Third Quarter Letter 2013

PERSPECTIVE

This fall, Delta Asset Management marks the 24th anniversary of serving our clients, many of whom were with us when we opened in the autumn of 1989. Our original premise was to provide an alternative to marketing-centric, corporate-style financial services that were, and remain, prevalent in our industry. Our strategy was to emphasize a long-term disciplined approach to investing in businesses versus making opportunistic trades or market-timing calls. We focused on companies with sustainable competitive advantages and wide moats around their products and services, overseen with good corporate governance and management. Our overall goal was to provide a competitive, long-term return, while minimizing the risk of achieving that return. Risk reduction came from diversifying positions and sectors and patiently waiting for lower valuations to add a margin of safety relative to our appraised value.

Throughout our 24 years, we have been consistent in the application of our strategy. Over time, we've been able to achieve our objectives of lower risk and competitive tax efficient returns relative to the market. Not only have we taken the long-term view toward our investments, but our clients have also taken a long-term view toward us. Many of our relationships span decades and are multi-generational, and we look forward to many more decades of service.

We recently invested in our most important resource: talent. We have been steadily adding to our team over the past few years. Our latest addition, Tara Horton, joined us mid-year and will be involved in servicing client relationships, portfolio management and trading. She has more than 25 years of experience in the investment business as an equity institutional trader at Morgan Keegan. She enjoys the service aspect of the business and looks forward to participating in the investment and portfolio management process.

In addition to Tara, our team includes three portfolio managers: Edward Taylor, Alan Catmur and Myron Mall; and two financial analysts: Chris Jones and David Smith. This group collectively represents close to 150 years of investment experience. We also have three professionals in operations: Candy Chrisman, Andrew Mall and Sandra Dawson.

Alex Conaway, one of our founders, retired at the beginning of last year, and we are grateful for the legacy of care, expertise and intelligence that he applied to our daily operations. Myron Mall, our other co-founder, is looking forward to many more years of assisting clients in meeting their financial objectives.

We are excited about the future, and we look forward to building on the investment record we have achieved over the past 24 years. The growth and tenure of our client relationships suggest

that we are providing a unique and valuable service. In our search for investments, we are partnering with businesses that have identifiable advantages that we believe will ultimately lead to superior results. Our best partners, however, are our clients who understand and have faith in our discipline and long-term approach and for whom we are grateful and endeavor to serve.

COMPANY COMMENTS

Comments follow regarding common stocks of interest to clients with stock portfolios managed by Delta Asset Management. This commentary is not a recommendation to purchase or sell but a summary of Delta's review during the quarter.

United Parcel Service, Inc. { UPS }

UPS was founded in Seattle, Washington, in 1907 as a private messenger and delivery service. Today, UPS is the world's largest package delivery company, a leader in ground shipping and a premier provider of global supply chain management solutions. UPS delivers packages each business day for 1.1 million shipping customers in over 220 countries and territories. Total revenue in 2012 was more than $54 billion.

The parcel industry enjoys favorable competitive dynamics that a start-up would find difficult to establish. The barriers to entry are high as proven carrier providers own and/or lease large fleets of airplanes and trucks and operate expensive, technologically-sophisticated hubs. UPS and FedEx have built relationships with customs authorities that allow them to save time by clearing items while they are still air borne. Customer bargaining power is highly fragmented, and small business and retail customers are price takers – in other words, they pay the price quoted. On the other hand, larger customers, such as Wal-Mart and Amazon, have notable bargaining power and receive material list rate discounts.

Although there is intense rivalry between FedEx and UPS, the pricing tends to be rational and price wars rare. The United States Postal Service is both a competitor and partner, sometimes delivering UPS packages the last leg of a shipment.

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The parcel industry is a major beneficiary of Internet sales trends. Global e-commerce sales topped $1 trillion for the first time in 2012. Throughout the world, online buying has grown exponentially. At the same time, the gains from Internet sales have recently been tempered by product digitization and miniaturization, which reduce average package volume and weight. Media is shifting from physical books, VHS and DVDs to digital streaming and cable. Electronic equipment is shifting toward smaller, mobile devices. Despite these trends, a broader selection

of products is being purchased online as younger generations, more comfortable with online transactions, increase their purchasing power.

Roughly 25% of UPS's revenue is international, with the company providing guaranteed express delivery to over 50 countries outside the U.S. Europe is the company's largest region outside the U.S., accounting for roughly half of international revenue. Although Europe has been slow to recover from the financial crisis, UPS's European focus makes sense long-term as exports make up a significant portion of the continent's GDP. UPS is somewhat underrepresented in emerging markets, particularly Asia/China; however, the company has a strong balance sheet and the necessary expertise to meet this strategic challenge.

UPS should continue to benefit from volume growth from businesses' shipping to consumers, an oligopolistic industry structure, and growing global trade and supply chains.

UPS has demonstrated high capital efficiency and strong cash flow generation throughout its history. The industry has benefited from three intertwined forces: the emergence of China, the broad trend toward just-in-time inventory, and the rise of Internet commerce. The company should continue to benefit from volume growth from businesses' shipping to consumers, an oligopolistic industry structure, and growing global trade and supply chains. Based on these assumptions, our stock valuation model indicates a long-term average annual rate of return of approximately 8.3%.

Canon

Canon, Inc. { CAJ }

Canon is a Japanese-domiciled worldwide developer, manufacturer and marketer of cameras, printers, copiers and semiconductor equipment. The brand is noted throughout the world for quality and dependability. Canon derives about 80% of its sales outside of Japan and is one of corporate Japan's biggest beneficiaries from a weak yen. The yen's depreciation increases the amount of revenue generated abroad that, when repatriated into yen, improves the profitability of products made in Japan and sold globally.

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Canon and Nikon dominate the high-end camera market especially in single lens reflex (SLR) cameras. SLR cameras and interchangeable lenses involve expertise that is hard to replicate, making entry barriers high. The technology and brand value of these top two companies limit the competition in the upper-end markets.

At the other end of the spectrum, competition in the middle and low end is intense, and profitability has declined. The threat to Canon's lower end camera business is not coming so much from direct competitors as much as from a broader change in the way people take and share photos. Not only is the image quality of smartphones and tablets improving, these devices are exceptionally convenient in sharing photos on Twitter and Facebook.

Canon's greatest strength is the efficiency of its operations. Canon has been improving its production efficiency through increased automation. Its automated manufacturing has reduced labor expense and allowed the company to lower logistics costs by placing factories in high wage markets.

Canon is expanding operations in China's significant, but untapped, markets. China has more than 300 cities with a population of one million or more. In China's camera market, demand is particularly strong for high-end models with interchangeable lenses as affluent brand-conscious Chinese view such items as desirable luxury goods. A potential stall on growth in China is the continuing tension with Japan due to territorial disputes.

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Canon supplies laser printers to Hewlett Packard (HP) on an original equipment manufacturer (OEM) basis. This relationship spans more than 25 years. The company's core advantage in printers is in the large-volume, automated production of laser beam printer engines for Hewlett Packard, which handles most of the marketing and branding. The scale of this production gives Canon a significant cost advantage and allows Canon to earn a premium return even after volume pricing to HP. Canon, however, also faces increased competition from Korean manufacturers as well as reduced demand for high margin printer ink. More people are sharing documents and photos via email and social networks.

Due to significant exposure to slow economic growth expected from developed regions and increased competitive pressures, we believe the company will experience flat top line growth over the long term. The company, however, can continue to earn premium cash flow margins due to its strength in technology, as well as its low cost production expertise. Given these assumptions, our stock valuation model indicates that based on today's stock price, Canon has a potential average annual long-term return greater than 9%.

Marriott International, Inc. { MAR }

Marriott is regarded as one of the best-in-class hotel operators in the world. With its powerful reservations system and sophisticated pricing practices, Marriott's iconic brands consistently generate healthy rate premiums relative to the competition. Consequently, a Marriott brand affiliation is one of the most sought after in any market. Marriott has averaged over 30,000 gross room additions to its system per year for the past decade. The company has an extensive brand portfolio from luxury concepts, such as Ritz-Carlton, JW Marriott and Bulgari Hotels & Resorts, to upscale full-service offerings, such as Marriott and Renaissance, to limited-service Courtyard, Fairfield and Springhill. Extended stay offerings, such as Residence Inns, TownePlace Suites and Marriott ExecuStay, complete the full spectrum of hotel brand offerings.

Marriott has a “property light” business model focusing on managing and franchising hotels rather than owning them. Approximately 43% of the hotel rooms in its system operate under management contracts, and 54% operate under franchise agreements. The company owns or leases just 2% of its rooms. Emphasis on long-term management contracts and franchise agreements tend to provide more stable earnings during economic downturns. This strategy has resulted in steady growth while reducing the need for debt. As a result, the company has a strong balance sheet; it is one of the few in the lodging industry with an investment grade rating.

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Management agreements are typically for 20-30 year periods with extension options. The company collects base management fees, as well as incentive fees based on the profits of the hotel. A typical domestic management contract would not pay any incentives until owners receive a 10% return on invested capital. Beyond that level, Marriott could receive an incentive fee of 25% to 50% of the profits. Incentive fees provide significant earnings power in peak economic periods making Marriott a late stage beneficiary of a lodging turnaround relative to other asset-focused competitors. From 2001 to 2012, the percentage of North American-managed hotels that paid incentive fees ranged from approximately 10% to 70%. These extremes can occur within very narrow time frames as about 70% of the hotels paid incentive fees at the peak of the last cycle in 2007 and only about 10% paid them two years later in 2009, one of the worst years the hotel industry has experienced in decades.

International markets offer significant growth opportunities as increasing wealth is creating more middle class travelers and providing a greater number of development opportunities. Today the company has more than 600 properties outside the U.S., and nearly 70% of its hotel rooms under construction are outside of North America. Marriott’s international business has good margins due to a more favorable incentive fee structure. Most of Marriott’s international development consists of managed hotel projects which are considerably more profitable than a pure franchise opportunity, particularly with the luxury brands such as Ritz-Carlton. In contrast to domestic hotels, the percentage of international properties paying incentive fees is more consistent as approximately 50% to 60% were paying incentive fees at any given time over the past decade. Internationally, Marriott often earns incentive fees on the first dollar of profit rather than clearing an owner hurdle.

Marriott is a leader in its industry in the use of technology to drive revenue. Marriott.com ranks as one of the top retail websites in the world. Marriott’s rewards program has more than 41 million active members and provides the company with significant clout to drive traffic and brand loyalty. The company expects to benefit from a new inventory pricing system designed to optimize profits among groups and individual business travelers.

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Marriott remains a conservative and consistent growth story with a disciplined management team, an asset-light strategy, a strong balance sheet and leading brands. We estimate that Marriott can grow its operating margins at an upper, single digit rate with the stock priced to yield a long-term annual rate of return of approximately 7%.

AFLAC, Inc. { AFL }

Aflac is an insurer specializing in supplemental health and life insurance with operations in Japan and the United States. Aflac has carved a niche in selling supplemental insurance directly to employees at their worksite. Most of Aflac's policies insure against income or asset loss due to illness or accident and pay out cash to the insured on a timely basis upon either of these events. For years, the company's operations centered on cancer insurance in Japan. Although Aflac has expanded considerably beyond this, 75% of the company's premiums are still generated in Japan.

Aflac has used the limited servicing requirements inherent in its insurance lines to build an especially cost efficient administrative and servicing organization.

Like most financial firms, insurance companies have few ways of constructing a competitive advantage. Insurance products can be copied quickly by competitors, and investment portfolios are circumscribed by regulation; however, distribution and servicing do offer some modest ability to create an advantage. By creating a superior corporate culture and business execution capabilities, Aflac has constructed a modest competitive advantage, particularly in Japan. The company has used the limited servicing requirements inherent in its insurance lines to build an especially cost efficient administrative and servicing organization. It has also learned how to develop, maintain and incentivize a commission-based, independent-agent sales force that is one of the most effective in the insurance industry. These factors have allowed Aflac to produce a very high return on capital when compared to other insurance companies.

The same niche product and distribution characteristics that have allowed Aflac to create a modest competitive advantage unfortunately are limiting Aflac's premium growth potential. Aflac's product market is saturated in Japan (80% of total company profitability) in terms of the insurance policy and sales approach, and it is increasingly difficult to extend these advantages beyond the original product market and distribution channel. Aflac has worked hard to overcome this limitation by creating different insurance products to distribute through new sales channels. A recent example includes the successful development and roll-out of the hybrid life insurance policy sold through the bank channel in Japan. Nevertheless, we have assumed that as the mix of Aflac's business moves toward more standard insurance policies distributed by less proprietary channels, the company's Japanese premium growth and profit margin will come under pressure.

Furthermore, Aflac's leading market position in Japan and the U.S. is increasingly being attacked by new competition. As to be expected, the company's success in the high margin supplemental insurance space with deregulation in Japan has invited more competition. Aflac Japan now competes directly with 27 other providers in stand-alone cancer policies and 39 providers of stand-alone medical policies. In the U.S., the new Affordable Care Act may provide a boost to the supplemental health space if health policies become more limited or more out-of-pocket expense is pushed onto the consumer. Well-established major health insurers, however, are increasingly entering the supplemental market to combat profitability erosion in some of their core lines of business. We expect Aflac will continue to compete effectively in both Japan and the U.S., but increasing competition will likely further limit its growth and profitability going forward.

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The company's capital and reserving positions are good, even when measured against the evolving post-financial crisis regulatory standards. Japan has instituted an updated capital measuring standard; the core of the change in the Japanese capital measure is the inclusion of unrealized losses in Aflac's investment portfolio. This issue, centered on Aflac's large holdings of peripheral European bonds, has caused consternation among investors. Aflac has taken substantial write-downs on these bonds over the last two years. The company has reduced its European exposure and its financial industry exposure. Aflac does generate large free cash flows that can be utilized to quickly recapitalize the balance sheet.

During the quarter, Aflac's market price exceeded our long-term estimate of its fair value. Its stock has performed well, up some 47% since we first purchased it in November, 2011. Nevertheless, given our concerns about its mature products, saturated distribution channels and increasing competition, we believe the stock price now fully reflects the company's long-term value. Consequently, we elected to sell our Aflac position in client portfolios in early September.

Apache Corporation { APA }

Established in 1954, Apache has grown to become one of the largest independent oil and gas exploration companies in the world. Apache's asset portfolio encompasses the United States, United Kingdom, Egypt, Australia, Canada, Chile and Argentina. Approximately 56% of the company's production is from North America, and 44% is international. Apache has 10.3 million gross acres across the U.S., half of which is undeveloped. The company's North American assets provide a good balance of hydrocarbon mix and reserve life with opportunity for continued exploration. Historically, Apache has been very successful in exploiting mature fields and applying new technology and capital to facilitate future growth.

Apache strives for a diverse portfolio of assets that balances oil and gas production, North American and international exposure, and short-term and long-term risk and reward profile. These strategies have given Apache the ability to deliver long-term production and reserve growth while achieving competitive returns on invested capital. Apache's management team maintains a long-term focus and believes the oil and gas industry remains cyclical. The company will not chase production growth at the expense of profitability and return on capital.

Apache's strong historical performance is attributable to exploiting mature fields with efficiency and cutting edge technology. Efficiencies have reduced drilling and rig mobilization times, while the use of horizontal drilling produces cost savings and higher yields. An example of Apache's commitment to cost savings is the use of pad drilling. By using pad drilling, one site can yield four wells with a small surface footprint, thus lowering extraction, facility and lease costs. The net result is a higher return on capital than its peers coupled with good long-term growth in production.

After three years of acquisitions, Apache now holds strong positions in many attractive onshore basins in the United States.

Apache's near-term production growth will focus on North America. After three years of acquisitions, Apache now holds strong positions in many attractive onshore basins in the United States. Through field studies across all its properties, Apache identified 67,000 prospective well locations and 9.2 billion barrels of oil equivalent in resource potential. This cache will take time to develop and is not all proven, but the prospects continue to be significant. Apache's U.S. basins contain thick, oily, liquids-rich targets that provide attractive economics and lower geologic risk.

Apache's Egyptian operations have some uncertain political and economic risks as turmoil in the country continues. At year-end 2012, operations in Egypt contributed 27% of Apache's production revenue and 20% of total production. Apache has been proactive in de-risking its asset portfolio. In August 2013, the company announced the sale of 1/3 of its Egyptian stake for $3.1 billion. Egypt now contributes approximately 15% to Apache's overall production. The transaction also valued the company's Egyptian assets significantly more than market expectations. Further civil unrest, however, could hurt Apache's production and limit its energy delivery and exports. Operations in Egypt could experience changes in laws and regulations and possibly expropriation, which could potentially impact the company's performance. Apache, however, operates in remote areas of Egypt's western desert with a deep backlog of both exploratory and development drilling locations. Management continues to state that Apache's Egyptian assets are operating status quo without interruption.

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The price of oil and gas is of critical importance in investing in energy companies. Current prices support supply by encouraging producers to invest, while demand is driven by a long-term growth in emerging countries. Global demand could be tempered by a sustained deleveraging in

the worldwide economy. As such, we have chosen to use modestly discounted prices in our projections. Specifically, our valuation model incorporates a long-term average oil price of $75 per barrel and a natural gas price of $4.50 per MMbtu.

Apache's long-term focus is appealing and sometimes challenges the conventional thinking of pursuing expensive exploration opportunities based on high commodity prices. Instead, the company funds growth primarily through internal cash flow and prudent leverage when compelling return opportunities arise. This strategy is more likely to result in steadier, incremental gains in reserves and production. We believe Apache should be able to grow production before acquisitions at a mid-single digit rate. The corresponding production and personnel expenses produce profit margins in the mid-20% range. At the present stock price, our model indicates a 10% average annual long-term rate of return.

StanleyBlack&Decker

Stanley Black & Decker, Inc. { SWK }

Stanley Black & Decker is a global leader in providing hand and power tools and related accessories, as well as a range of security products and services, to consumers and industrial customers. The company has an iconic brand portfolio with a reputation for quality products spanning 166 years.

Reliability and brand loyalty are important factors in the North American tool market. Customers have extremely long memories and can be unforgiving if a manufacturer cuts corners. This brand consciousness helps Stanley in positioning with big box retailers. Retailers look for strong brands that command a premium margin and provide a broad umbrella of products to satisfy core customers. The company gets about 20% of its sales from major retailers and nearly 10% from its largest customer, Lowe's. Stanley's industrial and retail tools business, which makes up nearly 80% of total company profitability, is a highly profitable, cyclical, slow growth business. The company is well positioned with strong brands, a good record of innovation, global reach and a track record of efficient operations.

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Stanley has grown through acquisitions and has successfully integrated more than 70 acquisitions since 2002. On average, Stanley has improved the operating margin by 6 percentage points on acquired businesses. It absorbed the larger Black and Decker in 2010, significantly broadening its product portfolio and yielding revenue and cost synergies well beyond the original expectations. The merger has created the largest provider of hand and power tools with enormous global reach and channel access, including high growth emerging markets such as Brazil.

Currently taking a short breathing period from acquisitions, Stanley is sharply focused on driving organic growth, which has been inconsistent since the downturn in housing. Expanding into emerging markets offering growing construction activity seems promising. Stanley is underexposed to emerging markets with less than 15% of total revenue generated in faster-

growing regions. The acquisition of Black and Decker has opened new distribution channels in these regions that Stanley will exploit with new mid-priced products. To help maintain Stanley's overall level of profitability, the company is positioning itself in these regions with local management and product-design teams and manufacturing processes.

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Longer term, acquisitions will continue to play a role in the company's outlook. Stanley is dedicating 50% of its capital budget to acquisitions in growth areas such as security, infrastructure and healthcare. Security expansion diversifies the company away from the tools market. In addition, contracts for monitoring and surveillance, which make up nearly 50% of the security segment, tend to generate a long-term recurring revenue stream.

Stanley has a successful acquisition track record, but its acquisitive nature remains an ongoing risk. Acquisitions always introduce the risk of overpaying and later facing asset impairments or inadequate returns on invested capital. Stanley also faces commodity price risk. The company's consolidated customer base and competitive markets have prevented Stanley from fully passing along rising costs in the form of price increases.

We believe Stanley can grow organically in the low single digits. We also expect Stanley to continue its acquisition program and fund it through free cash flow and debt financing. Based on this growth, we anticipate operating margins in the low double digits over the business cycle. Given these assumptions, our valuation model indicates that the company's stock is priced to yield an average long-term annual rate of return of approximately 7.5%.

Dated: September 30, 2013

Specific securities were included for illustrative purposes based upon a summary of our review during the most recent quarter. Individual portfolios will vary in their holdings over time in relation to others. Information on other individual holdings is available upon request. The information contained herein has been obtained from sources believed to be reliable but cannot be guaranteed for accuracy. The opinions expressed are subject to change from time to time and do not constitute a recommendation to purchase or sell any security nor to engage in any particular investment strategy. Any projections are hypothetical in nature, do not reflect actual investment results and are not a guarantee of future results and are based upon certain assumptions subject to change as well as market conditions. Actual results may also vary to a material degree due to external factors beyond the scope and control of the projections and assumptions.