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

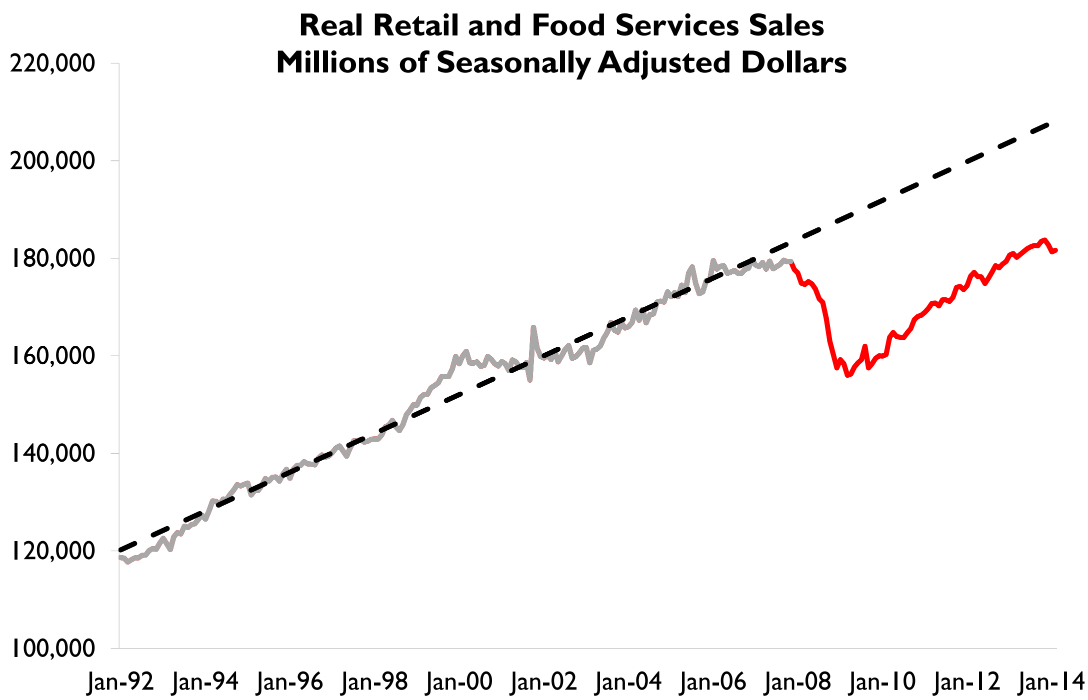
Taggert J. Brooks, Ph.D., UW-La Crosse Department of Economics

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. Access to updated versions of most of the data will be kept here: http://websites.uwlax.edu/tbrooks/econindicators/index.html, though the URL may be changing as I search for a more permanent home.

April 2014: Mind the Spending Gap

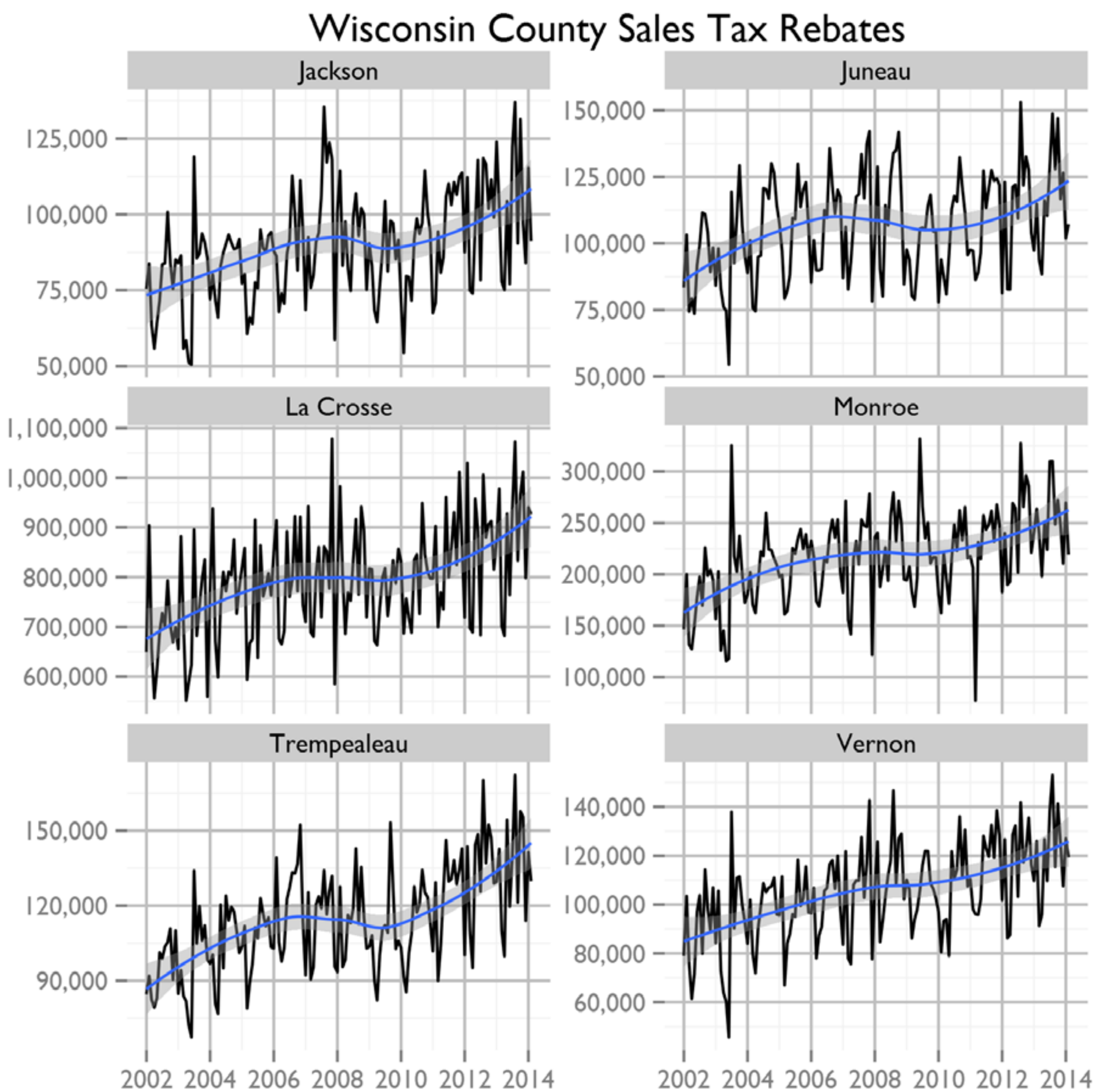
The economic recovery – much like the onset of spring - continues its painfully slow march towards "normal." A recent blog post entitled "Mind the (Spending) Gap" on the *House of Debt* blog[1] maintained by Professors Mian and Sufi demonstrates that while retail spending has been growing at a rate slightly faster than its historical average, it has yet to recover to the pre – "Great Recession" trend. The graph below demonstrates the gap left after the contraction.



[1] Tif Mian and Amir Sufi, "Mind the (Spending) Gap," *House of Debt (blog)*, http://houseofdebt.org/2014/03/24/mind-the-spending-gap.html

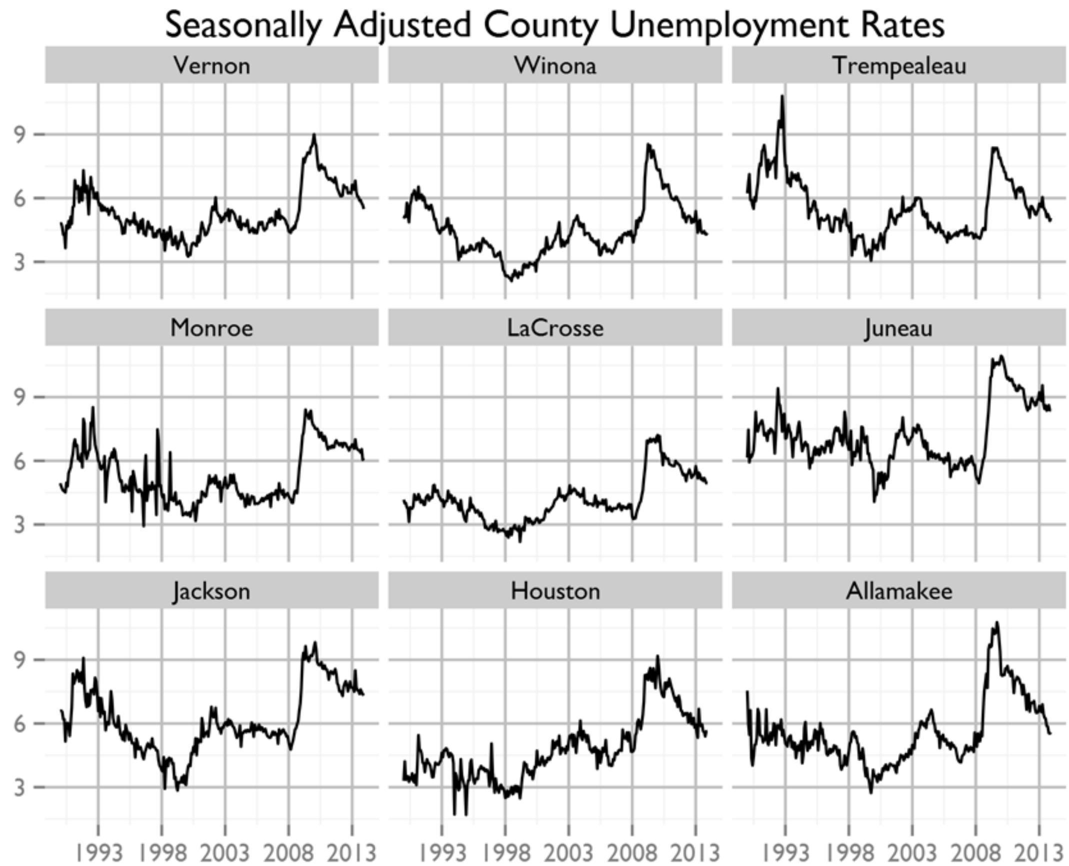
Sponsored by: SB State Bank Financial Tribune CBA

The data suggests that retail sales are still about $20 billion, or about 10% below where they should be were it not for the recession. Turning to more local data we can look at the portion of sales taxes rebated from the state of Wisconsin to the counties. We should be cautious with this data because the state does not record the rebates in a regular fashion, nor do the data refer to the month from whence the original sales came, so traditional seasonal adjustment is impossible. That said it is still helpful to discern broad trends. We can see that most of the counties experienced an inflexion point - where the rebates began to decline - around 2008 with Juneau and Trempealeau experiencing a softening in retail sales earlier, and Vernon County fairly insulated from the drop off in retail sales. All counties are currently experiencing a period of growth in terms of retail sales rebates.



Unemployment Troubles in the Country and in the 7 Rivers Region

The graph below depicts the monthly seasonally adjusted unemployment rates for each of the nine counties in the 7 Rivers Region. Most counties have seen their unemployment rates fall below 6% with the exception of Monroe, Juneau and Jackson, which have demonstrated a stubborn persistence. In fact while a few of the other counties may have fallen below 6%, none have returned to their pre-recession levels, and several have appeared to stall in their recovery.

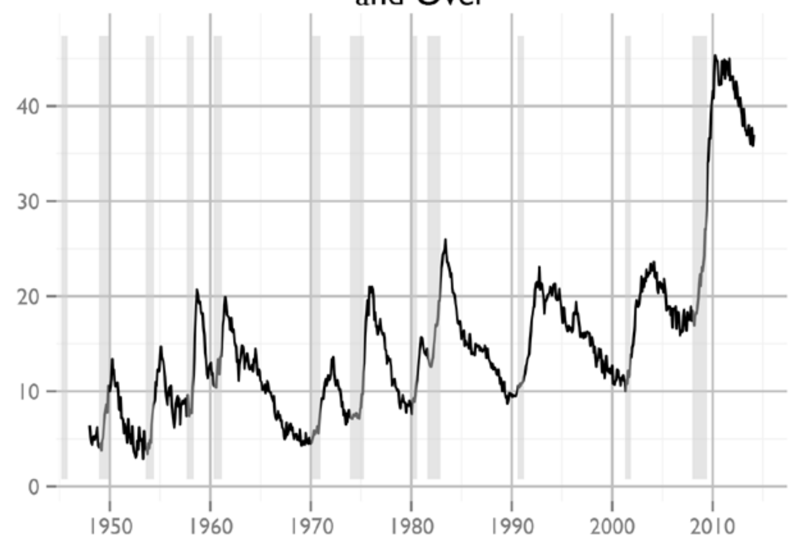


This is not unique to our region, US employment overall has been sluggish. The graph below depicts the US civilian unemployment rate. The pace of retrenchment is also quite slow.

Civilian Unemployment Rate

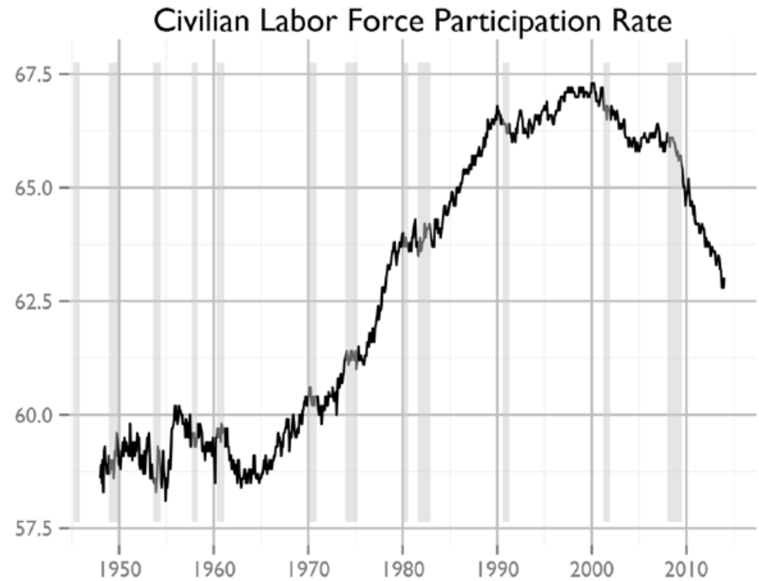
One of the primary reasons for the persistence in the high unemployment rate is the unprecedented level of the long term unemployed. The graph below shows the history of the unemployed that have been unemployed for 27 weeks or more as a percentage of total unemployed. In a typical recession the long term unemployed may represent 20% of the total unemployed. During the “Great Recession” they were more than 40% of the total unemployed and they continue to represent about 36% of the unemployed.

Of Total Unemployed, Percent Unemployed 27 Weeks and Over



This is despite the backdrop of the large exodus from the labor market. Below we have the civilian labor force participation rate. This measures the ratio of those non-institutionalized civilians over the age 16 that are working or looking for work as a percentage of all non-institutionalized civilians over the age 16. The labor force participation rate peaked in 2000 and has been declining since. The rapid rise in the labor force participation starting in the '60s is largely due to women entering the labor force. That influx also peaked in early 2000 at around 60%. The falling participation rate has recently been due to several factors. The number of people collecting disability has risen. The decline has in part been due to the fact that the baby boomers have been retiring, and finally because people have failed to find jobs and completely dropped out of the labor market.[2]

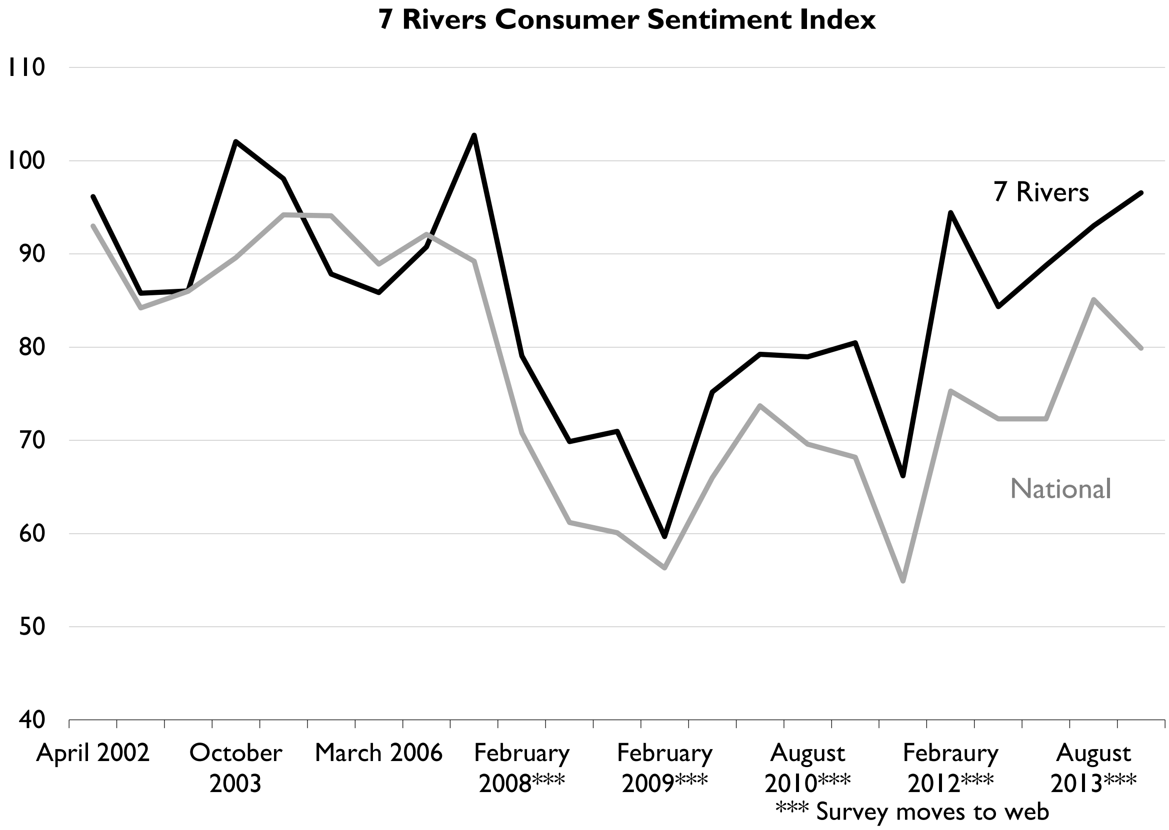
[2] For a paper which tries to differentiate between these causes see: Shigeru Fujita, "On the Causes of Declines in the Labor Force Participation Rate," *Research Rap*, Federal Reserve Bank of Philadelphia, February 6, 2014, http://philadelphiafed.org/research-and-data/publications/research-rap/2013/on-the-causes-of-declines-in-the-labor-force-participation-rate.pdf and for a paper which argues it is almost completely due to a weak economy see: Christopher J. Erceg, Andrew Levin, Working Paper No. 13/245, "Labor Force Participation and Monetary Policy in the Wake of the Great Recession," *International Monetary Fund*, December 16, 2013, http://www.imf.org/external/pubs/cat/longres.aspx?sk=41133.0



Some of the labor market challenges can be seen in the Job Openings and Labor Turnover Survey (JOLTS). This survey quantifies the number of job openings, and the number of job separations either through voluntary quits or involuntary layoffs. From the data below you can see that while job openings have been rising they are still below the level of the early 2000s and the peak in 2008. You can also see that layoffs don't appear to be the problem, nor are quits running at an excessively high rate.

Crisis of Confidence

In late March I distributed the semi-annual consumer sentiment survey to 1,247 past participants in the programs related to the 7 Rivers Region. I received 246 responses for an overall response rate of 19.7%. A table with all the data since the inception of the regional survey is available in Appendix 1. Our regional sentiment has continued to climb reaching the highest point it has seen since April 2007. In March 2014, the regional overall consumer sentiment index at 96.6 has also remained above the national index, which is at 79.9. The Current Conditions and the Expectations sub index have both trended upward over the last few surveys for the 7 Rivers Region; however, they have declined for the national index.

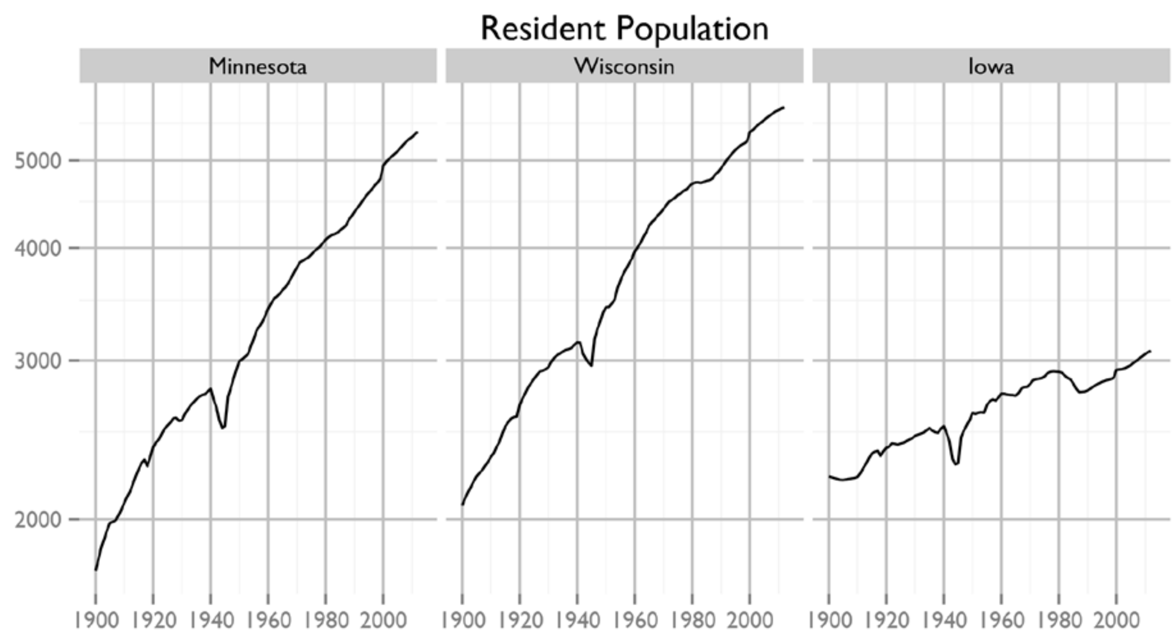


A Tale of Three States

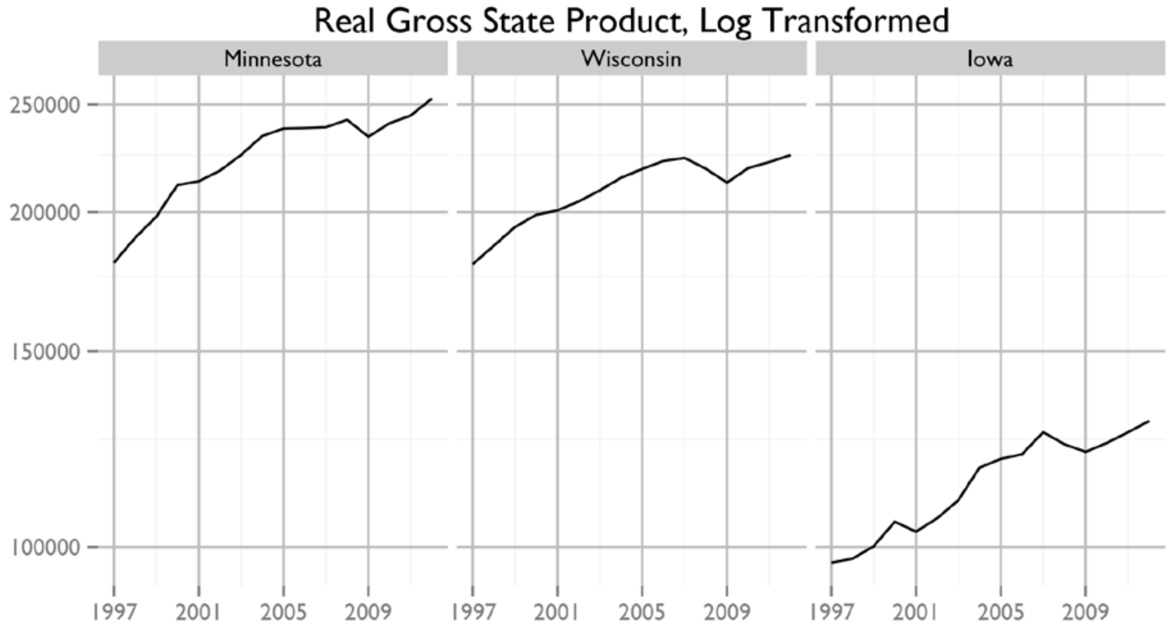
The theme of the spring 2014 meeting is regional collaboration among the states. The Honorable Scott Walker, Governor of Wisconsin and The Honorable Mark Dayton, Governor of Minnesota have been invited to share their ideas because our region spans the Mississippi River and we believe it is crucial for the leaders of Minnesota and Wisconsin to share their visions for our area and the potential for collaboration between the states. Given that our region of coverage also includes Allamakee, in this publication I will compare Minnesota, Wisconsin and Iowa on several economic indicators. The first set of graphs is to give you a sense of the sizes of the states in terms of their economic output, their population and their employment levels. Minnesota's[3] 2013 population estimate was 5,420,380, slightly below Wisconsin's[4] estimated population of 5,742,713, while Iowa's[5] was a little more than half of the

[3] "State & County QuickFacts; Minnesota," *U.S. Department of Commerce, United States Census Bureau*, http://quickfacts.census.gov/qfd/states/27000.html
[4] "State & County QuickFacts: Wisconsin," *U.S. Department of Commerce, United States Census Bureau*, http://quickfacts.census.gov/qfd/states/55000.html
[5] "State & County QuickFacts: Iowa," *U.S. Department of Commerce, United States Census Bureau*, http://quickfacts.census.gov/qfd/states/19000.html

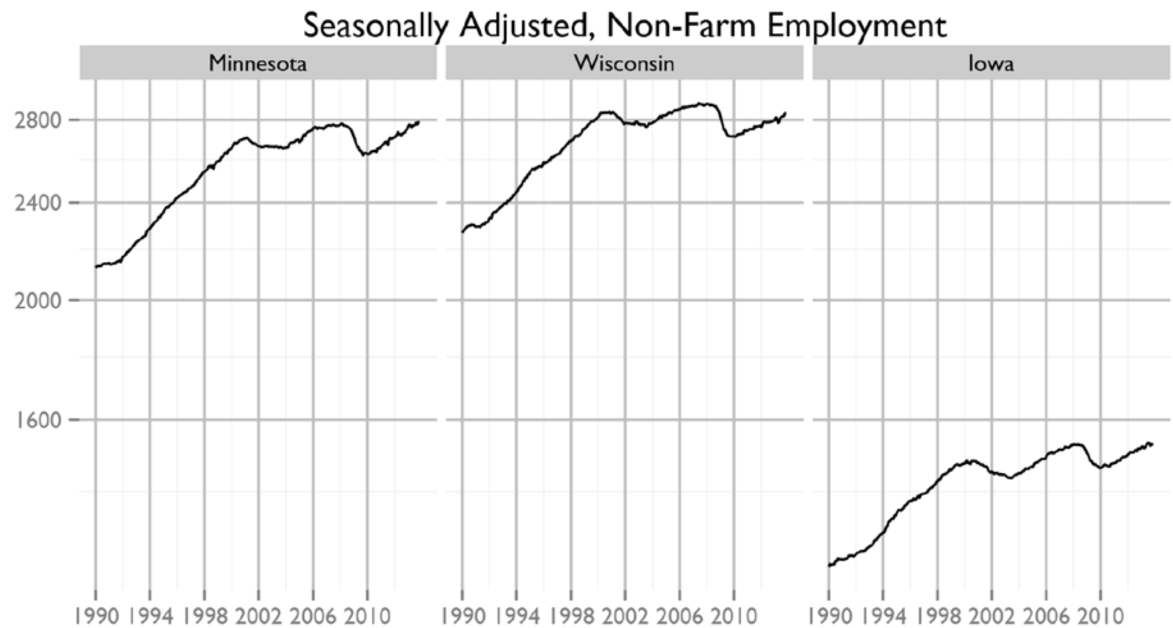
population of Wisconsin with a population of 3,090,416. The plot below depicts the population estimates from the census going back to 1900. The impact of World War II is quite clear in all three graphs, as is the exodus from Iowa during the farm crisis of the early 1980s. The early '80s also appear to have affected population growth in Wisconsin, but is hardly noticeable in Minnesota's population growth. The scale of the Y access is a log scale, so that the vertical increase represents a percentage increase rather than a nominal increase. Therefore the slopes of the lines are the population growth rates. We can see that Iowa has experienced slower population growth than the other two states and Wisconsin's population growth appears to have been a bit slower than Minnesota's over the last 20 years.



Now we turn our attention to our measures of Gross State Product (GSP), which is comparable to our national measure of Gross Domestic Product (GDP) but counts goods and services produced by each state. Again we use a log scale to help us compare both the level of output and growth rate across states. Notably Wisconsin – despite a similar level of GSP to Minnesota in 1997 has grown slower than Minnesota and is well below the current level of that state. Less output, but a great deal more citizens means a lower per capita level of income. To give you a sense of their size, if Minnesota and Wisconsin were countries their GSP would make them about the 39th and 43rd largest countries, by output. This would put them just ahead of Egypt and Pakistan, while Iowa would be the 58th largest, just ahead of Hungry.



Turning from output to non-farm employment by state, Wisconsin and Minnesota have similar levels of employment, with Wisconsin currently above Minnesota by about 40,000 jobs, while Iowa is about at the same proportion as we saw with their population, at a little over 50% of Wisconsin. It is interesting to note the response of employment in each state following the Great Recession. Both Iowa and Minnesota have now recovered completely, exceeding their previous highs, while Wisconsin is still below its peak level of employment. Of the three states Wisconsin appears to have had the lowest growth rate in employment after the recession. Additionally Wisconsin has only now recovered to the level of employment realized in 2000 prior to the recession of 2001. As we will see when we look at the differences in employment by industry, part of this can be attributed to the differential employment growth that has been seen in a few key industries.



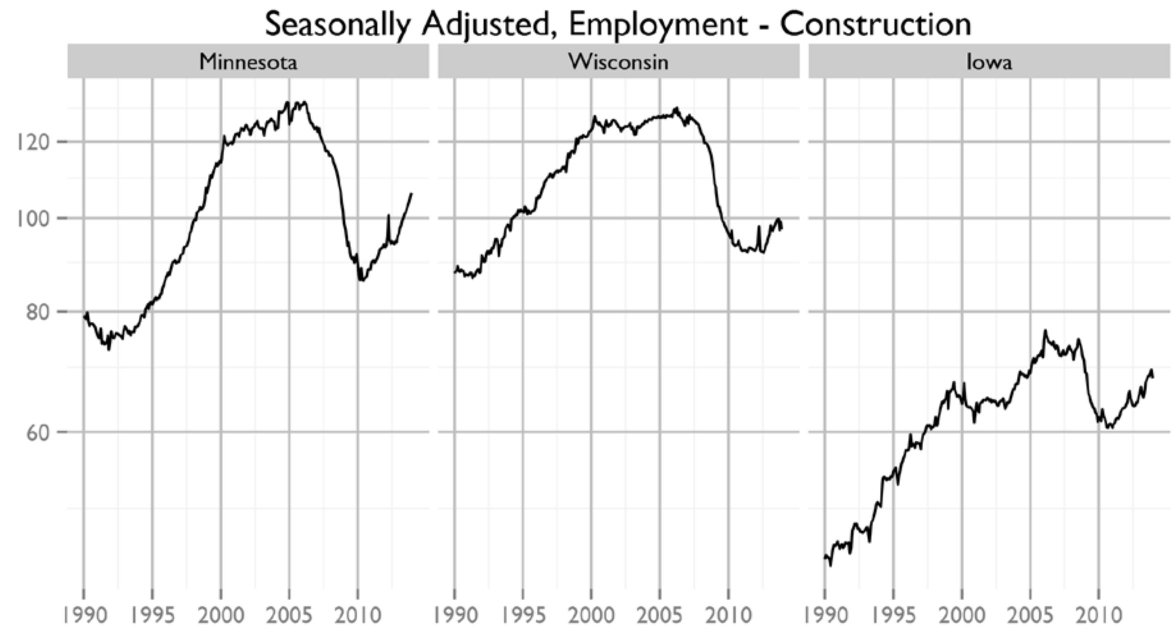
State Employment by Industry

Below we have a series of graphs similar to those we just presented. All of them also use a log scale for the y axis, so as to make the interpretation of the vertical distance in percentage terms rather than nominal terms. Therefore steeper sloped lines represent higher growth rates. Each of these graphs presents occupational employment by industry, and the numbers are in thousands. So the data are thousands of jobs by place of work.[6] Recall as a benchmark in January of 2014 total seasonally adjusted non-farm employment in Iowa was 1,536.9 thousand, while in Minnesota it was 2,812.3 thousand and Wisconsin was 2,855.2. So we would expect Minnesota and Wisconsin to have similar levels of employment in the different industries and Iowa would be about 54% of Wisconsin's level.

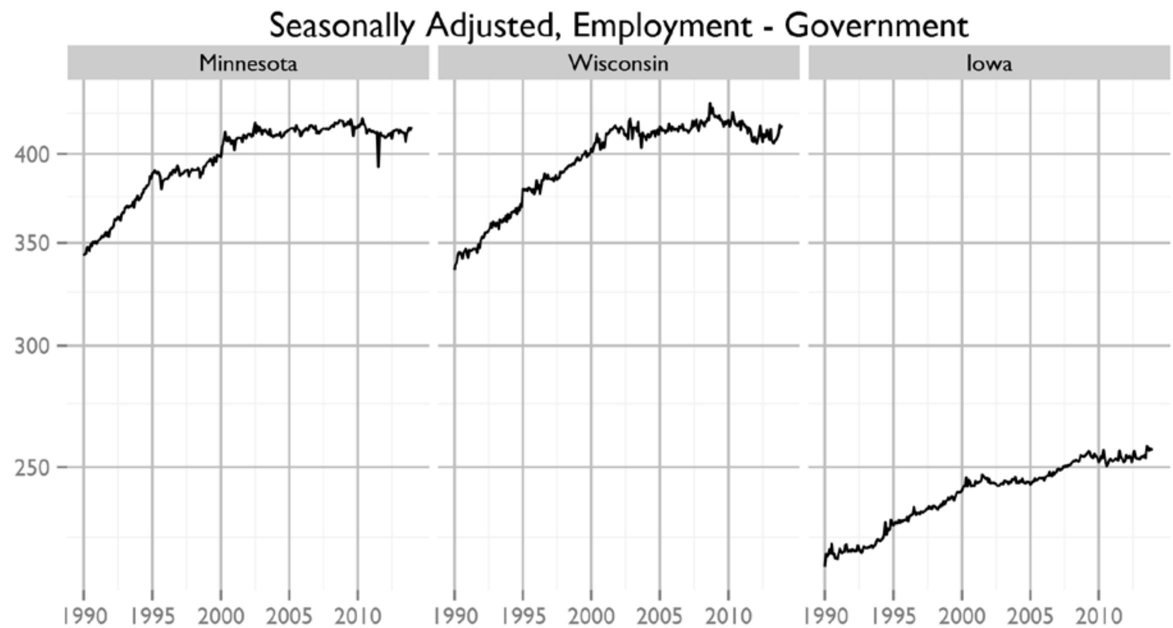
The first graph below depicts employment in the construction industry. Iowa appears to have relatively more employment in construction, with about 70% as much employment as currently in Wisconsin. The recession devastated construction employment in all states, though the least in percentage terms in Iowa. The largest percentage loss was in Minnesota, but it has also seen the largest percentage return after the recession. Wisconsin has seen very tepid recovery in

[6] "Table 5. Employees on nonfarm payrolls by state and selected industry sector, seasonally adjusted," *United States Department of Labor, Bureau of Labor Statistics*, http://www.bls.gov/news.release/laus.t05.htm

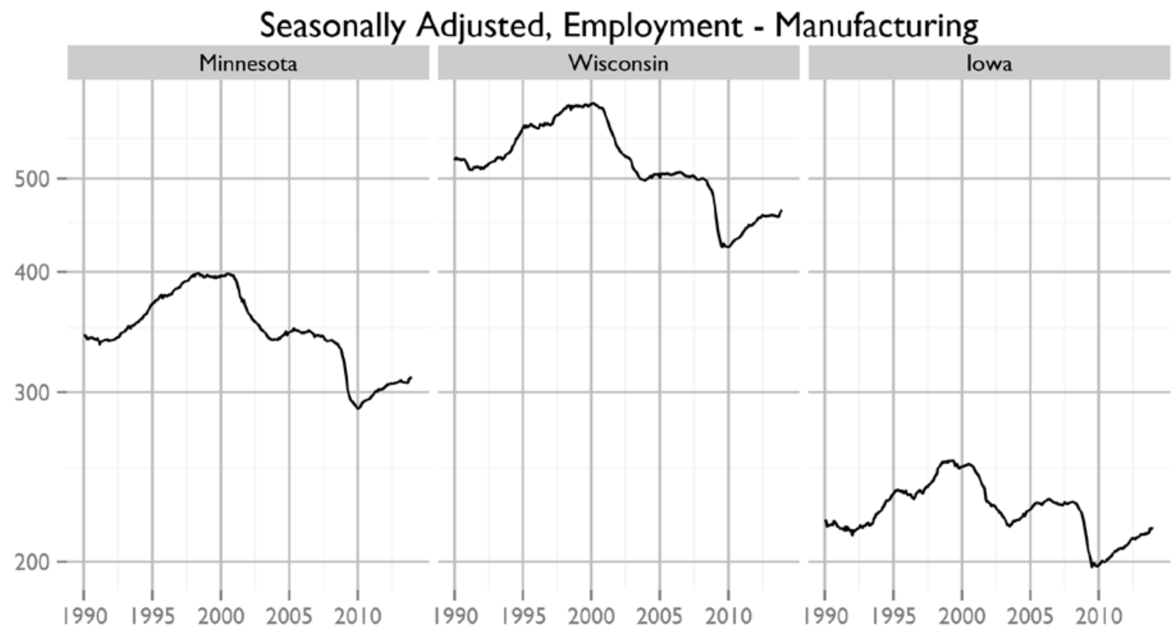
construction employment, which mirrors what has happened with new housing permits (see Appendix 1).



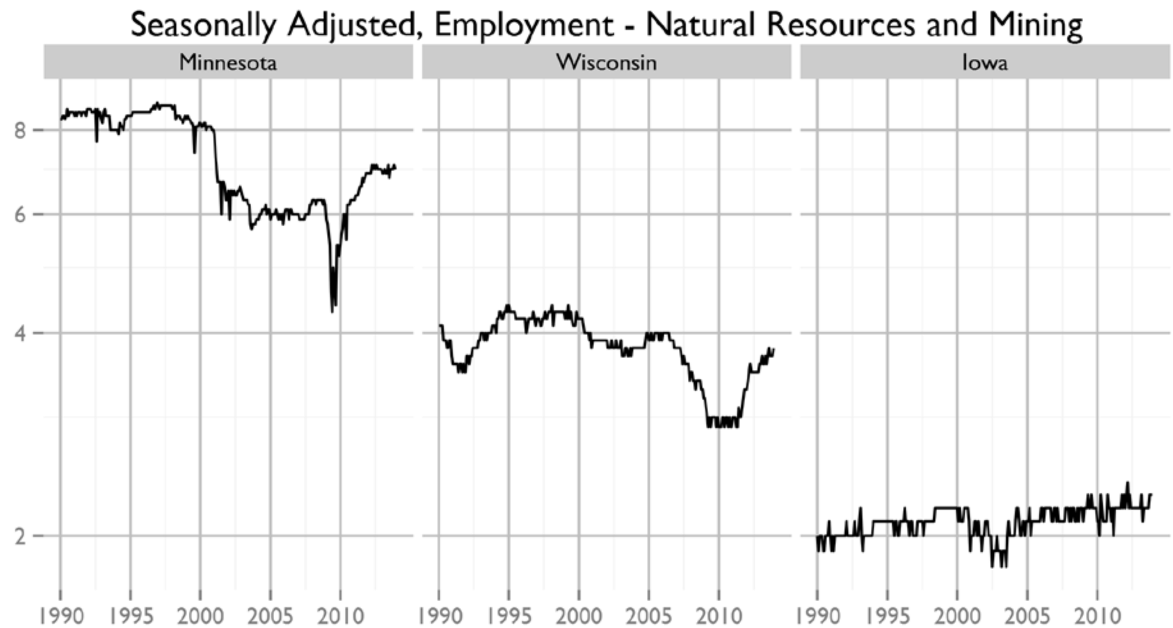
Turning to employment in the government sector we see the recession did not have as big an impact on employment as in other sectors – which is what you would expect from countercyclical fiscal policy. Wisconsin appears to have lost slightly more jobs than Minnesota, and Iowa has added employment.



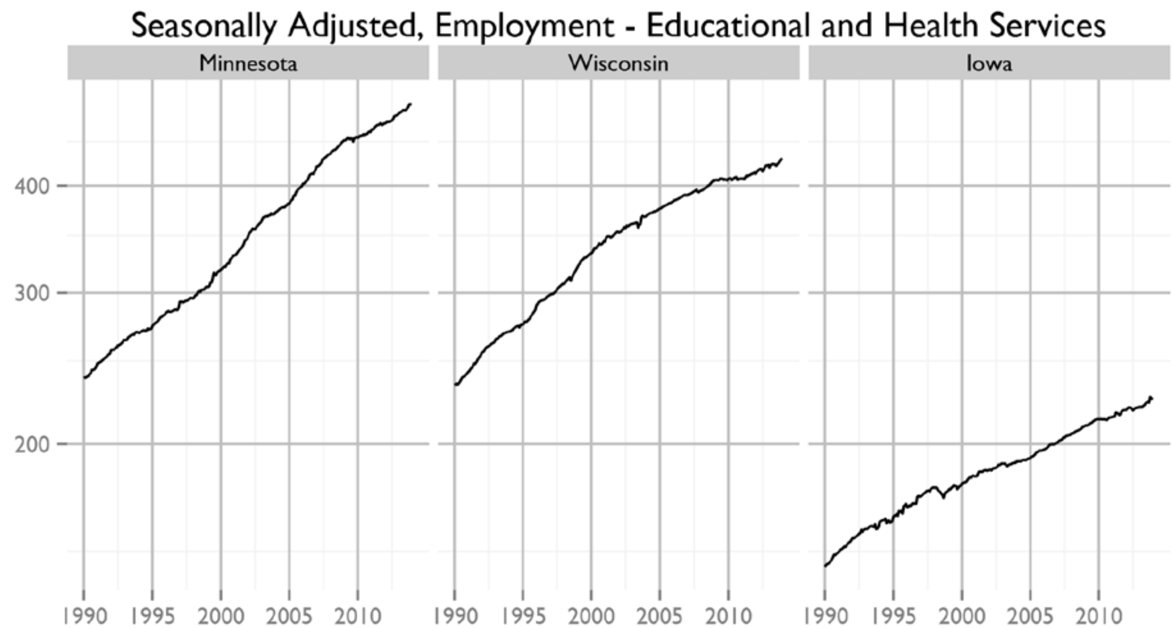
Looking at the Manufacturing sector we can start to see one of the big differences between the states. Wisconsin's employment is far more heavily tied up in the manufacturing sector than the other two states. Wisconsin has almost 50% more employment in this sector than Minnesota. The evolution of employment in this sector points to one of the reasons for slower employment growth in Wisconsin. Nationally manufacturing reached a peak in 1979, and has been in decline ever since. The Midwest has always had relatively more employment in manufacturing than the rest of the US, but you can see our recent peak was reached in 2000. The decline has been fairly steady since then with the recessions precipitating sharper structural adjustments. I would anticipate this structural change will continue and employment in this sector will be a head wind for some time to come. As such it represents a larger head wind for Wisconsin than the other states.



One of Minnesota's bright spots has been employment in the Natural Resources and Mining area. Growth in this sector has been helped by the increase in natural gas production and frac sand mining. While Wisconsin has almost completely recovered since the recession it has not surpassed its pre-recession level as is the case for Minnesota and Iowa, despite also benefiting from increased employment owing to frac sand mining.



The final graph I'd like to discuss is educational and health services. The state of Minnesota has relatively more jobs in this sector. As you can see from the "Quick Facts" below, it is a more educated, younger populace than Wisconsin or Iowa. Part of this requires more employment in education – to educate the young – but part of this is because the populace demands more educational resources. These sectors are also generally more resistant to business cycle fluctuations and thus have helped to buffer employment growth in Minnesota. We can see almost no slowdown in Minnesota's growth rate, while Wisconsin displays a leveling off in 2009.



The remaining sectors are included in Appendix 1 without comment. Below the graphs you will also find some "QuickFacts" from the US census on each state and the US as a whole. Some important highlights are the differences in the age distributions; Wisconsin and Iowa are older and less educated than Minnesotans, but more educated than the US on average. It is also important to point out that Minnesota has a higher per capita income, while Wisconsin produced 60% more in manufactured goods.

People QuickFacts	Minnesota	Wisconsin	Iowa	USA
Population, 2013 estimate	5,420,380	5,742,713	3,090,416	316,128,839
Population, percent change, April 1, 2010 to July 1, 2013	2.2%	1.0%	1.4%	2.4%
Persons under 5 years, percent, 2012	6.5%	6.1%	6.4%	6.4%
Persons under 18 years, percent, 2012	23.7%	23.0%	23.5%	23.5%
Persons 65 years and over, percent, 2012	13.6%	14.4%	15.3%	13.7%
Female persons, percent, 2012	50.3%	50.4%	50.4%	50.8%
White alone, percent, 2012 (a)	86.5%	88.2%	92.8%	77.9%
Black or African American alone, percent, 2012 (a)	5.5%	6.5%	3.2%	13.1%
Asian alone, percent, 2012 (a)	4.4%	2.5%	2.0%	5.1%
Hispanic or Latino, percent, 2012 (b)	4.9%	6.2%	5.3%	16.9%
White alone, not Hispanic or Latino, percent, 2012	82.4%	82.8%	88.0%	63.0%
Living in same house 1 year & over, percent, 2008-2012	85.5%	85.8%	84.7%	84.8%
Foreign born persons, percent, 2008-2012	7.2%	4.6%	4.3%	12.9%
Language other than English spoken at home, pct age 5+, 2008-2012	10.6%	8.6%	7.1%	20.5%
High school graduate or higher, percent of persons age 25+, 2008-2012	91.9%	90.2%	90.7%	85.7%
Bachelor's degree or higher, percent of persons age 25+, 2008-2012	32.2%	26.4%	25.3%	28.5%
Veterans, 2008-2012	377,522	423,264	233,698	21,853,912
Mean travel time to work (minutes), workers age 16+, 2008-2012	22.7	21.6	18.7	25.4
Housing units, 2012	2,361,352	2,632,581	1,345,738	132,452,405
Homeownership rate, 2008-2012	73.0%	68.6%	72.6%	65.5%
Housing units in multi-unit structures, percent, 2008-2012	21.6%	25.3%	18.4%	25.9%
Median value of owner-occupied housing units, 2008-2012	$194,300	$169,000	$123,000	$181,400
Households, 2008-2012	2,101,875	2,286,339	1,223,509	115,226,802

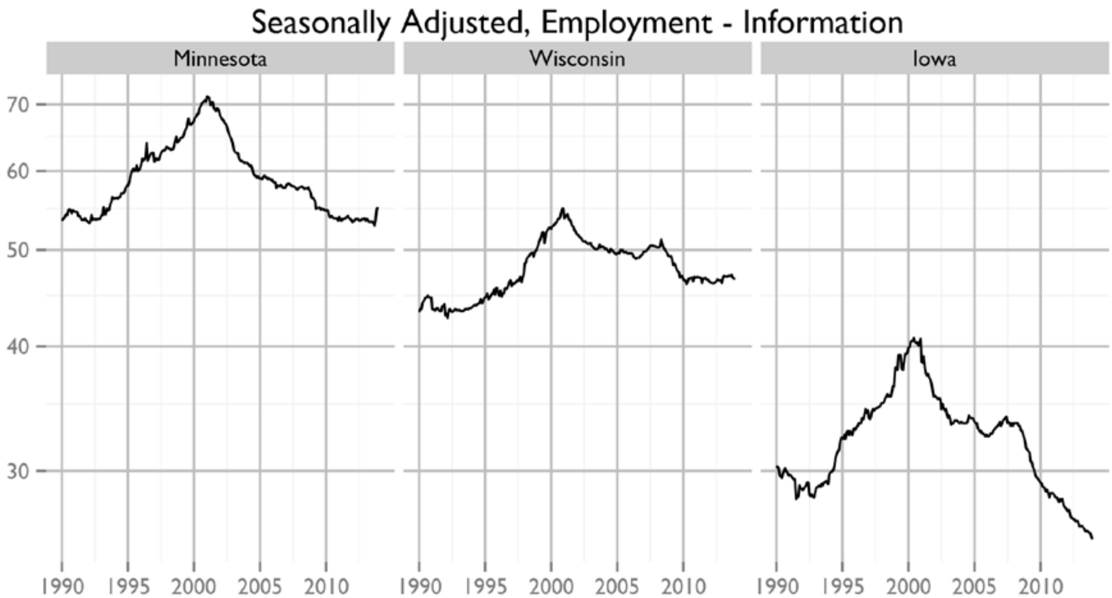
Persons per household, 2008-2012	2.46	2.42	2.41	2.61
Per capita money income in past 12 months (2012 dollars), 2008-2012	$30,656	$27,426	$26,545	$28,051
Median household income, 2008-2012	$59,126	$52,627	$51,129	$53,046
Persons below poverty level, percent, 2008-2012	11.2%	12.5%	12.2%	14.9%

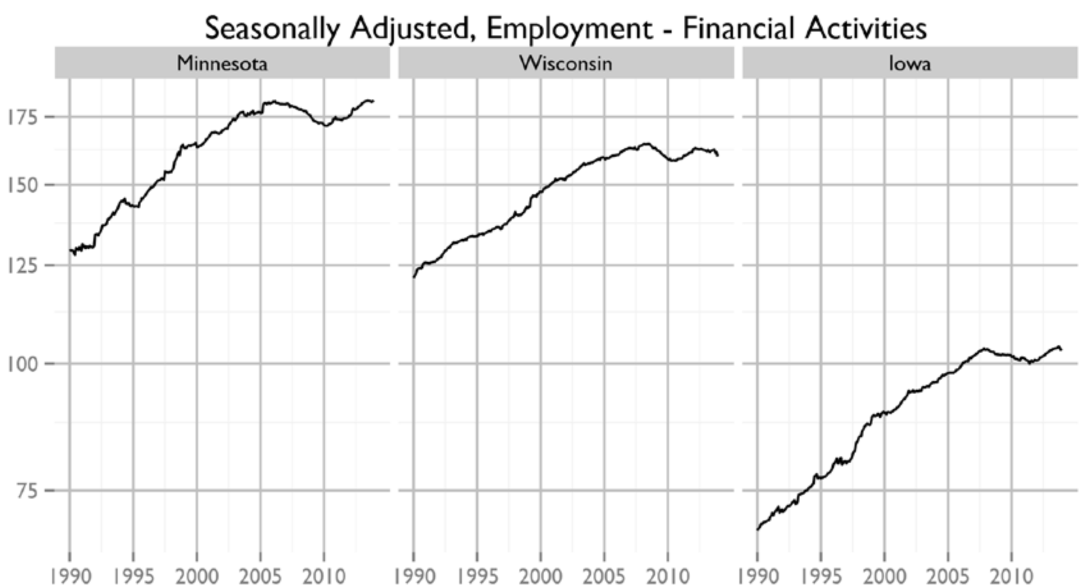
Business QuickFacts	**Minnesota**	**Wisconsin**	**Iowa**	**USA**
Private nonfarm establishments, 2011	144,606	138,045	80,113	7,354,043
Private nonfarm employment, 2011	2,393,746	2,354,284	1,263,665	113,425,965
Private nonfarm employment, percent change, 2010-2011	1.5%	1.4%	0.8%	1.3%
Nonemployer establishments, 2011	387,440	334,657	202,971	22,491,080
Total number of firms, 2007	496,657	433,797	259,931	27,092,908
Manufacturers shipments, 2007 ($1000)	107,563,060	163,563,195	97,592,051	5,319,456,312
Merchant wholesaler sales, 2007 ($1000)	82,878,056	59,996,244	41,068,338	4,174,286,516
Retail sales, 2007 ($1000)	71,384,103	72,283,321	39,234,649	3,917,663,456
Retail sales per capita, 2007	$13,751	$12,904	$13,172	$12,990
Accommodation and food services sales, 2007 ($1000)	10,423,660	9,247,311	4,737,719	613,795,732
Building permits, 2012	16,095	12,041	9,501	829,658

Geography QuickFacts	**Minnesota**	**Wisconsin**	**Iowa**	**USA**
Land area in square miles, 2010	79,626.74	54,157.80	55,857.13	3,531,905.43
Persons per square mile, 2010	66.6	105	54.5	87.4
FIPS Code	27	55	19	

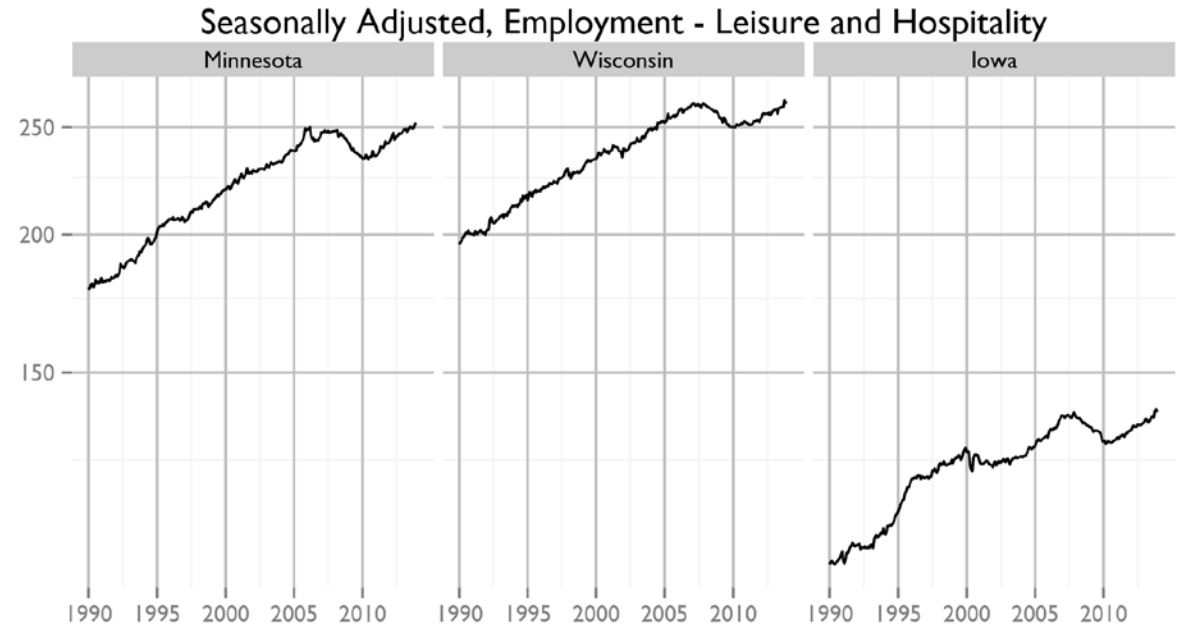
Source: US Census Bureau State & County QuickFacts

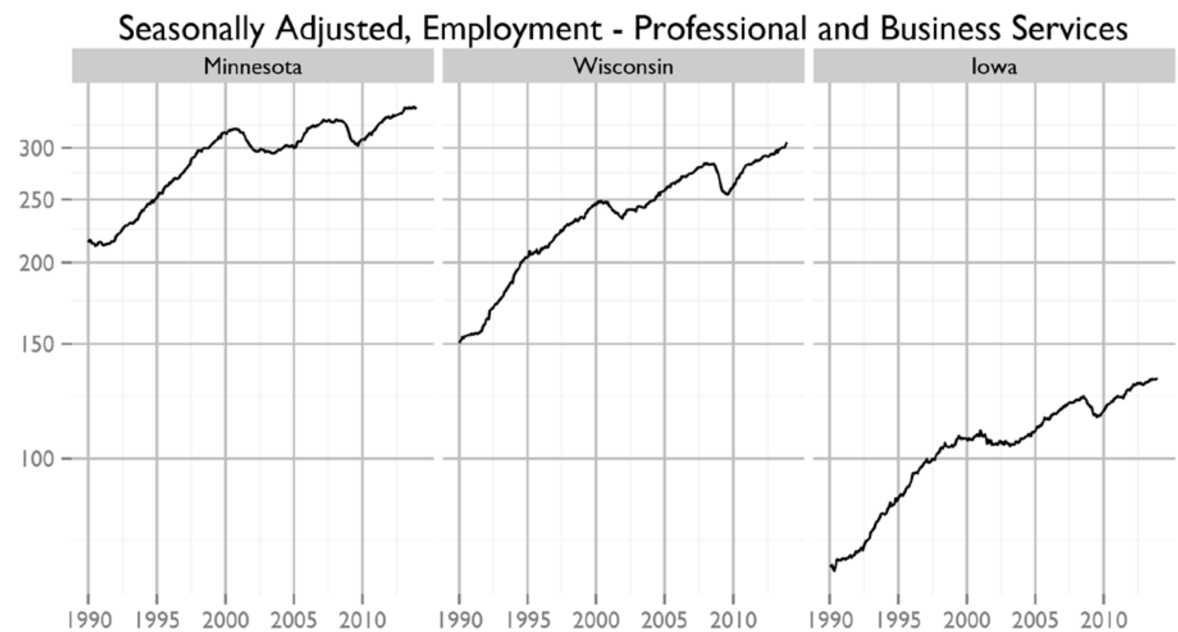
Appendix 1:





Note: Additional charts can be found at: http://websites.uwlax.edu/tbrooks/econindicators/index.html, though the URL may be changing as I search for a more permanent home.

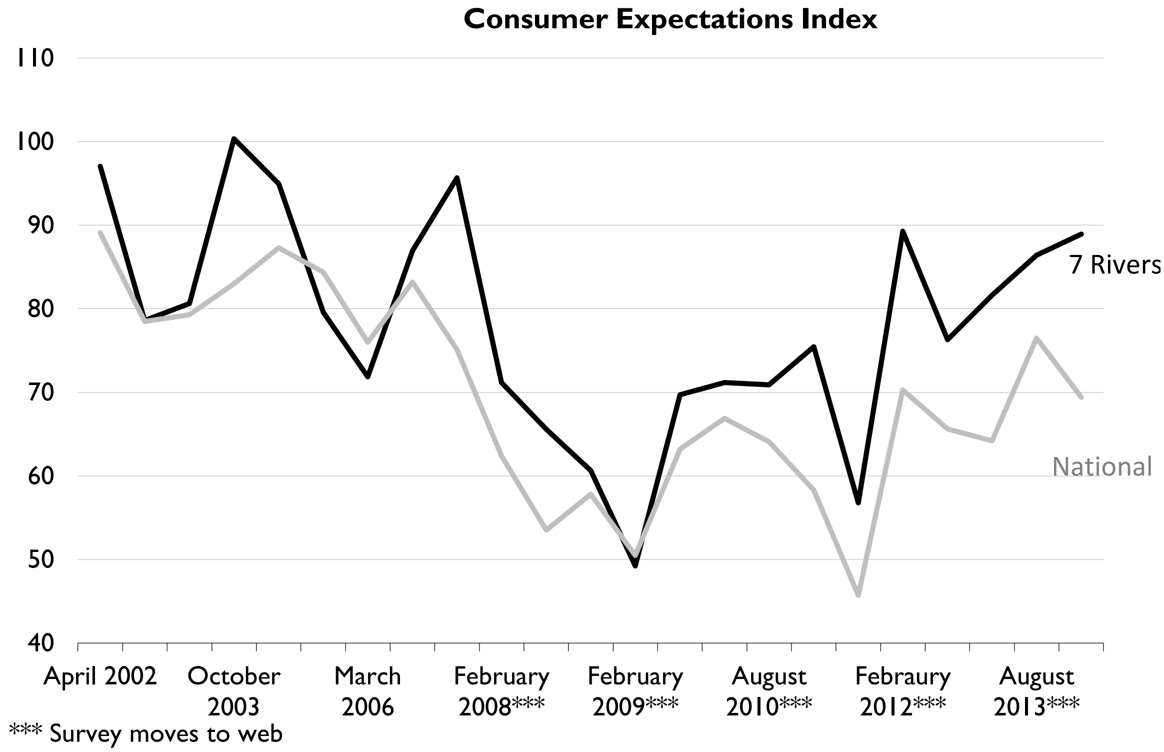

Seasonally Adjusted, Employment - Leisure and Hospitality
Minnesota
Wisconsin
Iowa
250
200
150
1990
1995
2000
2005
2010

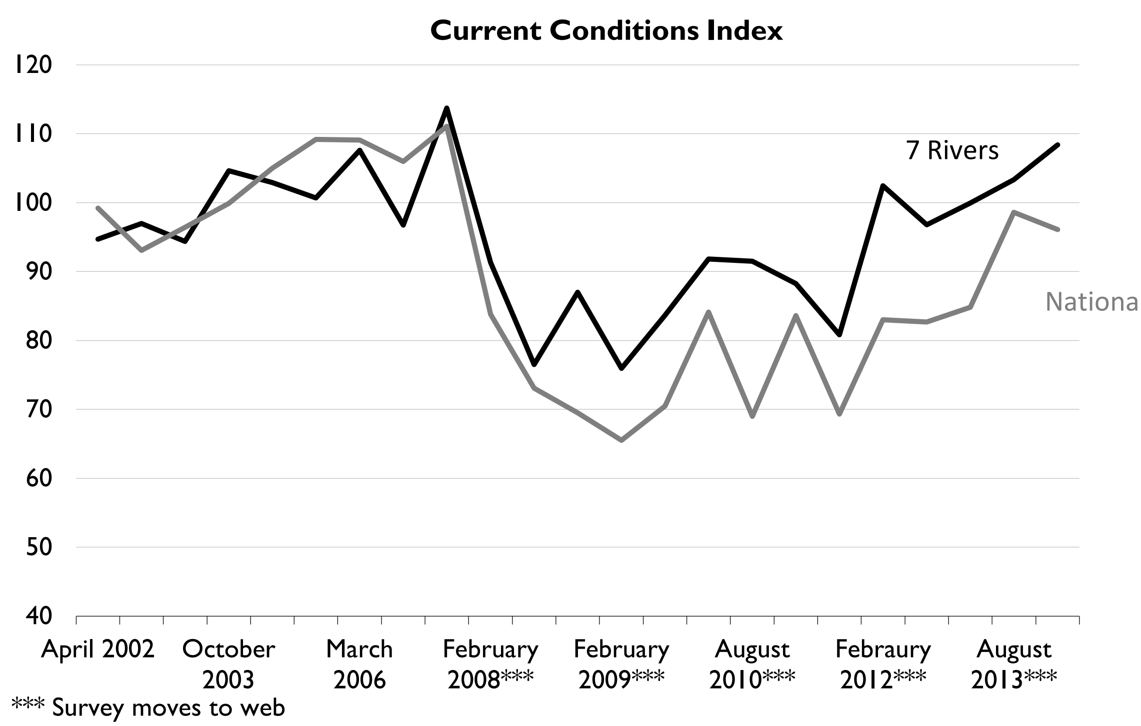

Seasonally Adjusted, Employment - Professional and Business Services
Minnesota
Wisconsin
Iowa
300
250
200
150
100
1990
1995
2000
2005
2010

Consumer Sentiment Index Data

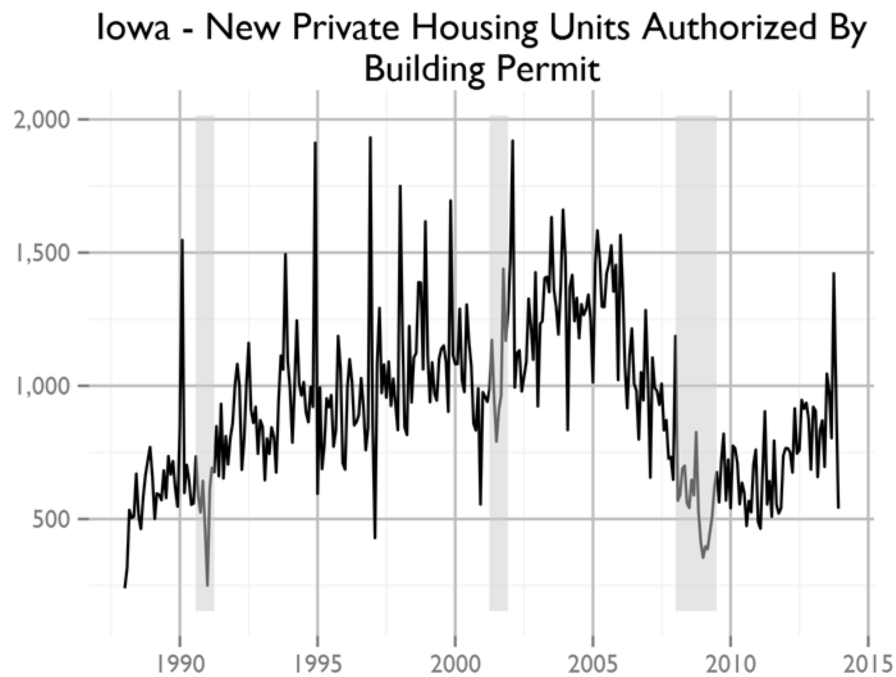
	Consumer Sentiment		Current Conditions		Consumer Expectations	
	7 Rivers	National	7 Rivers	National	7 Rivers	National
April 2002	96.1	93	94.7	99.2	97.1	89.1
November 2002	85.8	84.2	97.0	93.1	78.6	78.5
April 2003	86.0	86	94.4	96.4	80.6	79.3
October 2003	102.0	89.6	104.6	99.9	100.4	83.0
April 2004	98.1	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
August 2013***	93.0	85.1	103.3	98.6	86.4	76.5
March 2014***-	96.6	79.9	108.4	96.1	89.0	69.4

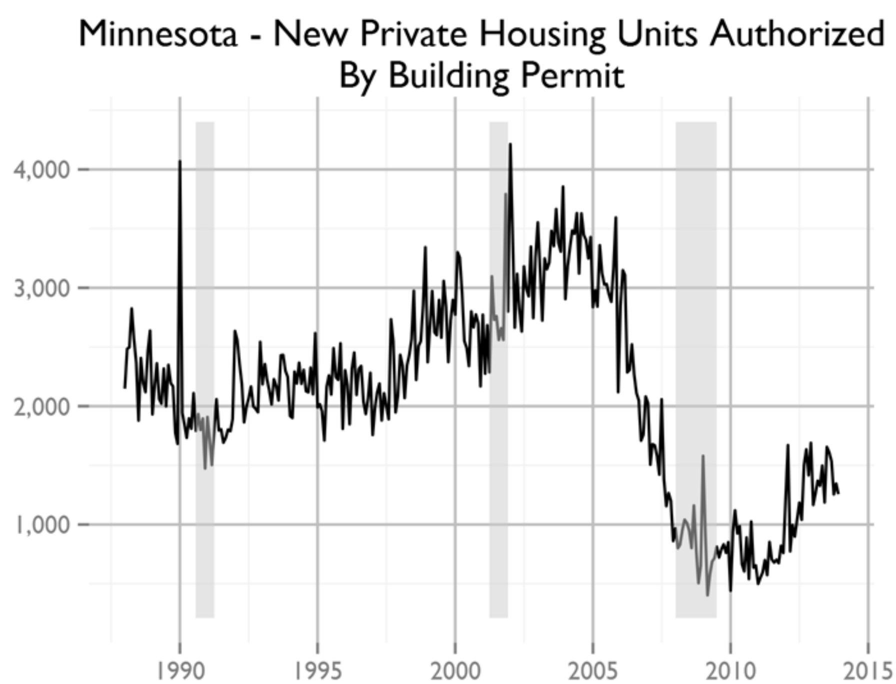
***** Survey moved to the web.**

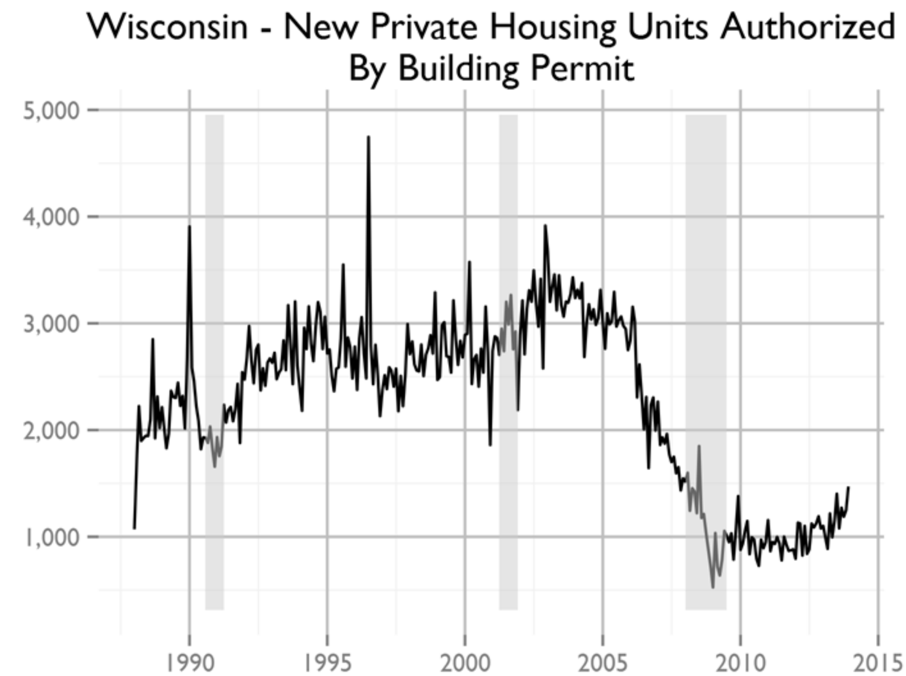

Consumer Expectations Index
110
100
90
80
70
60
50
40
April 2002
October 2003
March 2006
February 2008***
February 2009***
August 2010***
Febraury 2012***
August 2013***
*** Survey moves to web
7 Rivers
National


Current Conditions Index
120
110
100
90
80
70
60
50
40
April 2002
October 2003
March 2006
February 2008***
February 2009***
August 2010***
Febraury 2012***
August 2013***
*** Survey moves to web
7 Rivers
Nationa

Miscellaneous Data

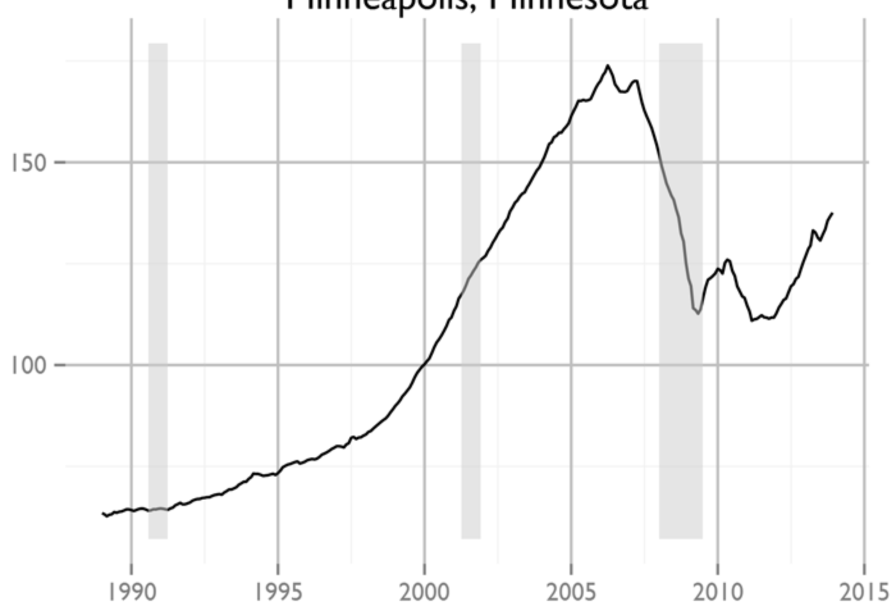


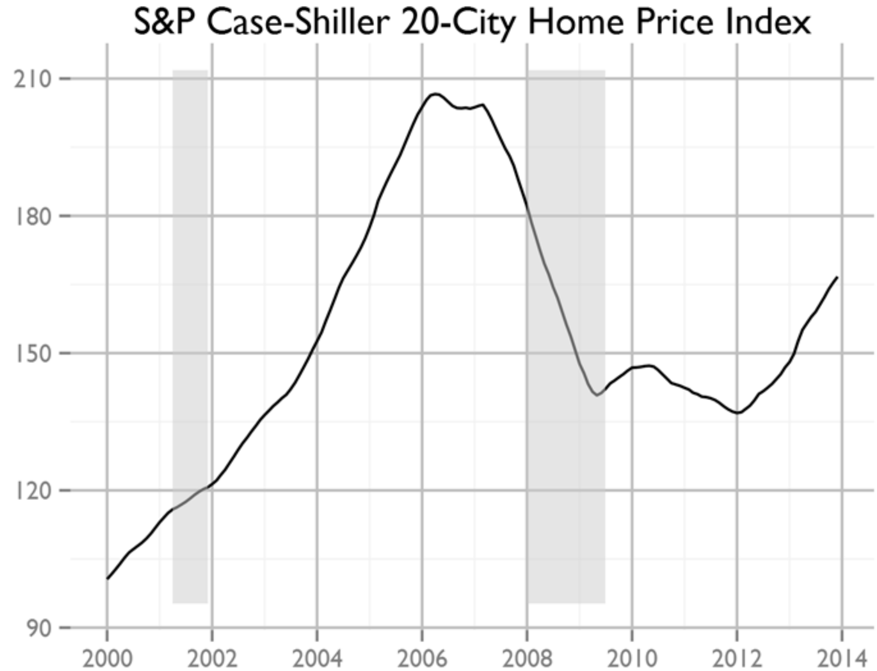


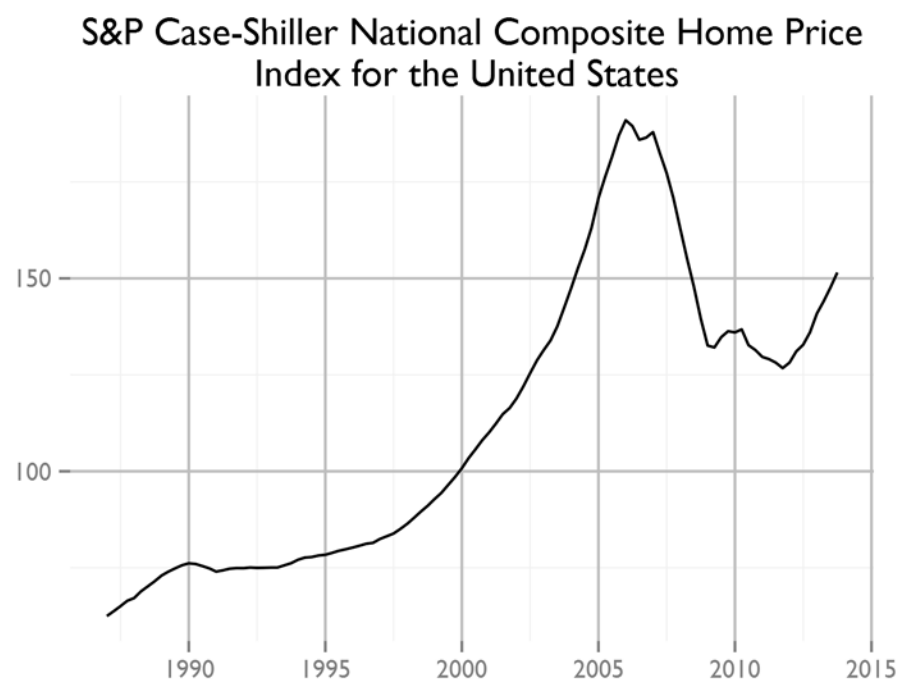

Wisconsin - New Private Housing Units Authorized
By Building Permit
5,000
4,000
3,000
2,000
1,000
1990
1995
2000
2005
2010
2015

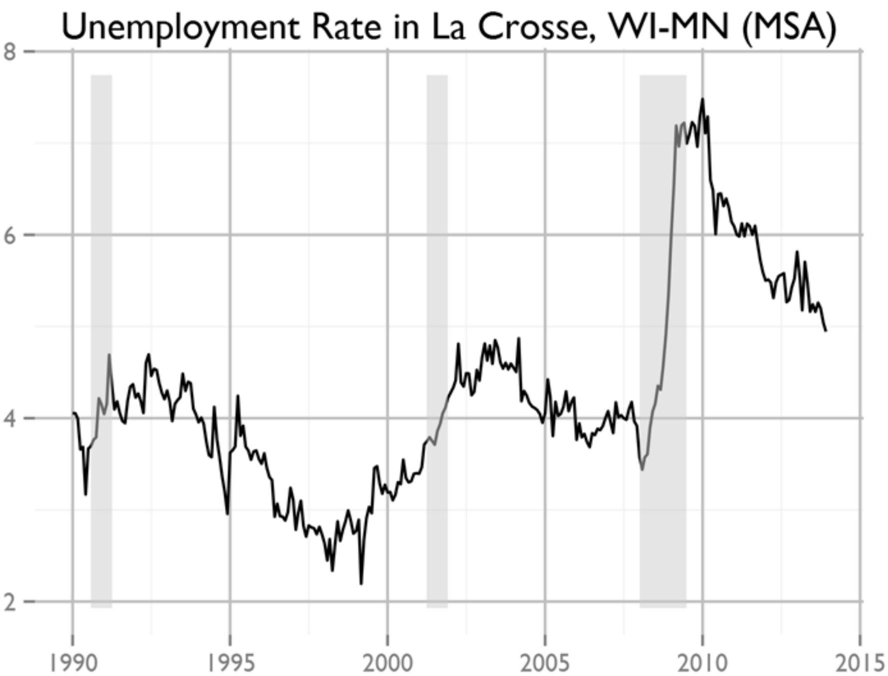
30-Year Fixed Rate Mortgage Average in the United States

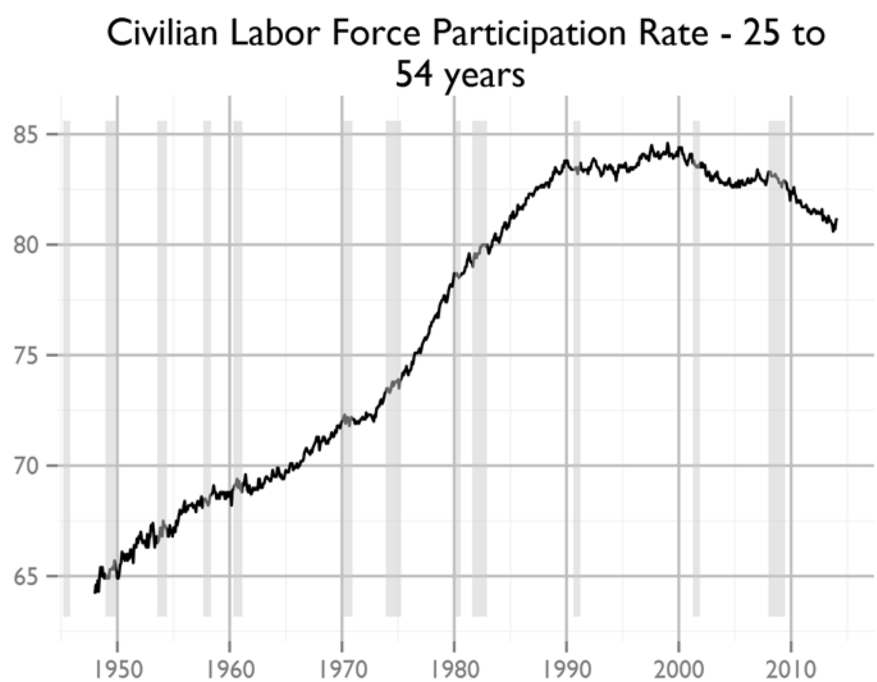
S&P Case-Shiller Home Price Index for Minneapolis, Minnesota




S&P Case-Shiller 20-City Home Price Index
210
180
150
120
90
2000
2002
2004
2006
2008
2010
2012
2014


S&P Case-Shiller National Composite Home Price Index for the United States
150
100
1990
1995
2000
2005
2010
2015


Unemployment Rate in La Crosse, WI-MN (MSA)
8
6
4
2
1990
1995
2000
2005
2010
2015


Civilian Labor Force Participation Rate - 25 to 54 years
85
80
75
70
65
1950
1960
1970
1980
1990
2000
2010

Seven Rivers Equity Index Update: Strong Stock Performance Driven by Acquisition of Rochester Medical and Turnaround for HMN Financial

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 February 1, 2014). During this time period, three firms in the index were acquired by firms outside of the region and one firm was added due to moving their headquarters into the region. During the most recent year, the index has performed similarly to one of its benchmarks and underperformed one of its benchmarks.

In this issue, I describe the performance of the index, examine the fundamental financial ratios for the index components, and discuss the acquisition of Rochester Medical and entry of Spectrum Brands into the index.

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 Company
- Flexsteel Industries, Inc.
- Hormel Foods Corporation
- Marten Transport Ltd.
- National Presto Industries, Inc.
- Spectrum Brands Holding, Inc.

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 Appendix 2. 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, one (Spectrum Brands) is a mid-cap firm, four (Heartland Financial, HMN Financial, Marten Transport, and National Presto) are small-cap firms, and the remaining two (Citizens Community Bancorp and Flexsteel Industrues) are micro-cap firms. In the past three years, three firms (Great Wolf Resorts, Rochester Medical, and Renaissance Learning) exited the index due to being acquired by firms that are headquartered outside of the 7 Rivers Region and one firm (Spectrum Brands) was added to the index due to the move of its headquarters to within 100 miles of the 54601 ZIP code.

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 February 1, 2009 and ending February 1, 2014. The monthly returns are calculated as the percentage change 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. As a result, the use of the adjusted price provides a measurement of 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 Appendix 2, 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 1,342 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. Primarily due to the acquisition of three of the firms in the index in the past three years, the average size of the firms in the SREI has increased and the S&P 400 ETF is the more suitable benchmark of the two.

The financial services industry is unique from other industries due to its high level of regulation and often 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 companies 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 consists of 58 equities that are representative of the Dow Jones Regional Banks 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 81 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 February 1.

Table 1. Annual Returns for SREI Components and Benchmarks

For the Twelve Months Ending February 1,

SREI Components	**2014**	**2013**	**2012**	**2011**	**2010**
Citizens Community	17.14%	14.12%	25.91%	17.04%	-40.98%
Fastenal Company	-15.96%	0.67%	72.19%	44.67%	50.19%
Flexsteel Industries	32.26%	38.43%	19.63%	25.93%	101.12%
Great Wolf Resorts[a]		93.83%	47.27%	10.89%	45.88%
Heartland Financial	5.33%	52.26%	-4.74%	19.78%	31.89%
HMN Financial	95.53%	190.27%	-24.80%	-50.70%	122.77%
Hormel Foods	18.10%	34.16%	5.83%	35.92%	32.06%
Marten Transport	35.03%	3.86%	-1.93%	13.66%	13.71%
National Presto	-1.91%	-4.27%	-21.84%	7.07%	108.51%
Renaissance Learning[b]			55.72%	-8.34%	101.56%
Rochester Medical[c]	35.50%	57.36%	-11.26%	-18.25%	24.09%
Spectrum Brands[d]	6.01%				
Average	**22.70%**	**48.07%**	**14.73%**	**8.88%**	**53.71%**
Median	**17.62%**	**36.30%**	**5.83%**	**13.66%**	**45.88%**
S&P 400 Mid-Cap Index	17.53%	14.36%	2.42%	32.15%	66.07%
Russell Micro-Cap Index	30.73%	14.86%	-3.40%	31.64%	63.80%

[a] Great Wolf Resorts was purchased by the Apollo Group during 2012.
[b] Renaissance Learning was purchased by Permira Funds during 2011.
[c] Rochester Medical was acquired by C.R. Bard in late 2013.
[d] Spectrum Brands moved its headquarters to Middleton, WI in late 2013, meeting the requirements of being included in the SREI.

Fastenal's negative return for the previous 12 months are likely attributable to slowing sales growth and a deteriorating gross profit margin. Sales growth for 2013 over the prior year was 6.1%, compared to 13.3% for the calendar year 2012. Per a press release dated January 15, 2014, Fastenal management stated that the deterioration in the gross margin during the fourth quarter 2013 was driven by low utilization of their trucking network (which likely has high fixed costs), supplier incentives, a higher proportion of low margin items being sold, and "a very competitive marketplace."

Despite falling gross and net profit margins for the past two years, returns for *Flexsteel* have been strong largely due to strong sales growth and the report that a one-time litigation settlement was a significant driver for the lower net profit margin in 2013.

Marten Transport's strong performance for the previous 12 months was driven by the highest net income for the firm in its history and improving profit margins. According to a press release by the firm management dated January 21, 2014, all of this occurred despite a challenging market that included increased maintenance costs, pay inflation to drivers, and revised hours of service regulations.

The significant positive returns for *Rochester Medical* in the previous year were due to the acquisition of the company by C.R. Bard, which was announced on September 3, 2013 per SEC filings. The $262 million dollar price represented an approximate 45% premium over the market value of the stock at the time of the announcement. The large positive return for the company for the period ending February 1, 2013 was driven by 16% sales growth and a return to profitability after two years of losses.

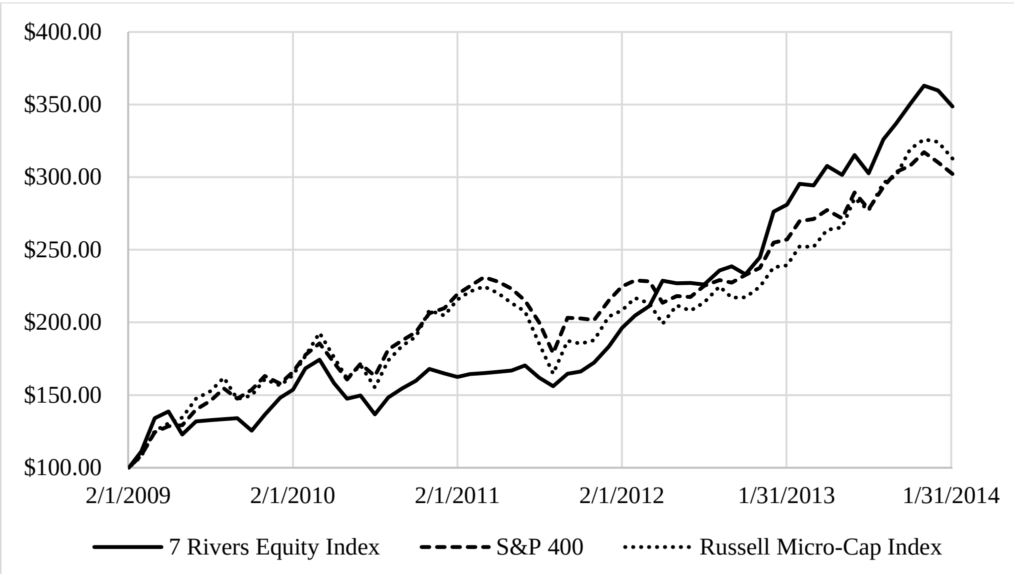
Figure 1 shows the growth of $100 invested in the SREI equally across each of the component firms and $100 invested in each of the benchmarks on February 1, 2009 and holding those positions through February 1, 2014.[7] The ending value of the SREI was $348.74, for the S&P 400 it was $302.11, and $312.76 for the Russell Micro-Cap Index.

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. The amount invested in Rochester Medical was equally distributed across the remaining firms as of November 1, 2013. Because of their move from east Madison, WI to Middleton, WI in late

[7] 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.

October 2013, Spectrum Brands was added to the SREI as of November 1, 2013. To account for the addition, the total value of the index was redistributed equally across all of the firms in the index.

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



<u>Financial Firms' Performance</u>

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. The average return for the SREI Financial firms was higher than that of the benchmarks because of the strong performance of HMN Financial during the previous 12 months. The average (median) return for the SREI Financials was significantly higher than that of the benchmarks at 85.55% (52.26%) compared to 14.92% for the Dow Jones Regional Banks fund and 15.23% for Heartland Financial.

The strong returns for *HMN Financial* for the past two years are largely due to an improvement of the firm's asset quality, specifically an increase in the value of the collateral for commercial real estate loans. The improvement in the asset quality has driven increased profitability because the firm has been able to reverse heavy provision for loan loss expenses over the past two years. This occurrence is explained in more detail in the Balance Sheet Analysis portion of this report.

Between January 22, 2013 and January 24, 2013 a 79.41% increase in price coincided with the release of fourth quarter results for 2012 that revealed considerable improvement in loan quality and profitability. A 20.06% increase in price between April 17, 2013 and April 23, 2013 was the result of the first quarter earnings announcement, which included information demonstrating continued improvement in the asset quality of HMN Financial.

Heartland Financial's strong returns for the 12 month period ending February 1, 2013 were driven by record profitability for the firm in FY2012. Heartland Financial (HTLF) used the operating success and increase in stock price to acquire three smaller banks in the past 16 months. In December 2012, HLTF purchased Heritage Bank of Phoenix, AZ for $15.6 million in cash. In October 2013, HLTF purchased Morrill Bancshares of Merriam, Kansas. This acquisition was paid for with $16.6 million in cash and $38.8 million in HTLF stock. In November 2013, HTLF purchased Freedom Bank of Sterling, IL. This acquisition was described as a "negotiated transfer of ownership" and may have been a trade-off for HTLF accepting a $13 million non-performing loan from Freedom's parent company in late 2013.[8]

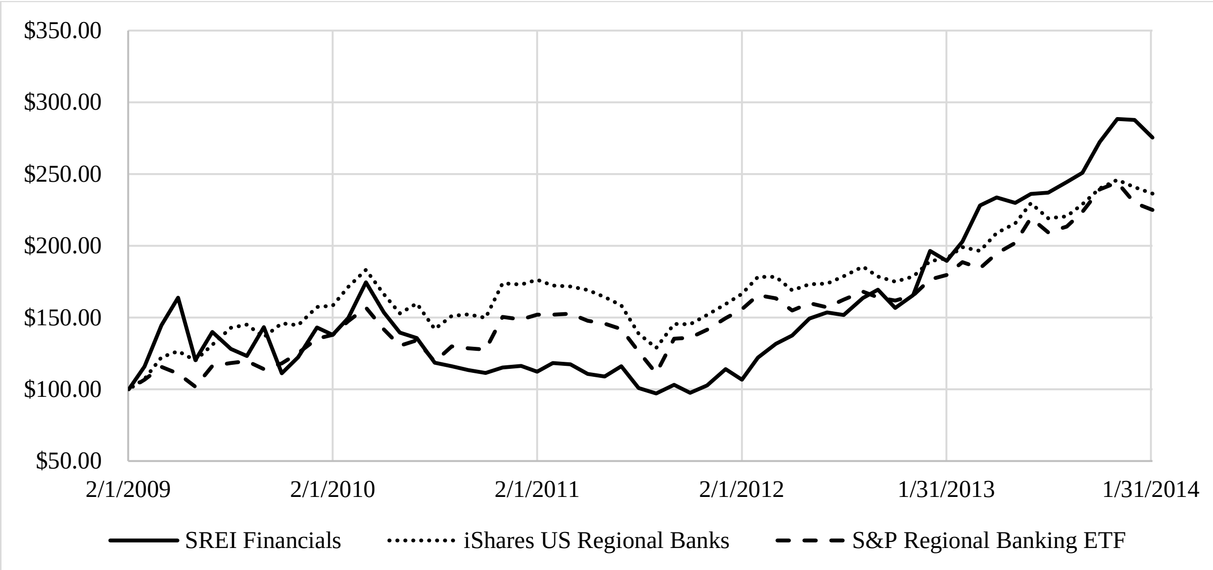
Table 2. Annual Returns for SREI Financials and Benchmarks
For the Twelve Months Ending February 1st,

SREI Components	**2014**	**2013**	**2012**	**2011**	**2010**
Citizens Community	17.14%	14.12%	25.91%	17.04%	-40.98%
Heartland Financial	5.33%	52.26%	-4.74%	19.78%	31.89%
HMN Financial	95.53%	190.27%	-24.80%	-50.70%	122.77%
Average	**39.33%**	**85.55%**	**-1.21%**	**-4.63%**	**37.89%**
Median	**17.14%**	**52.26%**	**-4.74%**	**17.04%**	**31.89%**
iShares DJ Regional Banks	23.52%	14.92%	-5.57%	11.37%	58.33%
S&P Regional Banking ETF	25.23%	15.23%	2.61%	10.15%	37.92%

Figure 2 shows the results of investing $100 in the Seven Rivers Financial Index--also equally-weighted across the firms--and into each of the two benchmarks. The $100 initially invested in the Seven Rivers Financial Index would have been worth $275.45 at the end of the measurement period; the increase largely due to the large returns for HMN Financial. The same $100 would have been worth $236.38 if invested in the iShares Dow Jones Regional Banks Index and $224.94 if invested in the S&P Regional Banking Exchange Traded Fund.

[8] Robert Barba, "An M&A Deal That May Have Settled A Score," *American Banker,* Dec. 2, 2013, Vol. 178, P. 11

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



Accounting Measure Performance

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. Information for the tables was taken from Standard & Poor's Capital IQ™.

Income Statement Performance

For the non-financial firms, revenues rose consistently across the three-year time period for all of the firms except National Presto Industries. For the financial firms, Citizens Community and HMN Financial had growing revenues across the three year period, while Heartland Financial experienced stagnant revenue growth in 2013.

The gross profit margins for the non-financial firms were stable for the three year period, while the median net profit margin improved for the firms over the period. A slight dip in the average net income margin in 2013 was due to a consistent decrease in the measure for Flexsteel over the measurement period and a negative net profit for Spectrum Brands for 2013. The average and median return on equity for the non-financial firms fell across the period due to a consistent decrease for Flexsteel, Hormel Foods, and National Presto for the three years.

The increasing average net profit margin for the three year period for the financial firms was driven by the increase in the net profit margin for HMN Financial over the measurement period. 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. HMN Financial has yet to resume paying dividends.

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 2011 and 2012, but fell for each of the firms in 2013. The decrease in net interest margins in 2013 was consistent with a national trend. This 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 a continued improvement in loan quality in 2013, the net interest margins for the financial institutions 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		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Fastenal Company	$ 3,326.10	$ 3,133.60	$ 2,766.90	51.7%	51.5%	51.8%	13.5%	13.4%	12.9%	26.9%	27.9%	26.1%
Flexsteel Industries[a]	$ 417.20	$ 386.20	$ 352.10	23.1%	23.4%	24.2%	2.9%	3.4%	3.7%	8.2%	9.0%	9.8%
Hormel Foods[b]	$ 8,751.70	$ 8,230.70	$ 7,895.10	16.1%	16.2%	16.9%	6.0%	6.1%	6.0%	17.3%	18.4%	18.9%
Marten Transport	$ 659.20	$ 638.50	$ 603.70	23.6%	22.3%	22.4%	4.6%	4.3%	4.2%	8.7%	8.5%	8.1%
National Presto Industries[c]	$ 427.00	$ 472.50	$ 431.00	20.2%	20.1%	21.8%	8.3%	8.2%	11.1%	11.1%	12.4%	14.1%
Spectrum Brands[d]	$ 4,085.60	$ 3,252.40	$ 3,186.90	35.0%	34.6%	35.7%	-1.4%	1.5%	-2.4%	-5.7%	4.8%	-7.3%
Median	**$ 1,992.65**	**$ 1,886.05**	**$ 1,685.30**	**23.4%**	**22.9%**	**23.3%**	**5.3%**	**5.2%**	**5.1%**	**9.9%**	**10.7%**	**12.0%**
Average	**$ 2,944.47**	**$ 2,685.65**	**$ 2,539.28**	**28.3%**	**28.0%**	**28.8%**	**5.7%**	**6.2%**	**5.9%**	**11.1%**	**13.5%**	**11.6%**

Financial Firms

	Revenues (in millions)			Net Interest Margin			Net Profit Margin			Return on Equity		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Citizens Community[e]	$ 19,171.00	$ 17,726.00	$ 17,604.00	3.6%	3.9%	3.6%	5.5%	1.2%	1.1%	1.9%	0.4%	0.4%
Heartland Financial	$ 243.20	$ 245.30	$ 175.60	3.8%	4.0%	4.2%	15.1%	20.3%	16.0%	8.7%	13.2%	8.2%
HMN Financial	$ 34,887.00	$ 29,571.00	$ 17,997.00	3.5%	3.7%	3.6%	76.4%	18.0%	-64.2%	36.4%	9.0%	-18.3%
Median	**$ 19,171.00**	**$ 17,726.00**	**$ 17,604.00**	**3.6%**	**3.9%**	**3.6%**	**15.1%**	**18.0%**	**1.1%**	**8.7%**	**9.0%**	**0.4%**
Average	**$ 18,100.40**	**$ 15,847.43**	**$ 11,925.53**	**3.6%**	**3.9%**	**3.8%**	**32.3%**	**13.2%**	**-15.7%**	**15.7%**	**7.5%**	**-3.2%**

Unless otherwise noted, the following notes apply to the remaining tables in the report.

[a] Flexsteel Industries has a FYE of June 30th. The 2013 number reflects the LTM ending December 31, 2013.

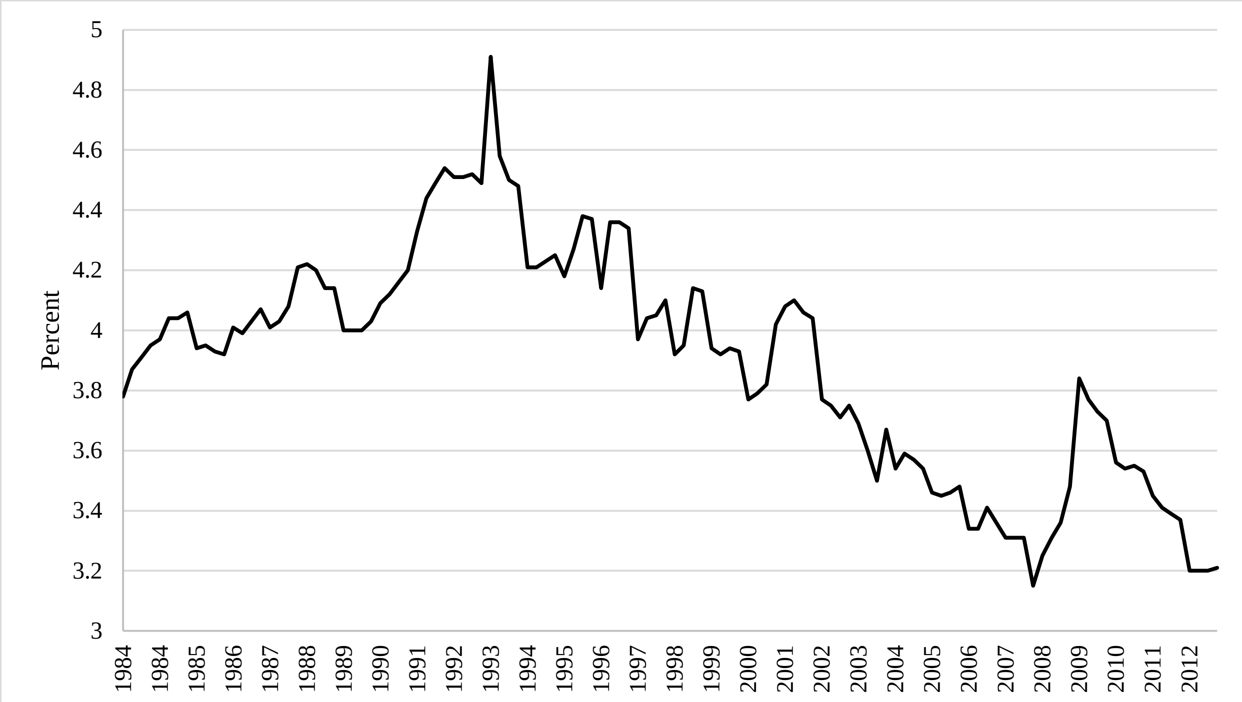
[b] Hormel Foods has a FYE at the end of October. The 2013 numbers reflect the FY ending October 27, 2013.

[c] National Presto Industries has not released their FYE 2013 results (FYE December 31), so the LTM ending September 29, 2013 are reported for 2013.

[d] Spectrum Brands has a FYE of September 30. The 2013 results reflect the FY ending September 30, 2013.

[e] CZWI has a fiscal year end of September 30. The 2013 results reflect the FY ending September 30, 2013.

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 2011-2013 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 an increased 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 and is used as a measure of how well management is utilizing assets to generate sales.

The average current ratio among the non-financial firms declined between 2011 and 2013. The only firm that saw an increase in the current ratio during the period was National Presto, whose current ratio increased from 4.8 to 5.0 between 2012 and 2013.

Surprisingly, four of the six non-financial firms in the SREI as of the fiscal year end 2013 have no long-term debt. Hormel has maintained $250 million in long-term debt for the past three years with the decrease in the long-term debt ratio coming from the increased value of assets. At the fiscal year end 2013, Spectrum Brands had $3.116 billion in long-term debt, which had almost doubled from the previous year. The increase in long-term debt was used to finance the $1.4 billion cash acquisition of Stanley Black & Decker Hardware and Home Improvement group during fiscal year 2013.[9]

The overall trend for the non-financial firms with regard to the total asset turnover has been stable, with little variation over the past three years among the firms.

For the financial firms, the loans-to-deposits ratio, provision for loan loss-to-total loans and the equity-to-assets ratio of the firms are presented. The loan-to-deposit (LTD) ratio measures liquidity and earning power of the bank. A high LTD ratio may indicate that the bank may not have sufficient liquidity to fund unexpected fund requirements. A low LTD ratio may indicate that the bank is not maximizing its earning potential by making too few loans relative to its deposits. 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.

The loans-to-deposit ratio has remained relatively stable for Citizens Community and Heartland Financial for the three year period; although the difference in the ratio between the two is significant. The ratio for HMN Financial has fallen significantly during the three-year period, 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 negative provision for loan loss-to-loans for FYE 2013 for HMN Financial was due to an increase in the value of the collateral for commercial real estate mortgages during 2013 and a net reduction in loans outstanding of $80 million during the year, including many underperforming loans. Following this improved performance, on February 14, 2014 the Office of the Comptroller of the Currency ended the supervisory agreement with HMN Financial. The end of the supervisory agreement will allow HMN to begin paying dividends again, if it chooses, and may result in an increase in the loan-to-deposit ratio in the next few years.

The increasing average equity-to-assets ratio for the finance firms was driven by the increase in the ratio for Citizens Community Bancorp in 2012 and the increase in the ratio for HMN Financial in 2013. The

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[9] Per Spectrum Brands' press release dated October 9, 2012.

significant increase in the ratio for HMN Financial comes as a result of the improved asset quality, resulting in an increased equity value relative to the liabilities of the firm.

Table 4. Balance Sheet Ratios of SREI Component Firms

Non-Financial Firms

	Current Ratio			Long-Term Debt-to-Assets			Total Asset Turnover		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Fastenal Company	5.9	6.3	6.6	0.0%	0.0%	0.0%	1.7	1.8	1.8
Flexsteel Industries	3.7	4.2	4.3	0.0%	0.0%	0.0%	2.1	2.1	2.1
Hormel Foods Corp	2.6	2.6	3.0	6.8%	7.0%	8.1%	1.8	1.8	1.9
Marten Transport	2.0	2.0	2.2	0.0%	0.8%	0.0%	1.3	1.3	1.3
National Presto Industries	5.0	4.8	5.0	0.0%	0.0%	0.0%	1.1	1.2	1.0
Spectrum Brands	1.6	1.7	1.7	74.9%	62.2%	59.7%	0.8	0.9	0.9
Median	**3.2**	**3.4**	**3.7**	**0.0%**	**0.4%**	**0.0%**	**1.5**	**1.6**	**1.6**
Average	**3.5**	**3.6**	**3.8**	**13.6%**	**11.7%**	**11.3%**	**1.5**	**1.5**	**1.5**

Financial Firms

	Loans-to-Deposits			Provision for Loan Loss/Total Loans			Equity-to-Assets		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Citizens Community	97.2%	100.0%	95.1%	0.7%	1.0%	1.3%	10.1%	10.1%	9.1%
Heartland Financial	74.2%	72.6%	76.6%	0.3%	0.3%	1.2%	6.2%	6.3%	6.3%
HMN Financial	71.5%	82.4%	93.6%	-1.9%	0.5%	2.8%	7.3%	4.7%	4.6%
Median	**74.2%**	**82.4%**	**93.6%**	**0.3%**	**0.5%**	**1.3%**	**7.3%**	**6.3%**	**6.3%**
Average	**81.0%**	**85.0%**	**88.4%**	**-0.3%**	**0.6%**	**1.8%**	**7.9%**	**7.0%**	**6.7%**

Cash Flow 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 cash flows from operations less capital expenditures. If not used for paying down 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 value of the firm's equity to shareholders.

Average operating cash flows increased for the non-financial firms during the three year period, with National Presto reporting a significant decline in the measure for 2013. The decline for National Presto was due to a significant increase in inventory during the prior 12 months. Management for the firm stated that sales weakened in each of their three product categories during 2013, which likely resulted in the increase in inventory.[10]

Fastenal, National Presto, and Spectrum Brands increased their capital expenditures for 2013. The large increase for Fastenal ($68.1 million) was due to an expanded vending rollout and distribution automation.[11] The increase for National Presto was due to an increase in spending for their Defense Products division.[12]

For the financial firms, median operating and free cash flows have remained relatively stable over the three year period. The significant increase in the average of these measures in 2013 was due to a significant increase in Proceeds from Loans Held for Sale for Heartland Financial in 2013. Heartland appears to be reducing their Loans Held for Sale because the value of this asset has fallen from $96.2 million at the end of 2012 to $46.6 million at the end of 2013.

[10] Per National Presto Press Release dated October 28, 2013.
[11] Per Fastenal Company Press Release dated January 15, 2014.
[12] Per National Presto 10-q statement dated November 8, 2013.

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)		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Fastenal	$416.10	$396.30	$268.50	$206.50	$138.40	$120.00	$209.60	$257.90	$148.50
Flexsteel Industries	$ 5.90	$ 9.00	$ 13.80	$ 2.80	$ 6.00	$ 11.30	$ 3.10	$ 3.00	$ 2.50
Hormel Foods Corp	$637.80	$517.80	$490.50	$106.80	$132.30	$ 96.90	$531.00	$385.50	$393.60
Marten Transport	$ 87.10	$ 85.50	$ 86.20	$ 28.80	$135.40	$ 84.90	$ 58.30	($49.90)	$ 1.30
National Presto Industries	$ 43.60	$ 62.30	$ 58.70	$ 21.70	$ 13.60	$ 15.00	$ 21.90	$ 48.70	$ 43.70
Spectrum Brands	$256.50	$258.80	$229.90	$ 82.00	$ 46.80	$ 36.20	$174.50	$212.00	$193.70
Median	**$171.80**	**$172.15**	**$158.05**	**$ 55.40**	**$ 89.55**	**$ 60.55**	**$116.40**	**$130.35**	**$ 96.10**
Average	**$241.17**	**$221.62**	**$191.27**	**$ 74.77**	**$ 78.75**	**$ 60.72**	**$166.40**	**$142.87**	**$130.55**

Financial Firms

	Operating Cash Flows (in millions)			Capital Expenditures (in millions)			Free Cash Flow (in millions)		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Citizens Community	$ 9.08	$10.01	$ 5.84	$ 0.55	$ 0.47	$0.58	$ 8.53	$ 9.54	$ 5.26
Heartland Financial	$128.19†	$48.70	$58.50	$14.41†	$19.80	$6.70	$113.78†	$28.90	$51.80
HMN Financial	$ 18.99	$16.84	$17.34	$ 0.43	$ 0.30	$0.20	$ 18.56	$16.54	$17.14
Median	**$ 18.99**	**$16.84**	**$17.34**	**$ 0.55**	**$ 0.47**	**$0.58**	**$ 18.56**	**$16.54**	**$17.14**
Average	**$ 52.09**	**$25.18**	**$27.23**	**$ 5.13**	**$ 6.86**	**$2.49**	**$ 46.96**	**$18.33**	**$24.73**

†Heartland Financial's cash flow measurements are for the LTM ending September 31, 2013 and were calculated from the firm's 10-q and 10-k statements.

Removal of Rochester Medical Corporation from and Addition of Spectrum Brands to the Seven Rivers Equity Index

On November 13, 2013, the shareholders of Rochester Medical Corporation voted to accept a $20.00 per share cash offer for the purchase of their shares by C. R. Bard, Inc. C. R. Bard is headquartered in Murray Hill, New Jersey. The offer, which was made on September 3, 2013, represented an approximate 45% increase over the market value of Rochester Medical's equity at the time. The acquisition for C. R. Bard was minor, as the company is a large-cap stock that has a current market capitalization of $11.3 billion. The purchase of Rochester Medical represented horizontal integration for C. R. Bard as they already have a catheter division, which was the primary product area for Rochester Medical. Rochester Medical's production facility in Stewartville, MN has remained in operation following the acquisition.

Spectrum Brands moved from the east side of Madison, WI to Middleton, WI in October 2013. Citing high maintenance costs for Spectrum headquarters and ice damage to the neighboring tech center, management had considered moving the headquarters and its Remington brand to Miramar, FL. In early 2012, the location was moved to Middleton, WI.[13] One deciding factor for Spectrum was a $4 million forgivable state loan that the firm had received in 2011. The firm would have had to repay the loan with interest if it had moved to Florida. In addition to remaining in Wisconsin, the loan forgiveness also requires that the firm maintain at least 470 full-time jobs in the Madison area through September 2016 and invest at least $40 million in equipment and building improvements during that time.[14]

Concluding Remarks

Strong performance for the SREI for the past two years has been driven by returns for HMN Financial and Rochester Medical. Unfortunately, the stock price performance for HMN Financial is likely non-recurring because it was based largely on a return to normal operations following the removal of its CEO in 2011 and the improved asset quality that predicated the end of the OCC's supervisory agreement in February 2014. Rochester Medical's strong stock price performance was driven by the decision to exit the unprofitable Foley catheter market in 2012 and the sale of the firm to C. R. Bard in 2013. Needless to say, this performance is non-recurring.

Fastenal, which has historically been a strong performer, has had two disappointing years due to declining sales growth over the period and a declining gross profit margin during the fourth quarter 2013. Conversely, Flexsteel has remained a strong performer over the five year period and Marten

[13] Judy Newman, "Spectrum Brands to Move Headquarters to Middleton," *Wisconsin State Journal*, January 19, 2012, http://host.madison.com/business/spectrum-brands-to-move-headquarters-to-middleton/article_c2434818-42ba-11e1-8db4-0019bb2963f4.html

[14] Judy Newman, "Spectrum Brands gets $4 Million Forgivable Loan from State," *Wisconsin State Journal*, November 29, 2011, http://host.madison.com/wsj/business/spectrum-brands-gets-million-forgivable-loan-from-state/article_4eebe8f4-1ab3-11e1-83e7-001cc4c002e0.html

Transport's stock price performance has improved over the past two years as a result of improving gross and net profit margins.

Appendix 2:

Non-Financial Firms[15]

Company: **Fastenal Corporation**
Ticker: FAST
Exchange: NasdaqGS
Market Cap: $13.41 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: 82%
Date started trading: March 26, 1990

Company: **Flexsteel Industries, Inc.**
Ticker: FLXS
Exchange: NasdaqGS
Market Cap: $264.94 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: $11.90 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: 34%
Date started trading: January 2, 1990

Company: **Marten Transport Ltd.**
Ticker: MRTN
Exchange: NasdaqGS
Market Cap: $651.03 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: 67%
Date started trading: February 27, 1992

[15] Data presented is from Capital IQ, Morningstar, and Thomson Reuters.

Company: **National Presto Industries, Inc.**
Ticker: NPK
Exchange: NYSE
Market Cap: $534.40 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: 48%
Date started trading: December 30, 1987

Company: **Spectrum Brands Holdings, Inc.**
Ticker: SPB
Exchange: NYSE
Market Cap: $4.13 Billion
Description: International consumer products company that sells products under the brand names Rayovac, Kwikset, Weiser, Baldwin, National Hardware, Pfister, Remington, VARTA, George Foreman, Black & Decker, Toastmaster, Farberware, Tetra, Marineland, Nature's Miracle, Dingo, 8-in-1, Russell Hobbs, FURminator, Littermaid, Spectracide, Cutter, Repel, Hot Shot, and Black Flag.
Institutional Ownership: 41%
Date started trading: September 2, 2009

Financial Services Firms[16]
Company: **Citizens Community Bancorp Inc.**
Ticker: CZWI
Exchange: NasdaqGM
Market Cap: $42.59 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: 10%
Date started trading: March 30, 2004

Company: **Heartland Financial USA Inc.**
Ticker: HTLF
Exchange: NasdaqGS
Market Cap: $478.02 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

[16] Data presented is from Capital IQ, Morningstar, and Thomson Reuters.

Company: **HMN Financial, Inc.**
Ticker: HMNF
Exchange: NasdaqGM
Market Cap: $479.58 Million
Description: Operator of retail banking and loan production facilities in Minnesota and Iowa.
Institutional Ownership: 28%
Date started trading: July 30, 1994