ACADEMY
CAPITAL MANAGEMENT

July 16, 2014

Enclosed is your statement for the second quarter of 2014.

As we commented in last year's final letter, we do not invest by making broad economic forecasts. Rather, we try to view each investment as a business owner might, with an emphasis on understanding the strength and worth of its business model. We are currently trimming some positions in our stock portfolios but we are doing so because of a rise in some prices beyond their particular business fundamentals and not due to a pessimistic outlook. The result is an increase in cash as it is not easy to replace these stocks in today's market.

In the second quarter, we customarily discuss the earnings growth of the companies that formed the bulk of our prior year's investments. There is an important distinction here. We look at the earnings growth *per share*. Many companies, including some in our portfolio, have been more concerned with increasing earnings and size than per share value.

This is a common issue as mature developed markets have meant that the growth of many companies has stagnated. For the past couple of years, these companies have responded by simply repurchasing some of their own shares as a way of driving growth in earnings per share (EPS). We applauded this approach as balance sheets were generally cash rich and the reduction in shares increased shareholder value per share. However, low interest rates and rising stock prices have now propelled us into a "deal" environment. The result is companies that are getting larger through mergers and acquisitions, but after all is accounted for, it is difficult to see much per share value added.

As we have written previously, we look for long-term (10 years or more) aggregate EPS growth of 6-8% per year in the companies we hold in our portfolios. This growth is what ultimately drives market value growth. During 2013, we held the following companies for the entire year. We have listed the changes in their year over year EPS changes in percentage terms after the company names:

Company	**% Change in EPS***
Abbott Labs	3%
Apollo Group	-11%
Becton, Dickinson & Co.	8%
Citigroup	14%
Comcast	12%
Google	11%

Intel	-11%
Johnson and Johnson	8%
Legg Mason	-11%
Medtronic	1%
Merck	-9%
Microsoft	-3%
Nestle Sa	-3%
Pepsi	11%
Philip Morris	2%
Procter & Gamble	5%
Schlumberger	16%
Wal-Mart	2%

*For EPS, we have used Value Line's most recent numbers using the closest fiscal years. These EPS represent Value Line's best attempt at a description of after-tax operating earnings per share.

The average *increase* in the EPS of our stock holdings was 2.5% last year. Just as in other years, the average reflects some industry-specific issues, such as the challenges for large companies in mature technology and healthcare markets. Because of those challenges, 2013's EPS average increase was below our target, but provided us new purchasing opportunities in those sectors.

We highlight earnings regularly because it puts the focus on the underlying business rather than the stock price. For example, in 2013 our average EPS was the second lowest (2.5%) while the stock price return was the highest ever (25.3%). This low average EPS directs our attention much more than the rising stock prices, so you will not see us breaking out the bubbly over the good year we had in terms of market prices. We want to see improvements in the more important measures of investment success, first.

As stated in the 2001 Berkshire Hathaway annual report: "when the tide goes out, you'll know who's swimming naked." Close earnings' scrutiny and care in spending our cash holding are our best attempts at swimsuits, when, and if, the tide of mispricing in "risk-free" assets leaves our shores.

We hope this letter helps you understand our process. We want you to stay informed and feel comfortable about our investing discipline. If you're new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Margie Shelton at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process.

Academy Capital Management