand they face in the labor market does not change substantially. Therefore we can think about most people moving within a labor market, rather than between labor markets.

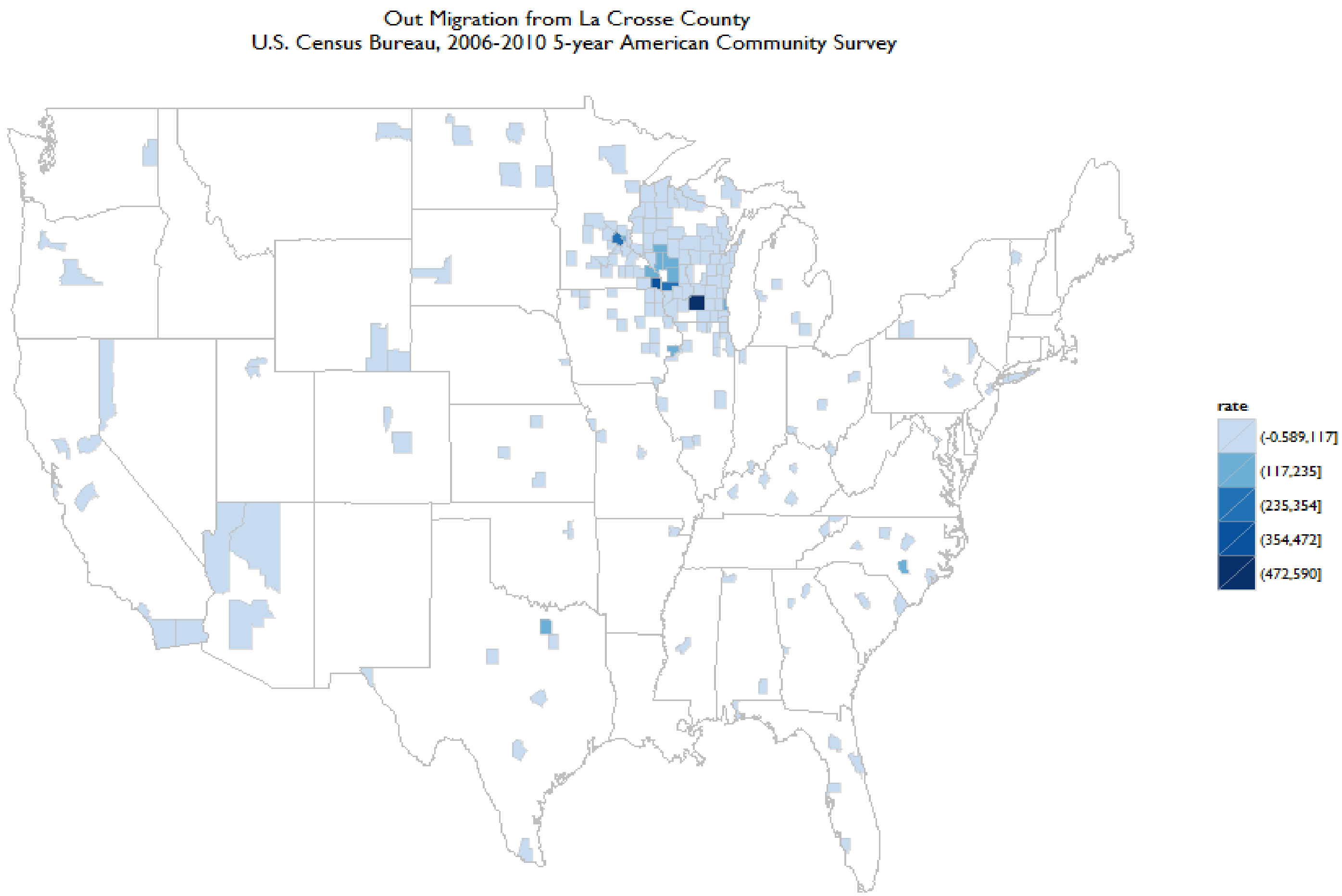
That leaves the remaining migrants as movers between counties, but within the same state, or migrating between states. The former represents 2.2% of the population in 2012, while the latter represents about 1.7%.

Turning specifically to the migration patterns of the region, I include data for in-migration and out-migration from La Crosse County.[14] The data is from U.S. Census Bureau, 2006-2010 5-year American Community Survey and available on the website linked below.[15] The counties are shaded using the number of migrants who moved to or from the county, to or from La Crosse. The darker shading represents larger flows of migrants. Generally speaking migrants come from or moved to areas near La Crosse. Interestingly even though La Crosse is a border county migration does not seem to be symmetric. There appears to be a disproportionate amount of movement to and from counties within Wisconsin. During the breakfast meeting we will discuss reasons for migration and the role for local economic development in that process.

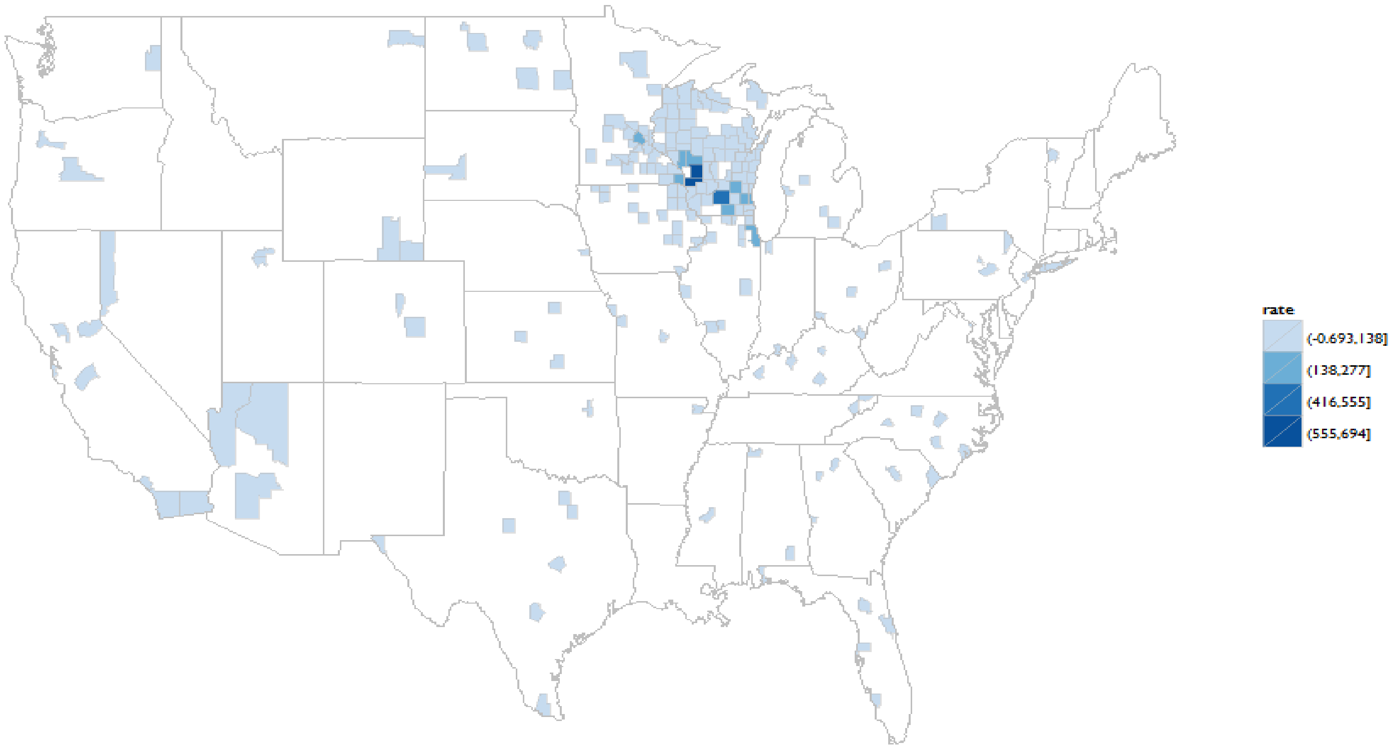
[14] There are several good migration data visualization websites, but this map http://www.forbes.com/special-report/2011/migration.html visualizes migration data that the IRS has collected. In order to preserve privacy, the IRS only includes moves that more than 10 tax filers have made.

[15] "Census Flow Mapper," *United States Census Bureau*, http://flowsmapper.geo.census.gov/flowsmapper/map.html

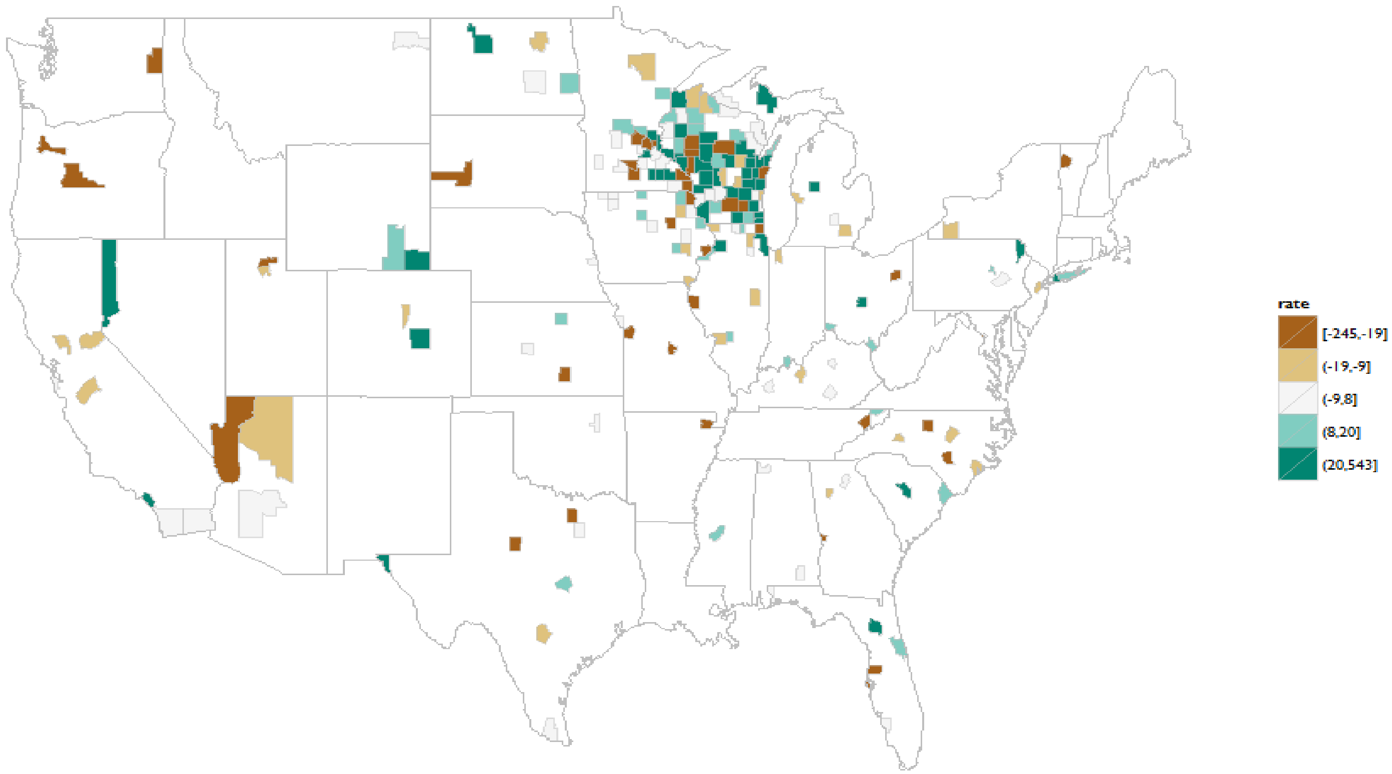
Out Migration Source: U.S. Census Bureau, 2006-2010 5-year American Community Survey



In Migration to La Crosse County
U.S. Census Bureau, 2006-2010 5-year American Community Survey



Net Migration from La Crosse County
U.S. Census Bureau, 2006-2010 5-year American Community Survey



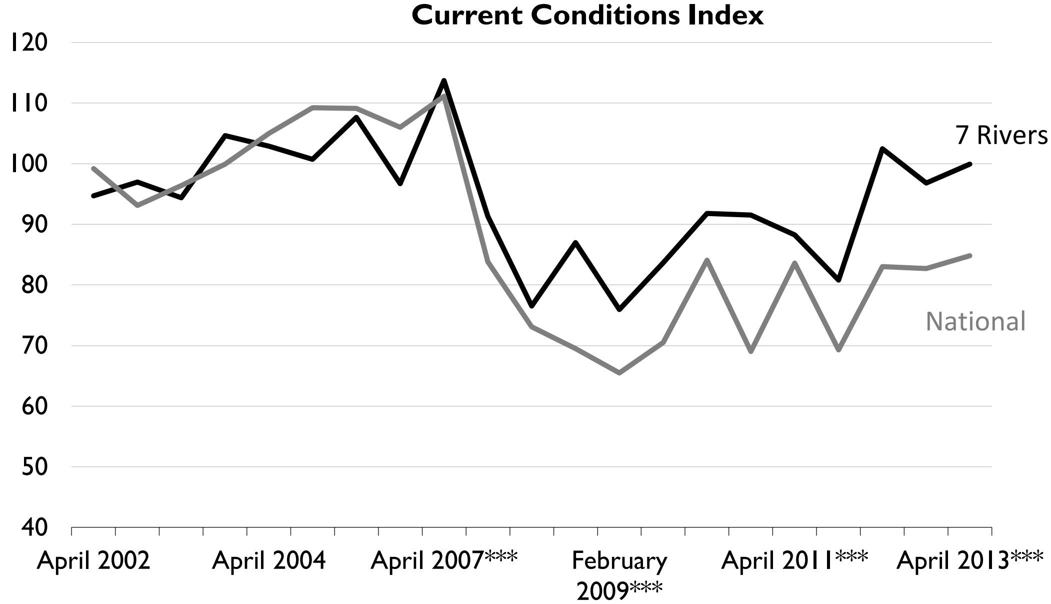
Appendix:

	Consumer Sentiment		Current Conditions		Consumer Expectations	
	7 Rivers	National	7 Rivers	National	7 Rivers	National
April 2002	96.1	93	94.7	99.2	97.1	89.1
November 2002	85.8	84.2	97.0	93.1	78.6	78.5
April 2003	86.0	86	94.4	96.4	80.6	79.3
October 2003	102.0	89.6	104.6	99.9	100.4	83.0
April 2004	98.1	94.2	102.9	105	95.0	87.3
February 2005	87.9	94.1	100.7	109.2	79.6	84.4
March 2006	85.9	88.9	107.6	109.1	71.9	76.0
November 2006	90.8	92.1	96.7	106	86.9	83.2
April 2007***	102.7	89.2	113.7	111.1	95.7	75.1
February 2008***	79.1	70.8	91.3	83.8	71.2	62.4
August 2008***	69.9	61.2	76.5	73.1	65.6	53.5
December 2008***	70.9	60.1	87.0	69.5	60.6	57.8
February 2009***	59.7	56.3	75.9	65.5	49.2	50.5
July 2009***	75.2	66	83.7	70.5	69.7	63.2
February 2010***	79.2	73.7	91.8	84.1	71.2	66.9
August 2010***	79.0	69.6	91.5	69.0	70.9	64.1
April 201***	80.5	68.2	88.2	83.6	75.5	58.3
August 2011***	66.2	54.9	80.8	69.3	56.8	45.7
February 2012***	94.4	75.3	102.4	83.0	89.3	70.3
August 2012***	84.3	72.3	96.8	82.7	76.3	65.6
April 2013***	88.8	72.3	99.9	84.8	81.6	64.2

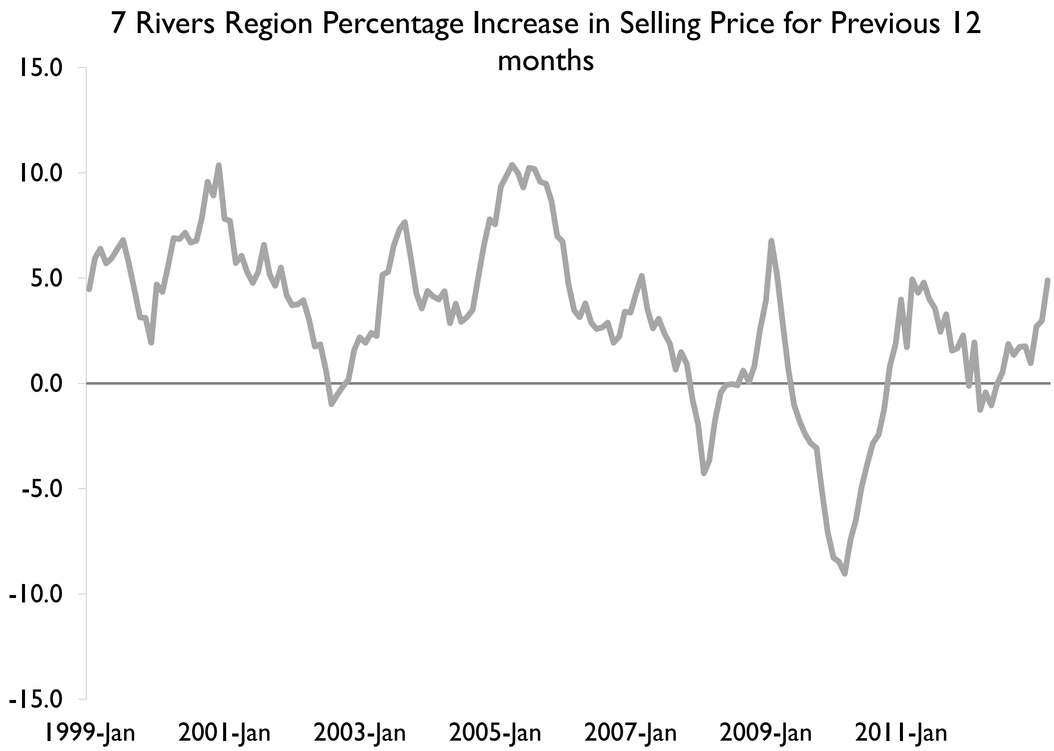
***** Survey moved to the web.**

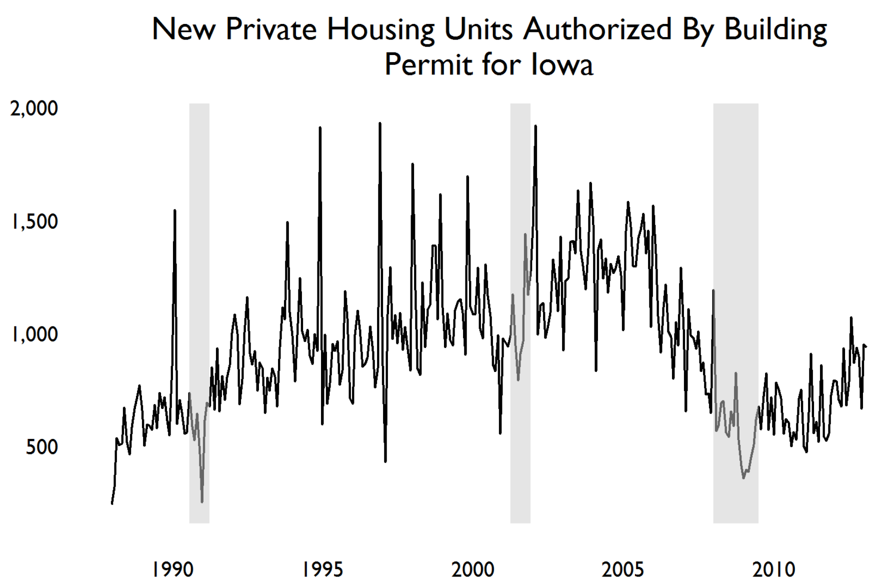
Consumer Expectations Index

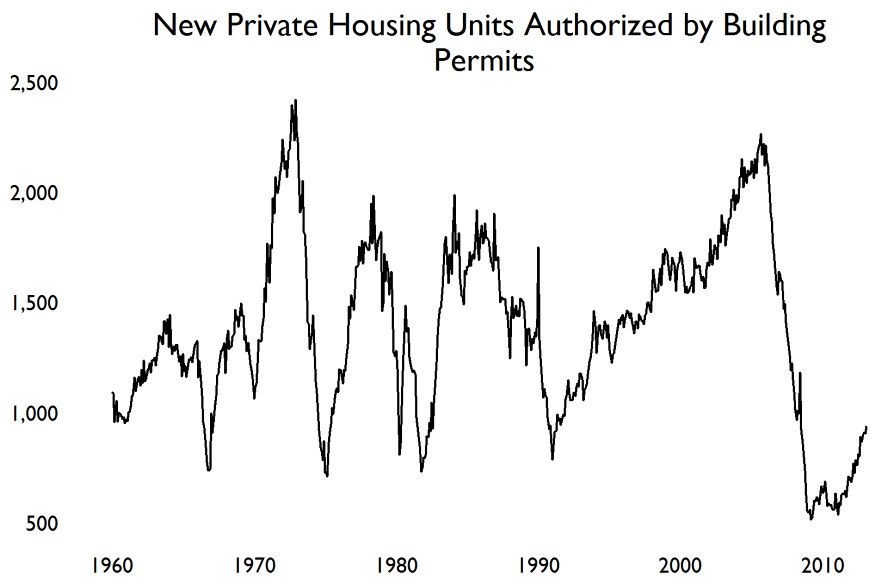
Current Conditions Index

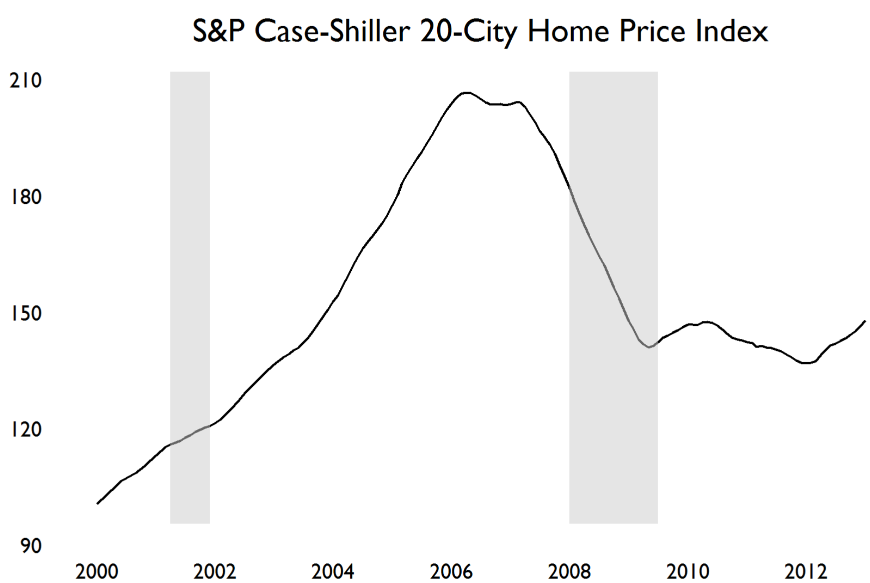


Appendix: Regional Housing Data

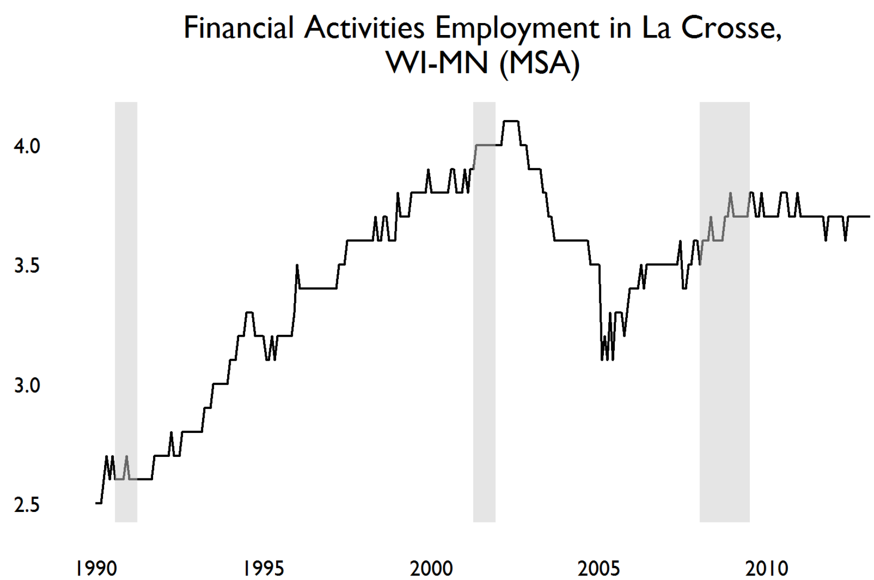


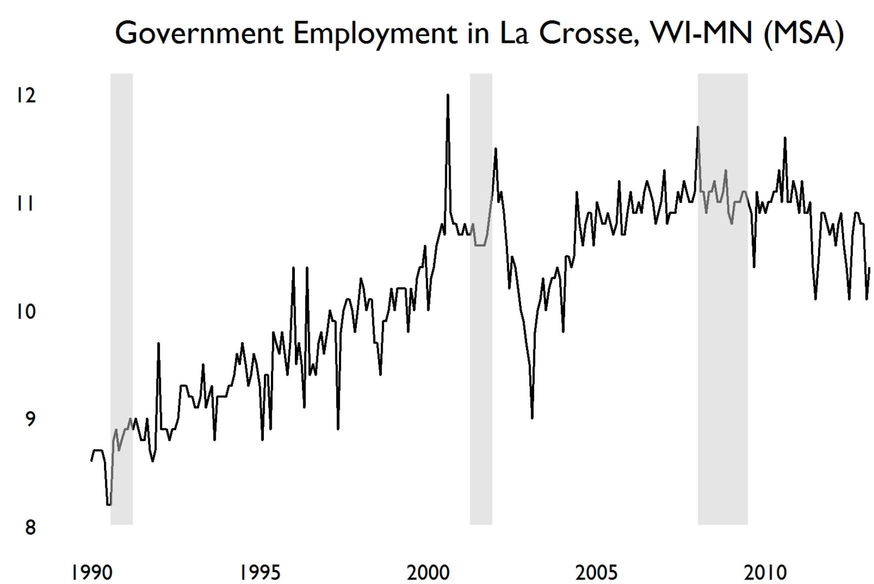



New Private Housing Units Authorized by Building Permits
2,500
2,000
1,500
1,000
500
1960
1970
1980
1990
2000
2010

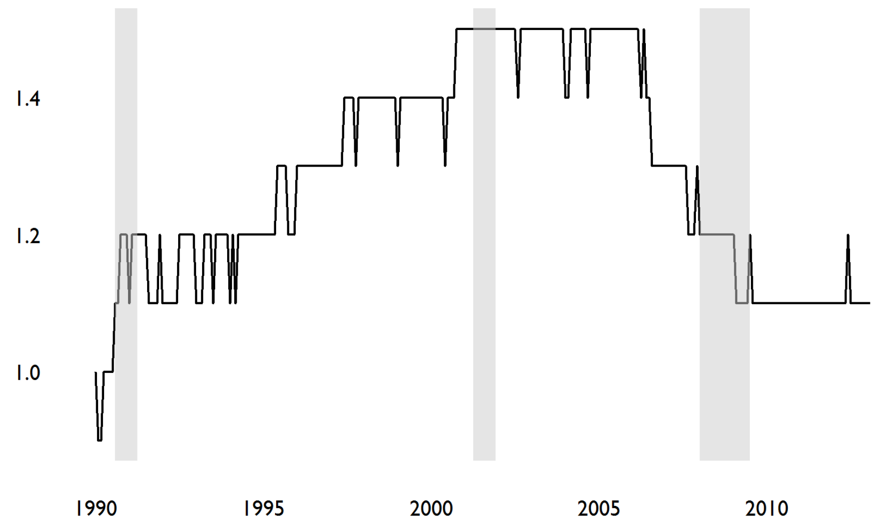

S&P Case-Shiller 20-City Home Price Index
210
180
150
120
90
2000
2002
2004
2006
2008
2010
2012

Appendix: Regional Labor Market Data

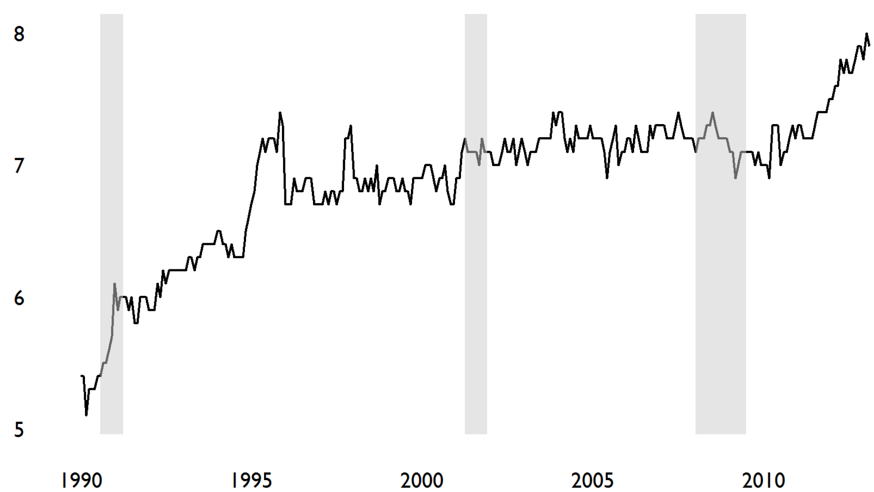


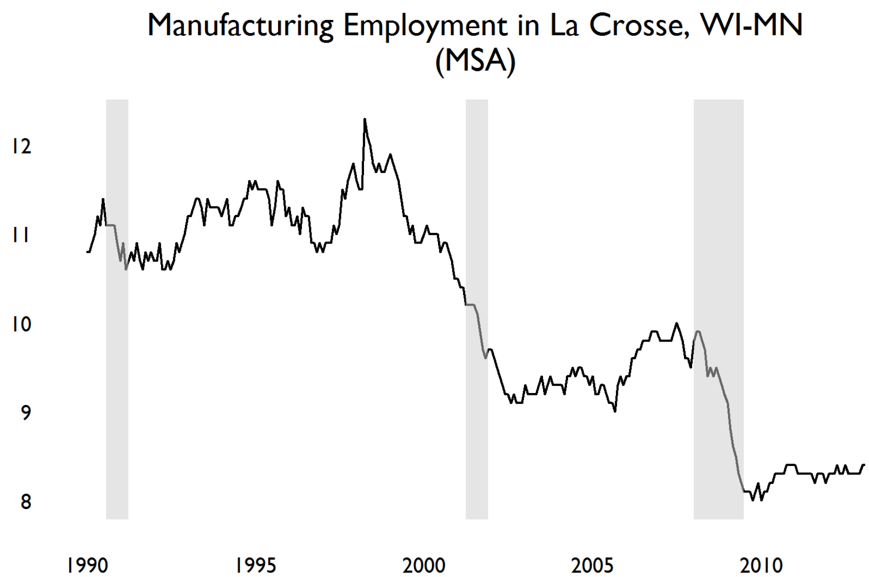


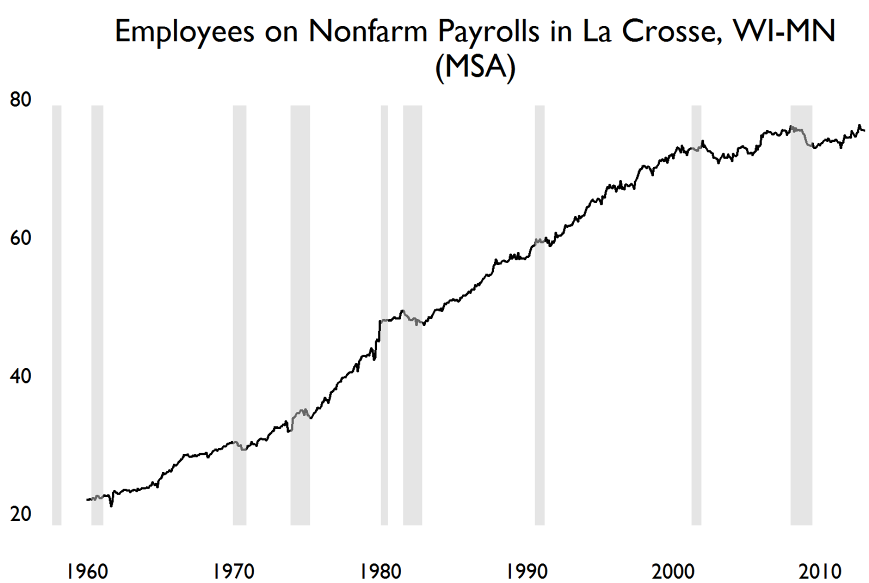
Information Employment in La Crosse, WI-MN (MSA)

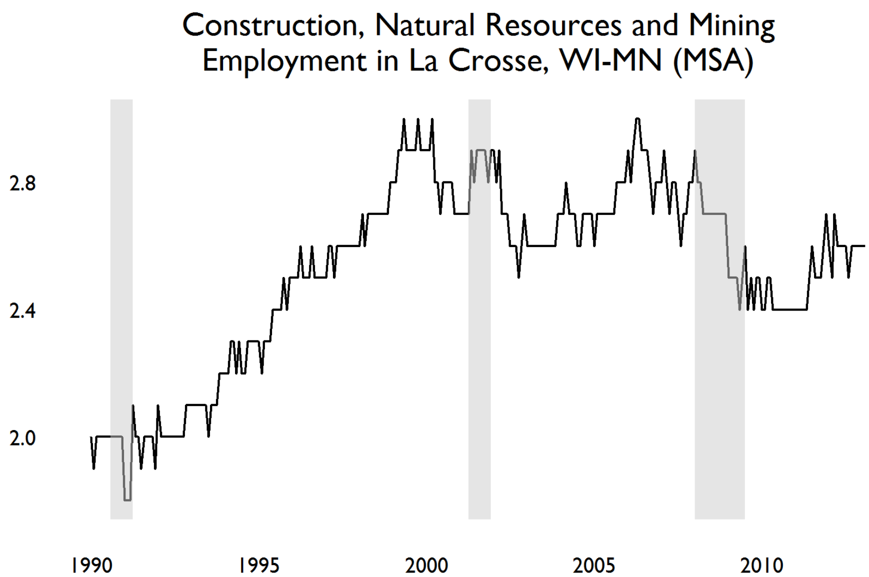


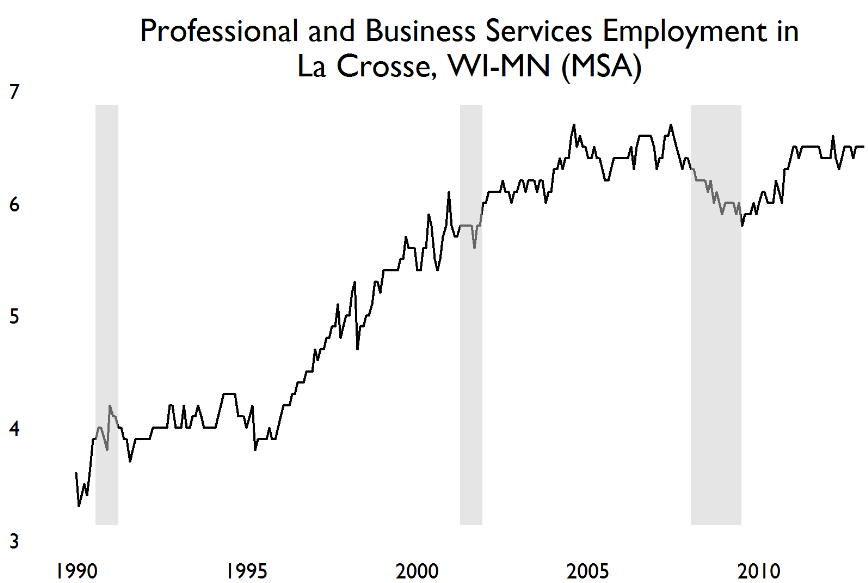
Leisure and Hospitality Employment in La Crosse, WI-MN (MSA)



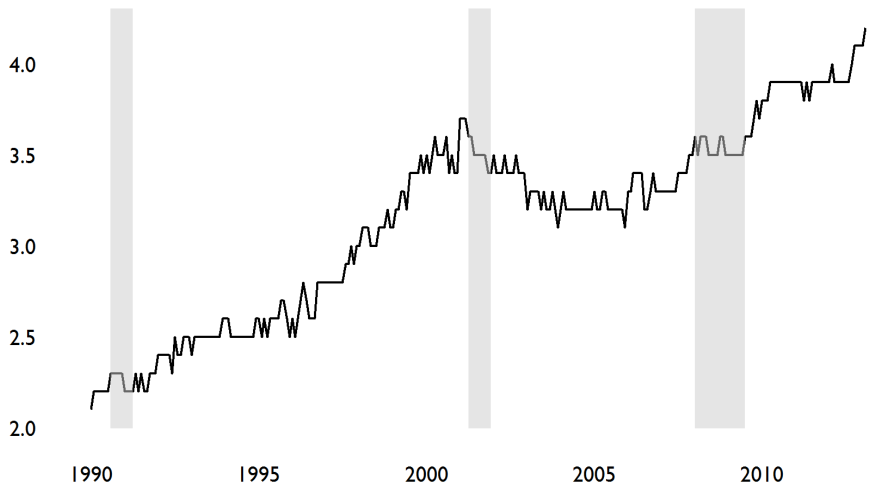

Manufacturing Employment in La Crosse, WI-MN
(MSA)
12
11
10
9
8
1990
1995
2000
2005
2010


Employees on Nonfarm Payrolls in La Crosse, WI-MN
(MSA)
80
60
40
20
1960
1970
1980
1990
2000
2010

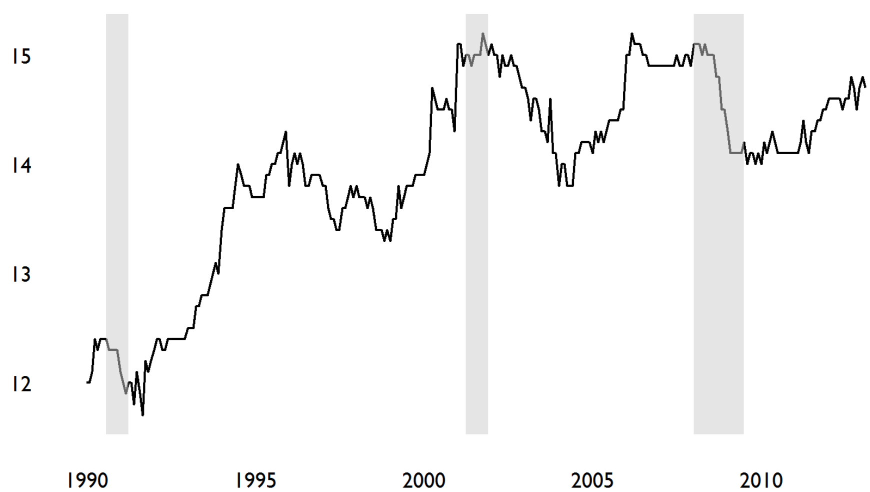

Construction, Natural Resources and Mining Employment in La Crosse, WI-MN (MSA)
2.8
2.4
2.0
1990
1995
2000
2005
2010


Professional and Business Services Employment in La Crosse, WI-MN (MSA)
7
6
5
4
3
1990
1995
2000
2005
2010

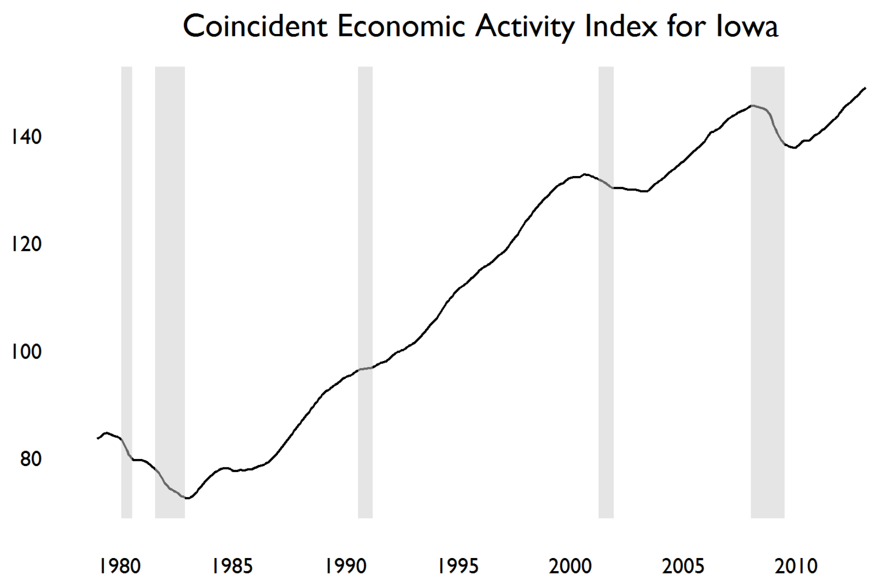
Other Services Employment in La Crosse, WI-MN (MSA)

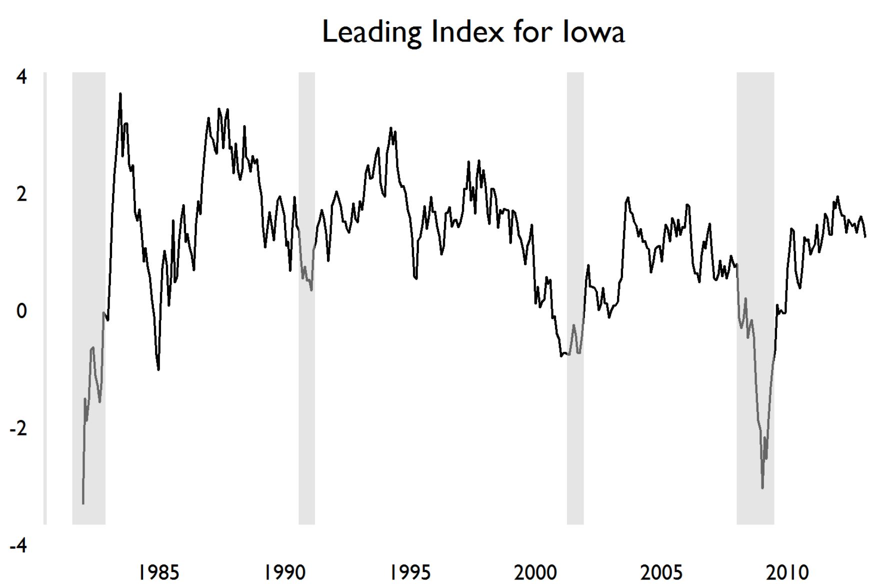


Trade, Transportation and Utilities Employment in La Crosse, WI-MN (MSA)

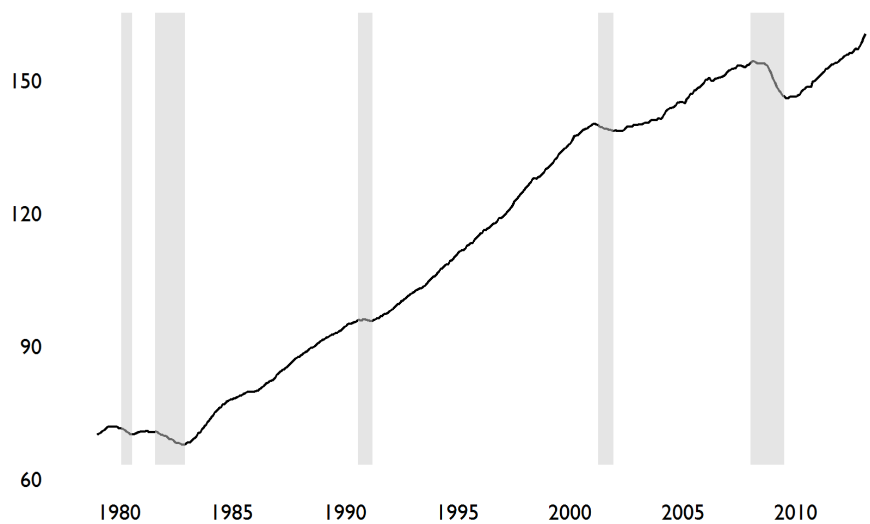


Appendix: Regional Business Cycle Indicators

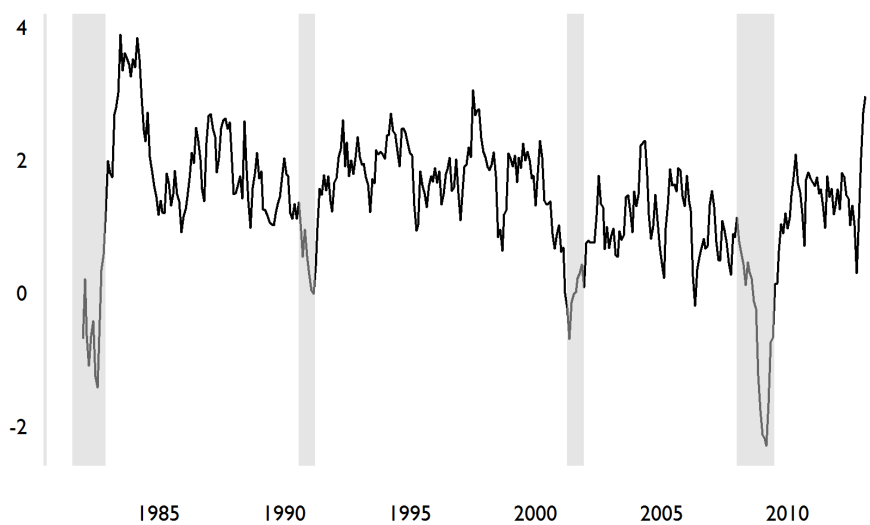


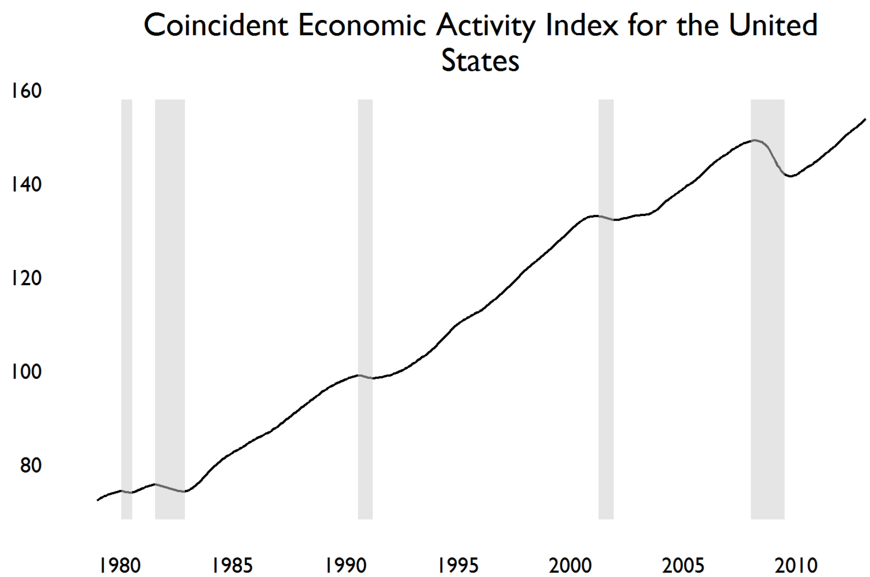


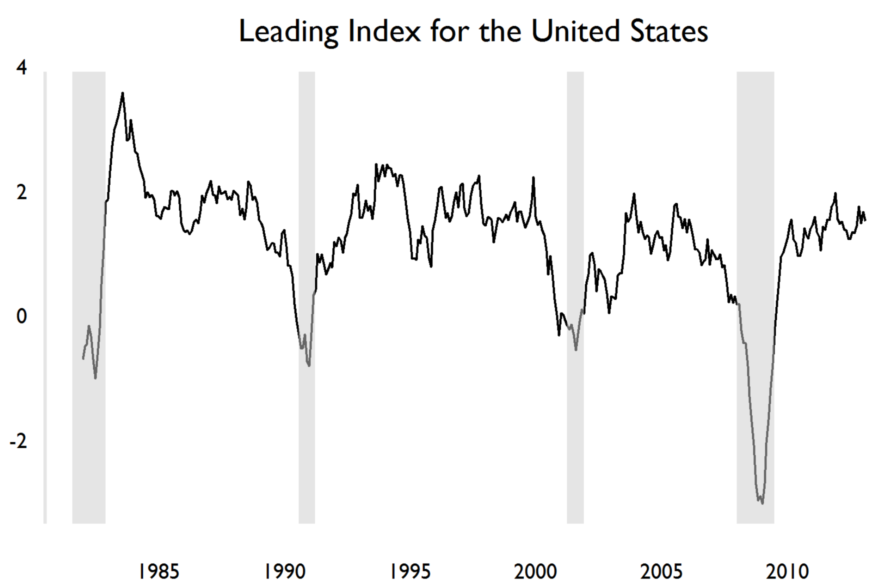
Coincident Economic Activity Index for Minnesota

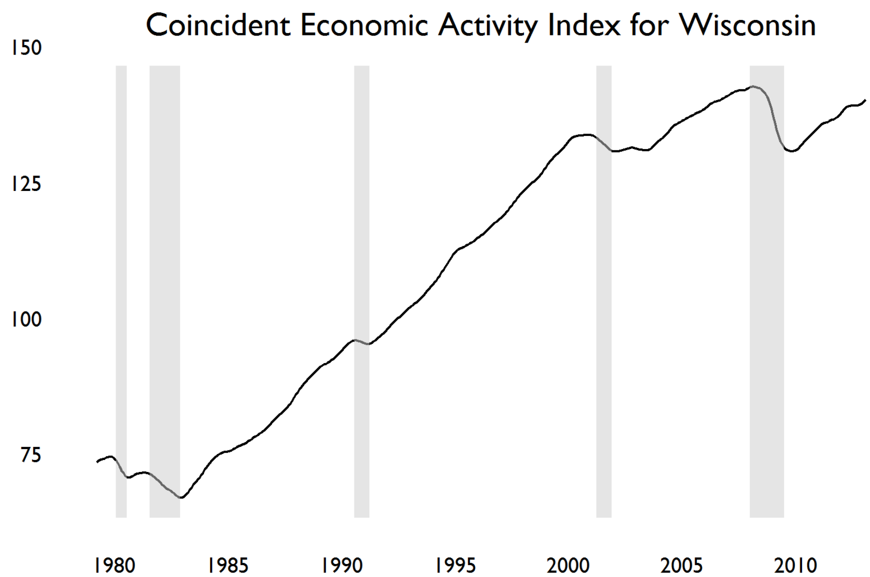


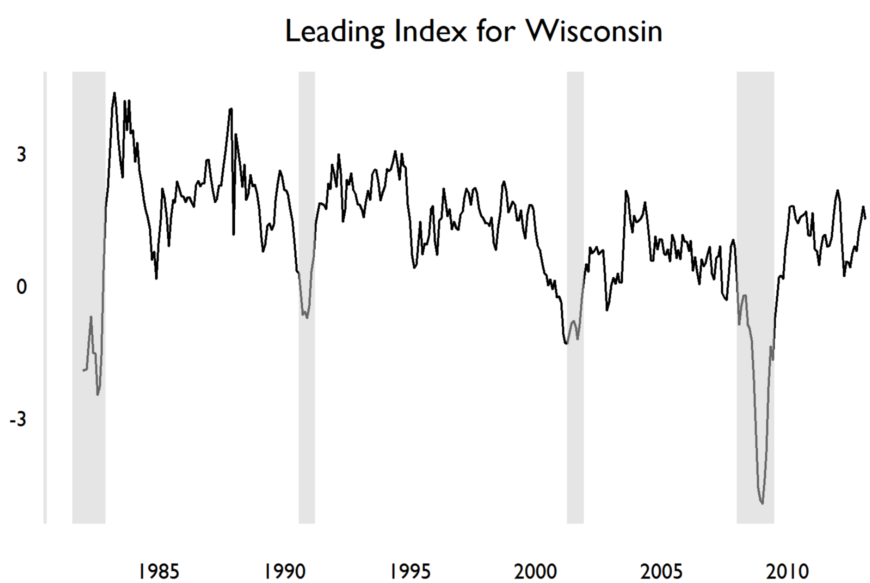
Leading Index for Minnesota



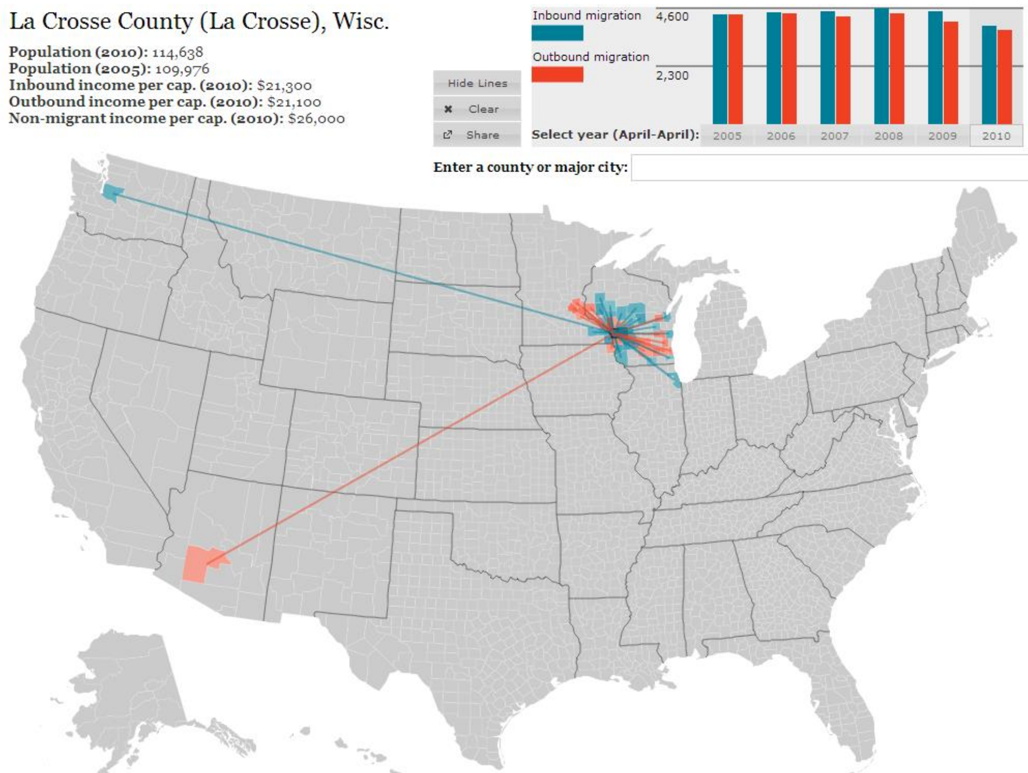

Coincident Economic Activity Index for the United States
160
140
120
100
80
1980
1985
1990
1995
2000
2005
2010

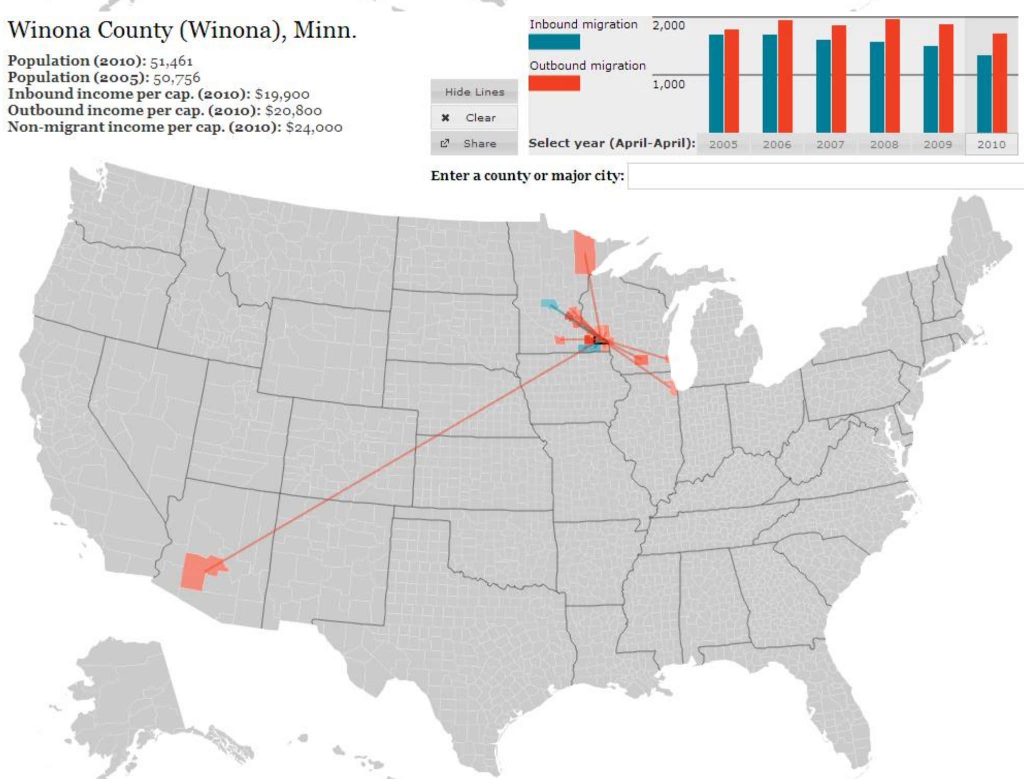

Leading Index for the United States
4
2
0
-2
1985
1990
1995
2000
2005
2010


Coincident Economic Activity Index for Wisconsin
150
125
100
75
1980
1985
1990
1995
2000
2005
2010


Leading Index for Wisconsin
3
0
-3
1985
1990
1995
2000
2005
2010

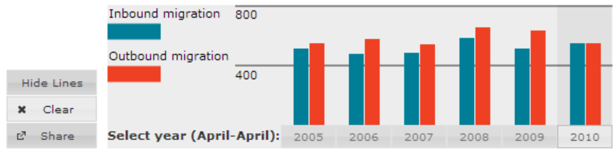
Appendix: IRS Migration data



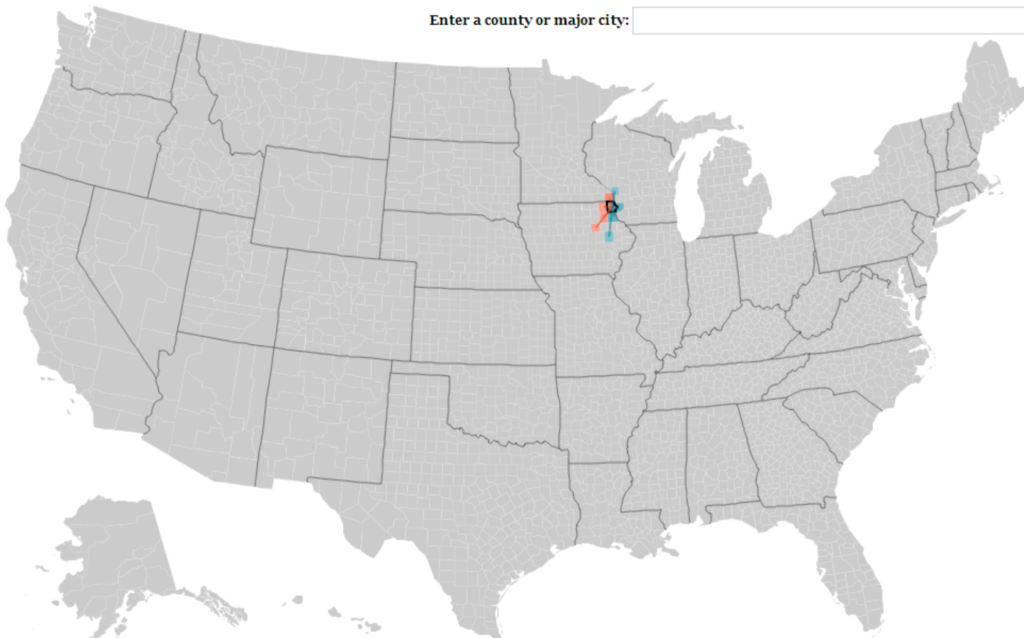


Allamakee County (Waukon), Iowa

Population (2010): 14,330
Population (2005): 14,371
Inbound income per cap. (2010): $13,800
Outbound income per cap. (2010): $14,200
Non-migrant income per cap. (2010): $18,000

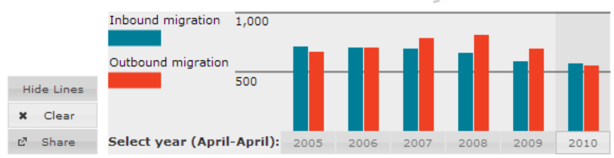


Enter a county or major city:



Houston County (La Crescent), Minn.

Population (2010): 19,027
Population (2005): 19,573
Inbound income per cap. (2010): $19,900
Outbound income per cap. (2010): $20,900
Non-migrant income per cap. (2010): $22,000



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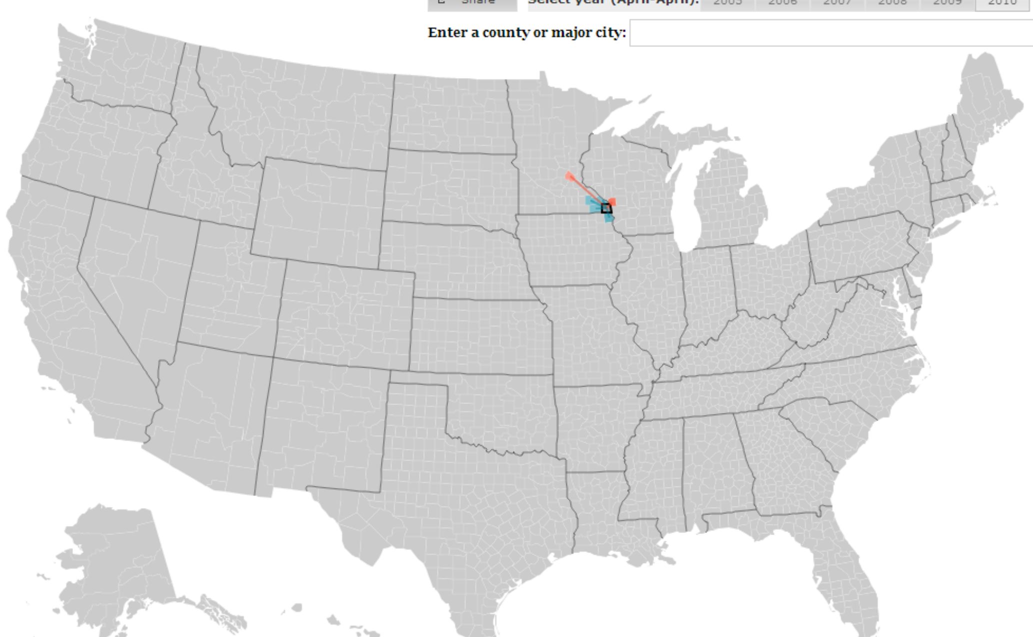


Seven Rivers Equity Index Update: Continued Improvement in Stock Price and Accounting Returns

Shane Van Dalsem, Ph.D., UW-La Crosse Department of Finance

Introduction

Tracking of the Seven Rivers Equity Index (SREI) began in 2000 as a way to provide information concerning publicly-traded firms headquartered in the 7 Rivers Region to investors and the business community. The value of the index is that it provides a measure of the economic health of the region as several of the businesses within the index have a significant impact on the region. These firms affect the economy of the region in two important ways. First, ownership of the firms is concentrated at higher levels within the area of the firm's headquarters due to the stock ownership of the founders, management, and employees of the firm. As stock returns increase, wealth is imported into the region. Second--to the degree at which the firms' operations occur within the region--profits, cash flows, and investments of the firms are a measure of economic activity and health of the region.

This report covers the performance of the index and its components for the past five years (ending April 1, 2013). During this time period, the country and region have been recovering from one of the largest recessions in the nation's history. During the most recent year, the index return has outperformed those of its benchmarks and the market responses to strategic decisions made by several of the firms in the index suggest future positive performance.

Construction of the Index and Index Components

The SREI consists of the exchange-traded stocks of firms that are headquartered within 100 miles of La Crosse, WI. *ReferencesUSA* was used to identify the firms that fulfill the criteria to be included in the index. The firms identified using these criteria are as follows:

Non-Financial Firms:

- Fastenal, Inc.
- Flexsteel Industries, Inc.
- Hormel Foods Corporation
- Marten Transport Ltd.
- National Presto Industries, Inc.
- Rochester Medical Corporation

Financial Services Firms:

- Citizens Community Bancorp, Inc.
- Heartland Financial USA, Inc.
- HMN Financial, Inc.

A brief profile of each of the firms in the index is provided in the Appendix. Of the nine firms that currently make up the index, six of the firms are traded on the NASDAQ and three are traded on the NYSE. Using Standard and Poors' guidelines, two of the firms (Fastenal and Hormel) are large-cap firms, two (Marten Transport and National Presto) are small-cap firms, and the remaining five are micro-cap firms. In the past two years, two firms (Renaissance

Learning and Great Wolf Resorts) exited the index due to being acquired by firms that are headquartered outside of the 7 Rivers Region.

Stock Performance

Calculation of Returns

The SREI is an equally-weighted index, meaning that it is assumed that an equal dollar amount is invested in each of the stocks at the beginning of the measurement period. The returns for the index were calculated on a monthly basis for a five-year period beginning on April 1, 2008 and ending April 1, 2013. The monthly returns are calculated as the holding period return in the adjusted price on *Yahoo! Finance* from one month to the next. The adjusted price incorporates cash dividends paid, stock splits, reverse stock splits, and stock dividends into the price of the stock, so the return calculated assumes that any dividends paid were reinvested back into the firm, thereby calculating the total return to the investor.

Benchmarks

For comparison purposes, I chose four benchmarks for the index, two for the total index and two for the financial firms. As mentioned above and shown in the Appendix, the index consists primarily of smaller firms. Standard benchmarks such as the S&P 500 and Dow Jones Industrial Index consist solely of large-cap firms. Small firms tend to have greater price volatility and higher returns when compared to large firms, so the S&P 500 and Dow Jones Index were not used.

The two benchmarks chosen for the total index are the iShares S&P 400 Mid-Cap Exchange Traded Fund (Ticker: IJH) and the iShares Russell Micro-Cap Index (Ticker: IWC). The iShares S&P 400 Mid-Cap Exchange Traded Fund seeks to replicate the returns of the S&P 400 Mid-Cap Index and invests a minimum of 90% of its holdings in the underlying securities of the S&P 400 Index. The Russell Micro-Cap Index currently consists of 1,315 of the smallest exchange-traded firms. Criteria for the Russell Micro-Cap Index is that the firm must be traded on a US exchange (AMSE, NYSE, or NASDAQ) and have a market capitalization of $300 million or less.

The financial services industry is unique from other industries due to its high level of regulation and divergent responses to market events. As such, firms in this industry are often analyzed separately from firms in other industries. Because of the regional nature of the three financial ratios in the index, the benchmarks chosen are funds that hold equities of regional financial institutions. The benchmarks used for this subsection of the index are the iShares Dow Jones Regional Banks Index (Ticker: IAT) and the SPDR KBW Regional Banking Exchange Traded Fund (Ticker: KRE). The iShares Dow Jones Regional Banks Index seeks to track the performance of the Dow Jones US Select Regional Banks Index and currently invests in 60 equities that are representative of that index. The SPDR KBW Regional Banking Exchange Traded Fund seeks to replicate the returns of the S&P Regional Banks Select Industry Index and currently invests in 77 equities that are representative of that index.

Index Performance

Table 1 provides the returns for each firm in the SREI, the average and median return for the index components, and the returns for the S&P 400 and micro-cap indices for each of the past five years ending April 1.

According to the National Bureau of Economic Research, the most recent recession began in December of 2007 and ended in June of 2009.[16] The performance of the SREI components and the benchmarks reflects the end of this recessionary period with the average (median) return for the SREI components at -19.43% (-24.18%) for the period ending 4/1/2009 and a post-recession bounce of 31.18% (33.06%) for the period ending 4/1/2010. The three firms that most contributed to the negative returns for the year ending 4/1/2009 were HMN Financial (-77.76%), Great Wolf Resorts (-39.61%), and Flexsteel Industries (-32.89%). These results are not surprising as the three firms represent the financial, recreation, and consumer discretionary spending industries, respectively. The financial industry was particularly hard hit during the last recession and luxury and discretionary spending are typically hard hit during recessions, when consumers generally have less discretionary income.

The three firms that contributed the most to the rebound for the year ending April 1, 2010 were Flexsteel Industries, National Presto, and Renaissance Learning. Flexsteel and Renaissance Learning reversed their downturns that occurred during the recession, while National Presto had been consistently delivering positive returns since 2003.

Table 1. Annual Returns for SREI Components and Benchmarks

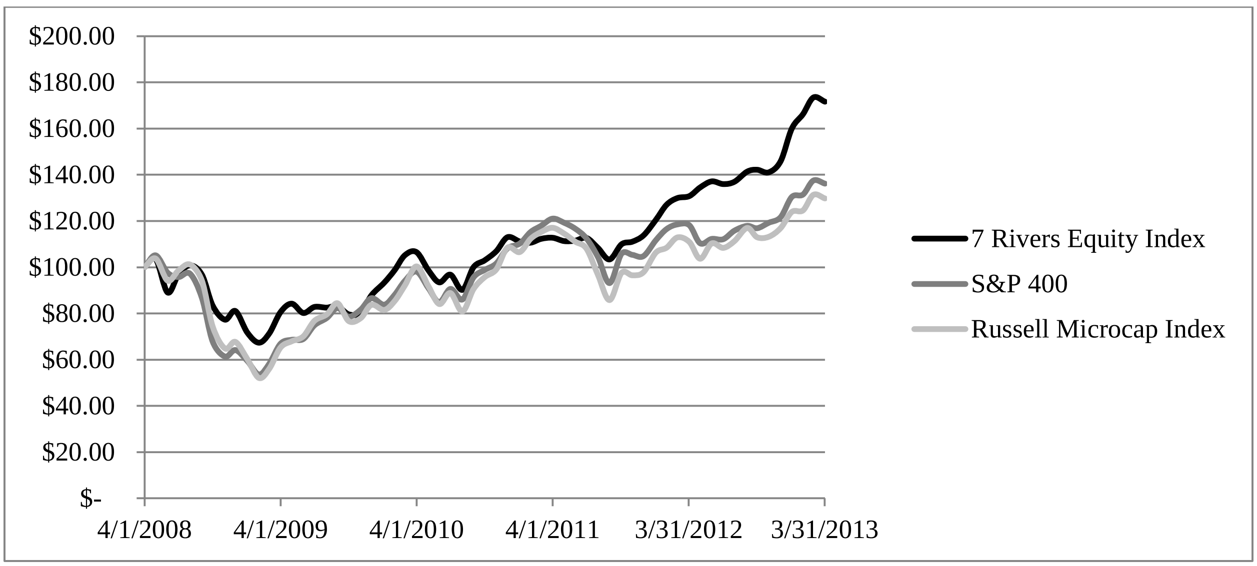
	For the 12 month period ending April 1st,				
SREI Components	**2013**	**2012**	**2011**	**2010**	**2009**
Citizens Community Bancorp	11.54%	16.04%	25.00%	-29.57%	-24.18%
Fastenal Co.	8.81%	41.68%	27.23%	45.36%	-18.90%
Flexsteel Industries	24.51%	43.47%	3.97%	101.23%	-32.89%
Great Wolf Resorts[17]	57.00%	134.74%	-33.64%	-13.01%	-39.61%
Heartland Financial USA	35.66%	21.01%	-15.60%	32.79%	-32.83%
HMN Financial	111.93%	0.00%	-55.75%	34.17%	-77.76%
Hormel Foods	42.28%	0.70%	47.10%	33.06%	-18.75%
Marten Transport	-0.99%	-5.41%	2.66%	5.34%	27.25%
National Presto	17.86%	-29.14%	6.12%	67.76%	43.50%
Renaissance Learning[18]		39.50%	0.42%	52.31%	-25.98%
Rochester Medical	47.32%	-12.90%	-3.67%	13.54%	-13.58%
Median	30.09%	16.04%	2.66%	33.06%	-24.18%
Average	35.59%	22.70%	0.35%	31.18%	-19.43%
S&P 400 Mid-Cap Index	15.23%	-2.36%	23.35%	46.68%	-33.11%
Russell Micro-Cap Index	16.95%	-5.22%	16.64%	53.81%	-34.75%

[16] "US Business Cycle Expansions and Contractions," *The National Bureau of Economic Research,* available at: www.nber.org/cycles.html.
[17] Great Wolf Resorts was purchased by the Apollo Group during calendar year 2012.
[18] Renaissance Learning was purchased by Permira Funds during calendar year 2011.

The average return for the SREI components outperformed those of the benchmarks for the period ending 4/1/2009. However, because the SREI components were not hit as hard during the recession, the rebound was also less pronounced. For the year ending 4/1/2011, the SREI components significantly underperformed the benchmarks due to the poor performance of HMN Financial and Great Wolf Resorts. The SREI component average significantly outperformed the benchmarks for the period ending 4/1/2012 due to the increase in the stock price for Great Wolf Resorts when it was acquired by Apollo Management Group (the acquisition details were finalized in April of 2013, hence the positive return for the firm in the final period) and a run up in the price of Renaissance Learning when it was acquired by Permira Funds. For the period ending 4/1/2013, the SREI components outperformed the benchmarks primarily due to a turnaround for HMN Financial and the finalizing of the sale of Great Wolf Resorts.

Figure 1 shows the growth of $100 invested in the SREI by investing equally in each of the component firms and its benchmarks on 4/1/2008 and holding those positions through 4/1/2013.[19,20] The ending value of the SREI was $171.63, for the S&P 400 it was $136.17, and for the Russell Micro-Cap Index $129.76.

Figure 1. Growth of $100 Invested in the Seven Rivers Index and Comparative Benchmarks



[19] The results in Table 1 differ from the results presented in Figure 1 because the average returns and medians in Table 1 are based on an equal weighting for each 12 month period, while the graph assumes a 5-year buy and hold strategy.

[20] The amount of the index invested in Renaissance Learning was equally distributed across the remaining firms as of November 1, 2011 for the calculation of the index value. The amount invested in Great Wolf Resorts was equally distributed across the remaining firms as of May 1, 2012 for the calculation of the index value.

Financial Firms' Performance

To analyze the performance of the financial services industry firms within the SREI, an equally-weighted portfolio was created using the returns of Citizens Community Bancorp, Heartland Financial USA, and HMN Financial. As seen in Table 2, the SREI financial firms had significant negative returns for the year ending 4/1/2009; however, the average and median were in line with the returns of the benchmarks. The SREI financials underperformed the benchmarks for the years ending 4/1/2010 and 4/1/2011, but outperformed the benchmarks for the last two years due to the performance of Citizens Community Bancorp and Heartland Financial for the year ending 4/1/2012 and due to the very strong performance of HMN Financial for the period ending 4/1/2013.

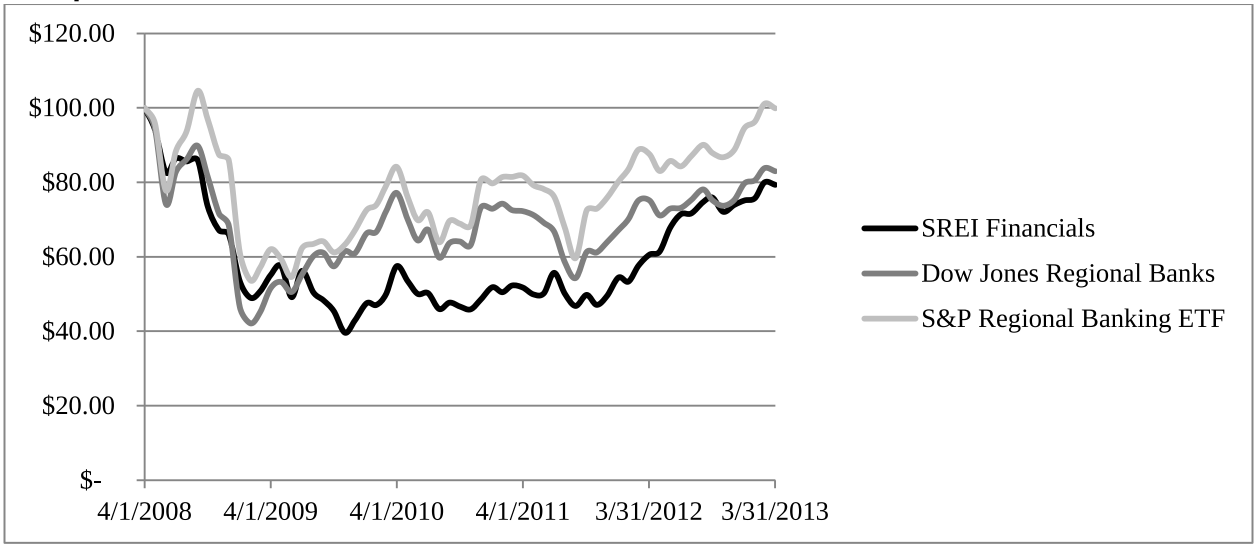
The particularly strong performance for HMN Financial in the last year was due to a 79.41% increase in price from 1/22/2013 and 1/24/2013 which coincided with the release of fourth quarter results for 2012 that revealed considerable improvement in loan quality and profitability.

Table 2. Annual Returns for SREI Financials and Benchmarks

	For the 12 month period ending April 1st,				
SREI Financial Components	**2013**	**2012**	**2011**	**2010**	**2009**
Citizens Community Bancorp	11.54%	16.04%	25.00%	-29.57%	-24.18%
Heartland Financial USA	35.66%	21.01%	-15.60%	32.79%	-32.83%
HMN Financial	111.93%	0.00%	-55.75%	34.17%	-77.76%
Median	35.66%	16.04%	-15.60%	32.79%	-32.83%
Average	53.04%	12.35%	-15.45%	12.46%	-44.92%
iShares DJ Regional Banks	10.44%	3.98%	-6.37%	49.76%	-48.47%
S&P Regional Banking ETF	14.10%	7.00%	-2.80%	35.69%	-37.98%

Figure 2 shows the results of investing $100 in the Seven Rivers Financial Index and into each of the two benchmarks. The $100 initially invested in the Seven Rivers Financial Index would have only been worth $79.32 at the end of the measurement period. The same $100 would have been worth $82.98 if invested in the iShares Dow Jones Regional Banks Index and $99.87 if invested in the S&P Regional Banking Exchange Traded Fund.

Figure 2. Growth of $100 Invested in the Seven Rivers Index Financials and Comparative Benchmarks



Accounting Measure Performance

Please note that the accounting measure performance analysis focuses on fiscal year financial statements due to the seasonality of some of the firms in the SREI.

Tables 3, 4 and 5 present income statement, balance sheet, and cash flow statement information, respectively, for each of the firms in the index and the median and average results for the non-financial and financial firms separately. Reuters, company annual reports, and 10-k reports filed with the SEC were the sources of the information used to complete these tables. Information was gathered for each of the past three fiscal year ends for each firm.

Income Statement Performance

For the non-financial firms, revenues rose consistently across the three-year time period for all of the firms except for National Presto Industries. The financial institutions fared worse during the period. Revenues for Citizens Community fell in 2012 from the previous year. Revenues for HMN Financial slid consistently during the period due the sale of one of their branches and fewer loans from which to generate interest income.

The gross profit margins for the non-financial firms were stable for the three year period, while net profit margin improved overall for the firms over the period. A slight dip in the average net income margin in 2011 was due to a decrease in the measure for Flexsteel and Rochester Medical for the year. The average and median return on equity for the firms also dipped in 2011 for the same reason.

National Presto Industries stands out as declining consistently over the three year period in terms of profitability and return on equity. The increasing revenues for National Presto in 2012 did not carry the same level of profitability as sales in prior years, resulting in no improvement in ROE. However, increased stock prices for the firm in the first quarter of 2013 suggest expected improved profitability going forward.

The bottom-line results for the financial firms correspond with the strong turnaround seen in the stock prices of the firms over the past 18 months. Citizens Community Bancorp and HMN Financial reported declining revenues in 2012, but improving profitability. The increase in ROE for HMN Financial was significant and due largely to an increased net profit margin, driven partially by improving loan quality.

The turnaround for HMN Financial is significant and followed increased loan losses for several years following the downturn in the mortgage market in 2008, which resulted in a memorandum of understanding between the firm and the Office of Thrift Supervision in February of 2009 and culminating into a supervisory agreement between the two in February of 2011. This supervisory agreement required the firm to improve its capital ratios prior to paying dividends in the future. In April of 2011, the firm suspended payment of preferred dividends and the CEO and Chairperson, Timothy Geisler, was replaced.

The net interest margin is calculated as the net interest income (interest income less interest expense) divided by the average interest-earning assets during the period. This is a common evaluation measure for financial institutions because the majority of their income comes from interest on loans, and the ability to maintain profitability depends on their ability to loan money out at a higher rate of interest than they have to pay to use the funds. As can be seen in Table 3, this measure increased between 2010 and 2011, but fell off for each of the firms in 2012. The increase in net interest margins was consistent with a national trend of rising net interest margins after almost two decades of falling net interest margins. The change in the trend was largely due to the cost of funds (such as interest rates on deposits) falling faster and more significantly than the interest rate at which the funds are lent out. With an improvement in loan quality in 2012, the net interest margins for the banks in the SREI fell as less risky loans typically result in lower interest rates. This trend was consistent throughout the US as can be seen in Figure 3.

Table 3. Income Statement Measures of SREI Component Firms

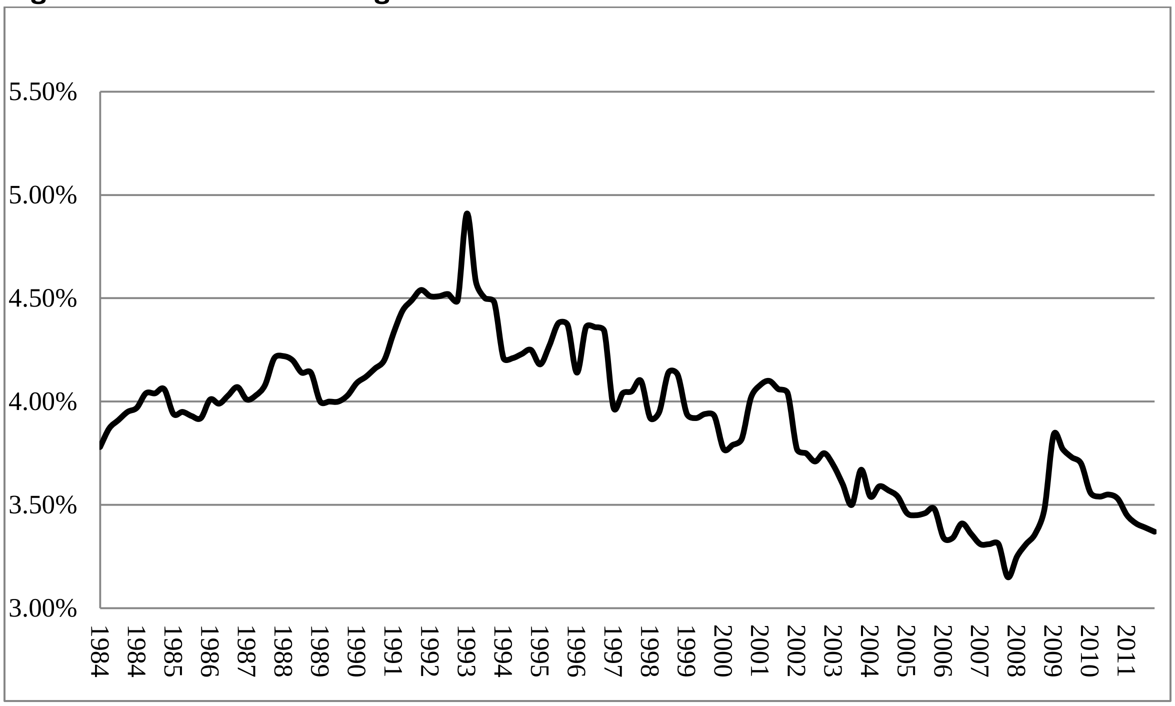
Non-Financial Firms

	Revenues (in millions)			Gross Profit Margin			Net Profit Margin			Return on Equity		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Fastenal	$3,134	$2,766	$2,269	51.52%	51.83%	51.77%	13.42%	12.94%	11.69%	26.95%	24.53%	20.69%
Flexsteel Industries	$352.09	$339.40	$326.40	24.22%	22.77%	22.91%	3.71%	3.07%	3.31%	9.37%	8.10%	9.18%
Hormel Foods Corp	$8,231	$7,895	$7,221	16.18%	16.90%	17.16%	6.08%	6.01%	5.86%	17.74%	17.85%	17.61%
Marten Transport	$638.46	$603.70	$516.90	43.59%	42.79%	44.42%	4.27%	4.02%	3.82%	8.28%	7.63%	6.71%
National Presto Industries	$472.49	$431.00	$479.00	20.08%	21.75%	23.71%	8.23%	11.13%	13.26%	14.25%	14.26%	18.47%
Rochester Medical Corp.	$61.68	$52.92	$41.44	49.96%	49.31%	47.54%	3.32%	-2.48%	-0.60%	3.00%	-1.99%	-0.36%
Median	**$555.47**	**$517.35**	**$497.95**	**33.90%**	**32.78%**	**34.07%**	**5.17%**	**5.02%**	**4.84%**	**11.81%**	**11.18%**	**13.40%**
Average	**$2,148**	**$2,015**	**$1,809**	**34.26%**	**34.23%**	**34.59%**	**6.50%**	**5.78%**	**6.22%**	**13.26%**	**11.73%**	**12.05%**

Financial Firms

	Revenues (in millions)			Net Interest Margin			Net Profit Margin			Return on Equity		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Citizens Community Bancorp	$28.58	$31.89	$27.01	3.95%	4.83%	3.84%	0.72%	0.61%	-26.26%	0.37%	0.36%	-13.48%
Heartland Financial	$298.00	$251.31	$251.26	3.81%	4.16%	4.12%	16.71%	11.14%	7.39%	12.39%	7.94%	7.26%
HMN Financial	$39.81	$46.41	$55.54	3.50%	3.78%	3.36%	13.37%	-24.90%	-55.39%	8.75%	-20.25%	-44.23%
Median	**$39.81**	**$46.41**	**$55.54**	**3.81%**	**4.16%**	**3.84%**	**13.37%**	**0.61%**	**-26.26%**	**8.75%**	**0.36%**	**-13.48%**
Average	**$122.13**	**$109.87**	**$111.27**	**3.75%**	**4.26%**	**3.77%**	**10.27%**	**-4.38%**	**-24.75%**	**7.17%**	**-3.98%**	**-16.82%**

Figure 3. Net Interest Margin for All US Commercial Banks



Source: Federal Institutions Examination Council

<u>Balance Sheet Analysis</u>

Table 4 provides the balance sheet ratios for the years 2010-2012 for the firms that comprise the SREI. The current ratio is a measure of the liquidity of the firm and is calculated as current assets divided by current liabilities. The current ratio measures how easily a firm can pay its liabilities that are expected to come due in the next year with assets that are expected to be liquidated in the next year. While having an increasing current ratio may sound beneficial, and generally does reduce risk, it also reduces the returns to shareholders as liquid assets typically provide little, if any, return. The long-term debt ratio is calculated as the amount of debt that has a maturity date of greater than one year divided by the total assets of the firm. An increasing debt ratio may result in a greater risk of default and bankruptcy. Conversely, a greater amount of debt in the capital structure concentrates the earnings of the firm to fewer equity holders and increases the return on equity for the firm. Total asset turnover is calculated as sales divided by total assets. It is used as a measure of how well management is utilizing assets to generate sales.

The average current ratio among the non-financial firms remained stable between the years 2010 and 2012 with a dip in 2011 due to Rochester Medical significantly increasing their short term debt during that year.

Surprisingly, four of the six non-financial firms in the SREI as of the fiscal year end 2012 have no long-term debt. Marten Transport took on \$2.7 million in debt in the last quarter of 2012 and Hormel has maintained \$250 million in long-term debt for the past two years with the decrease in the long-term debt ratio coming from the increased value of assets.

The overall trend for the non-financial firms with regard to the total asset turnover has been positive, with of a dip in the measure in 2011 due to a reduction in in sales for National Presto during that year.

For the financial firms, the loans-to-assets ratio, provision for loan loss-to-total loans and the equity-to-assets ratio of the firms are presented. The loans-to-assets ratio is a measure of the percent of the firm's assets that are productive with a higher number usually indicating more productive assets. The provision for loan loss is an income statement account that shows how much the firm is setting aside for future anticipated loan losses. This ratio provides insight into the quality and safety of the loans that the firm has made. The equity-to-assets ratio is a measure of the safety of the firm as a higher ratio gives the firm a larger cushion that can absorb future losses. However, a higher ratio also decreases return on equity and may be the result of regulatory action due to poor loan quality.

Table 4. Balance Sheet Ratios of SREI Component Firms

Non-Financial Firms

	Current Ratio			**Long-Term Debt Ratio**			**Total Asset Turnover**		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Fastenal	6.30	6.58	6.69	0.00%	0.00%	0.00%	1.73	1.64	1.55
Flexsteel Industries	4.26	4.64	3.93	0.00%	0.00%	0.00%	1.94	2.06	1.99
Hormel Foods Corp	2.95	2.57	1.69	5.48%	5.89%	8.63%	1.80	1.86	1.78
Marten Transport	2.04	2.19	1.28	0.56%	0.00%	19.10%	1.30	1.12	1.12
National Presto Industries	4.84	4.99	5.18	0.00%	0.00%	0.00%	1.34	1.07	1.32
Rochester Medical Corp.	6.87	2.45	8.07	0.00%	0.00%	3.49%	0.81	0.58	0.44
Median	**4.55**	**3.61**	**4.56**	**0.00%**	**0.00%**	**1.75%**	**1.53**	**1.38**	**1.44**
Average	**4.54**	**3.90**	**4.47**	**1.01%**	**0.98%**	**5.20%**	**1.49**	**1.39**	**1.37**

Financial Firms

	Loans-to-Assets			**Provision for Loan Loss /Total Loans**			**Equity-to-Assets**		
	2012	**2011**	**2010**	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Citizens Community Bancorp	0.78	0.80	0.77	0.92%	1.36%	1.51%	0.10	0.10	0.08
Heartland Financial	0.58	0.58	0.60	0.12%	1.19%	1.36%	0.08	0.08	0.08
HMN Financial	0.70	0.71	0.76	0.56%	3.09%	4.12%	0.09	0.07	0.08
Median	**0.70**	**0.71**	**0.77**	**0.56%**	**1.36%**	**1.51%**	**0.09**	**0.08**	**0.08**
Average	**0.69**	**0.7**	**0.77**	**0.53%**	**1.88%**	**2.29%**	**0.09**	**0.08**	**0.08**

The loans-to-assets increased for Citizens Community, remained relatively stable for Heartland Financial, and fell for HMN Financial during the three-year period. The decrease for HMN

Financial is likely due to the regulatory action taken against them in 2011. The significant decline in the provision for loan loss/total loans is a positive sign for each of the financial firms in the SREI.

The decrease represents improving loan quality which results in fewer funds being set aside to cover expected loan losses. The increasing equity-to-assets ratio for the set of three is driven by the increase in the ratio for Citizens Community Bancorp in 2011 and the increase in the ratio for HMN Financial in 2012. As mentioned above, this may be a sign that there is less need for a cushion to absorb future expected losses.

Cash Flows Analysis

The amounts of operating cash flows, capital expenditures, and free cash flows are provided in Table 5. Operating cash flows and capital expenditures are reported from the firms' statements of cash flows and represent the cash flows generated by the firms' operations and the amounts spent on fixed assets, respectively. The free cash flows for this table are calculated as operating cash flows less capital expenditures. If not used for paying down debt, paying interest on debt, or held for future investment purposes, free cash flows are cash flows that are available for distribution to stockholders through dividends or stock repurchases. Consistent and growing free cash flows increase the returns to shareholders.

Average and median operating cash flows increased for the non-financial firms during the three year period, with Flexsteel being the only firm that saw a significant decrease in the measure. The decline in operating cash flows for Flexsteel was due to a significant decrease in accounts payable in 2011 and a sharp increase in inventories in 2012.

With the exception of National Presto and Rochester Medical, the non-financial firms significantly increased capital expenditures in 2012 which, in this case, appeared to be a sign of preparing for increases in future sales due to a recovering economy. These investments in fixed assets resulted in negative free cash flows for Flexsteel and Marten Transport and a decrease in free cash flows for Hormel in 2012.

For the financial firms, average and median operating and free cash flows fell consistently over the three year period. For Heartland Financial, the decrease was driven by large amounts for the provision for loan loss (a non-cash expense) being added back in 2010 and 2011 and not in 2012 and a significant gain on sale of loans held for sale in 2010 that did not recur in 2011 or 2012. For HMN Financial, the drop in operating cash flows and free cash flows was due to $12 million in deferred income tax expense being added back to net income in 2010. This did not recur in 2011 or 2012.

Table 5. Cash Flow Analysis of SREI Component Firms

Non-Financial Firms

	Operating Cash Flows (in millions)			Capital Expenditures (in millions)			Free Cash Flow (in millions)		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Fastenal	$396.29	$286.50	$240.50	$138.41	$120.00	$73.60	$257.88	$166.50	$166.90
Flexsteel Industries	$8.98	$13.80	$19.12	$10.94	$2.57	$1.25	($1.96)	$11.23	$17.87
Hormel Foods Corp	$517.78	$490.50	$485.50	$132.30	$96.91	$89.82	$385.48	$393.60	$395.70
Marten Transport	$85.54	$86.21	$64.52	$135.35	$84.91	$81.24	($49.81)	$1.30	($16.72)
National Presto Industries	$62.34	$58.69	$57.77	$13.58	$15.00	$17.97	$48.76	$43.69	$39.80
Rochester Medical Corp.	$5.94	$2.65	$3.12	$1.52	$1.76	$1.83	$4.42	$0.89	$1.29
Median	**$73.94**	**$72.45**	**$61.15**	**$72.94**	**$49.96**	**$45.79**	**$26.59**	**$27.46**	**$28.84**
Average	**$179.48**	**$156.39**	**$145.09**	**$72.02**	**$53.53**	**$44.29**	**$107.46**	**$102.87**	**$100.81**

Financial Firms

	Operating Cash Flows (in millions)			Capital Expenditures (in millions)			Free Cash Flow (in millions)		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Citizens Community Bancorp	$9.08	$11.47	$6.43	$0.47	$0.58	$0.31	$8.61	$10.89	$6.12
Heartland Financial	$48.70	$58.48	$92.15	$19.79	$6.72	$9.61	$28.91	$51.76	$82.54
HMN Financial	$16.84	$17.34	$25.56	$0.30	$0.20	$0.29	$16.54	$17.14	$25.27
Median	**$16.84**	**$17.34**	**$25.56**	**$0.47**	**$0.58**	**$0.31**	**$16.54**	**$17.14**	**$25.27**
Average	**$24.87**	**$29.10**	**$41.38**	**$6.85**	**$2.50**	**$3.40**	**$18.02**	**$26.60**	**$37.98**

Improved Performance for Hormel, Rochester Medical, Heartland Financial USA, and HMN Financial

Hormel Foods' stock price has steadily risen from $27.66 on August 1, 2012 to a high of $41.32 on March 28, 2013. During that time Hormel's stock experienced a sustained 11.8% increase in price between December 28, 2012 and January 4, 2013 that coincided with the announcement of the purchase of *Skippy*® peanut butter brand from Unilever. Additionally, management attributes the steady rise in stock price to strong sales of *Spam*® and *Hormel Compleats*® products as well as profitable investments in the MegaMex Foods joint venture and Jennie-O Turkey Stores.

Rochester Medical has had a bumpy past year with a low of $9.11 on November 13, 2012 and a high of $14.86 on March 15. Rochester Medical's stock saw a sustained 19% increase in price over Presidents' Day weekend (February 15 – 19, 2013) when management announced that the firm was exiting the Foley catheter market. The firm had been accepting losses on that operating line and had decided to exit the segment when they could not achieve sufficient market share to make the line profitable.

The increase in Heartland Financial's stock price began on April 10, 2012 when the price of the stock was $15.10 per share and increased until it hit a high of $28.70 on October 31. The improved performance during this time period was driven by Heartland Financial leveraging its strong cash flows to purchase First Shares, Inc. in Platteville, WI and three Liberty Bank branches in Dubuque, IA. These acquisitions drove an increase in Heartland Financial's total assets of $123 million since the fiscal year end 2011. Additionally, an announcement on July 31 that the firm beat analysts' estimates for quarterly earnings boosted the firm's stock price by approximately 12% in one day.

Conversely, Heartland's stock experienced two significant sustained declines in price during the time period following October 31. The first price drop of 8.4% occurred between November 6 and November 8, 2012 and closely followed the stockholder approval of Heartland's acquisition of First Shares, Inc. The second price decrease of 11% occurred between January 28 and January 30, 2013 and coincided with a disappointing quarterly earnings announcement.

For HMN Financial, the stock price began to rise in March of 2012 and increased dramatically following the sale of an underperforming branch and improved on second quarter results in July. On March 1, HMNF traded at $1.85 per share. Following the sale of their branch in Toledo, OH to Pinnacle Bank the stock price increased to $3.17—an increase of 71.35%. Between January 22 and January 24, 2013 the stock price increased by 79.4% - from $3.40 to $6.10 - following the release of a strong quarterly earnings announcement on January 22 which represented a turnaround for the firm.

Concluding Remarks

Strategic decisions to both add (Hormel) and eliminate (Rochester Medical) product lines in addition to the acquisition of Great Wolf Resorts and Renaissance Learning and the turnaround for the financial firms have all contributed to the outperformance of the SREI when compared to its benchmarks. Increases in capital expenditures across the firms in the index suggest increased growth in the future and, hopefully, continued strong performance for the index.

APPENDIX

Non-Financial Firms

Company: **Fastenal Corporation**
Ticker: FAST
Exchange: NASDAQ
Market Cap: $15.2 Billion
Description: Wholesaler and retailer of industrial and construction supplies. Product lines include fasteners, hydraulic and pneumatic tools, janitorial supplies, and welding equipment.
Institutional Ownership: 81%
Date started trading: March 26, 1990

Company: **Flexsteel Industries, Inc.**
Ticker: FLXS
Exchange: NASDAQ
Market Cap: $171.8 Million
Description: Manufacturer, importer, and marketer of residential and commercial furniture. Product lines include upholstered and wood furniture, desks, dining tables and chairs, and bedroom furniture.
Institutional Ownership: 44%
Date started trading: February 25, 1992

Company: **Hormel Foods Corporation**
Ticker: HRL
Exchange: NYSE
Market Cap: $10.67 Billion
Description: Producer and marketer of meat and food products worldwide. Business segments include: grocery products, refrigerated foods, Jennie-O Turkey Stores, and specialty foods.
Institutional Ownership: 33%
Date started trading: January 2, 1990

Company: **Marten Transport Ltd.**
Ticker: MRTN
Exchange: NASDAQ
Market Cap: $437.4 Million
Description: Truckload carrier that specializes in transporting consumer goods that require a temperature-controlled or insulated environment across North America and Mexico. Business segments are trucking and logistics.
Institutional Ownership: 68%
Date started trading: February 27, 1992

Company: **National Presto Industries, Inc.**
Ticker: NPK
Exchange: NYSE
Market Cap: $456 Million
Description: Manufacturer of housewares and electrical appliances; defense-related products, such as: training ammunition, fuses, firing devices, and initiators; and diapers and adult incontinence products.
Institutional Ownership: 51%
Date started trading: December 30, 1987

Company: **Rochester Medical Corporation**
Ticker: ROCM
Exchange: NASDAQ
Market Cap: $173.5 Million
Description: Manufacturer and marketer of PVC and latex-free urinary continence and urine drainage care products.
Institutional Ownership: 40%
Date started trading: August 18, 1995

Financial Services Firms

Company: **Citizens Community Bancorp Inc.**
Ticker: CZWI
Exchange: NASDAQ
Market Cap: $36.9 Million
Description: Provider of consumer banking services through 18 in-store Wal-Mart Supercenter locations and eight branches in Wisconsin, Minnesota, and Michigan.
Institutional Ownership: 18%
Date started trading: March 30, 2004

Company: **Heartland Financial USA Inc.**
Ticker: HTLF
Exchange: NASDAQ
Market Cap: $403.7 Million
Description: A multi-bank holding company that has subsidiaries in Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, and Minnesota.
Institutional Ownership: 40%
Date started trading: January 7, 2000

Company: **HMN Financial, Inc.**
Ticker: HMNF
Exchange: NASDAQ
Market Cap: $27.5 Million
Description: Operator of retail banking and loan production facilities in Minnesota and Iowa.
Institutional Ownership: 29%
Date started trading: July 30, 1994