

July 12, 2011



STRATTON
MANAGEMENT COMPANY

Institutional & Individual Asset Management

610 W. Germantown Pike, Suite 300
Plymouth Meeting PA 19462

As of 8/29/11: 150 S. Warner Road, Suite 460
King of Prussia, PA 19406

Telephone: 800-578-8261

Website: www.strattonmgt.com

This brochure provides information about the qualifications and business practices of Stratton Management Company. If you have any questions about the contents of this brochure, please contact us at 800-578-826. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Stratton Management Company also is available on the SEC's website at www.adviserinfo.sec.gov

This brochure is dated July 12, 2011.

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Material Changes

There have not been any material changes at Stratton Management Company since we last updated our Form ADV Part II on August 3, 2010. This format, and much of the content of this Form ADV Part 2, is new starting this year.

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Advisory Business

Stratton Management Company has been managing money for individuals and institutions since it was founded in 1972 by James W. Stratton. In 2008, we became a wholly owned subsidiary of Susquehanna Bancshares, Inc. (SBI). SBI is a publicly traded company; stock symbol SUSQ. Stratton Management Company specializes in the management of equity and equity/fixed-income balanced portfolios for individuals, institutions and mutual fund equity portfolios. We have always followed a traditional “Value” investment philosophy. As such, we seek to invest in undervalued companies with solid management and strong business prospects. We pride ourselves on remaining true to our investment philosophy – in good times and in bad.

Individual Wealth Management – A little over 40% of the assets we manage is for individuals or families. We believe that individual and family wealth management is about more than investing – it’s the design and implementation of a thorough and customized financial plan that will preserve and grow individual and family assets.

Institutional Asset Management – We also manage money for institutions such as endowment funds, foundations and corporate pension and profit sharing plans. Stratton Management employs a team approach in the management of institutional separate account portfolios. The management team assigned to each

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Institutional Model Portfolio share fundamental research responsibilities and make portfolio management decisions at the group level. We feel that a group approach provides added stability to the institutional asset management process by encouraging consensus and removing individual emotion. The portfolio that an institutional client receives is not that of a single manager, but that of Stratton Management Company.

Stratton currently offers a Large-Cap Value Portfolio Model and a Small-Cap Value Portfolio Model to institutional separate account clients.

Mutual Fund Investment Management -- Stratton Management Company serves as the investment advisor to three equity mutual funds; Stratton Multi-Cap Fund, Stratton Real Estate Fund and Stratton Small-Cap Value Fund. Stratton Mutual Funds represent 50% of the assets we manage.

Wrap Account Management -- While Stratton Management Company has been hired to provide investment advice to several wrap fee programs we do not act as the sponsor for these programs. We view these accounts as part of our Institutional account base, and manage them the same way. Each of our wrap fee relationships is a dual contract arrangement where the client signs an agreement directly with a third-party money manager such as Stratton Management Company and also signs an agreement with the brokerage firm sponsoring the wrap program. The wrap program sponsor assumes responsibility for manager selection, custody, execution, performance reporting and consulting services, while the money manager provides investment management. All services provided to the client by the money manager and the wrap sponsor are paid by a single fee charged to the client.

Assets under Management -- As of December 31, 2010, Stratton Management managed \$1,776,456,323 on a discretionary basis and \$236,186,586 on a non discretionary basis. *Please see the section entitled **Investment Discretion** for more information.*

Fees and Compensation

Individuals and Institutions -- Our fees for the investment advisory services for Individuals and Institutions are based on the amount of assets under management, and are billed and payable quarterly in advance. Our typical annual fee schedule is:

On the first \$2 million	1.00%	<i>Stratton Management Company reserves the right to negotiate fees based on individual client characteristics, including related accounts, and to charge a flat fee.</i>
On the next \$3 million	.75%	
On the next \$20 million	.50%	
On the next \$25 million	.40%	
On assets above \$50 million	.30%	

If our clients ask us to, we can arrange to deduct our fees directly from their account. If an advisory contract is terminated, with the required 30 day notice prior, to the last day of a calendar quarter, a pro-rata refund of the quarterly fee paid in advance will be made to the client.

Mutual Funds -- Each Stratton Mutual Fund pays Stratton Management Company a management fee which is calculated daily and paid monthly. For the year ending December 31, 2010, Stratton Multi-Cap Fund, Stratton Real Estate Fund, and Stratton Small-Cap Value Fund paid Stratton Management Company a management fee of 0.75%, 0.625%, and 0.90% of each fund's respective average daily assets.

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Wrap-Fee Programs -- Stratton Management Company receives an asset based management fee for providing investment advice to various wrap fee programs. In evaluating such a program, a client should understand that brokerage commissions are not negotiated by Stratton. Transactions are effected “net” and a portion of the wrap fee is generally considered in lieu of commissions. Trades will be generally executed only with the referring brokerage firm so as to avoid incurring any extra brokerage costs that would be applied by the use of other brokers. In evaluating a wrap fee arrangement, the client should consider whether, depending on the level of the wrap fee, the amount of portfolio activity, and the monetary value attributed to monitoring, custodial, and any other services provided, the wrap fee is reasonable compared with all the costs of services if separately provided. While Stratton is available for consultation on complex issues, the broker at the wrap program sponsor generally handles the majority of client servicing for these accounts.

Additional client expenses -- All clients should be aware that they pay fees in addition to investment advisory fees. These additional fees are typically for independent qualified custodian services, and brokerage transaction costs for trading equity, fixed income and mutual fund securities. In the case of mutual funds, clients also pay the fees and expenses of the mutual funds as noted in each fund’s prospectus in addition, to any trading expenses incurred. Please see the section entitled **Brokerage Practices** for more information.

Neither Stratton Management Company nor any of its employees receives compensation in connection with the sale of any security or investment products.

Performance-Based Fees and Side-by-Side Management

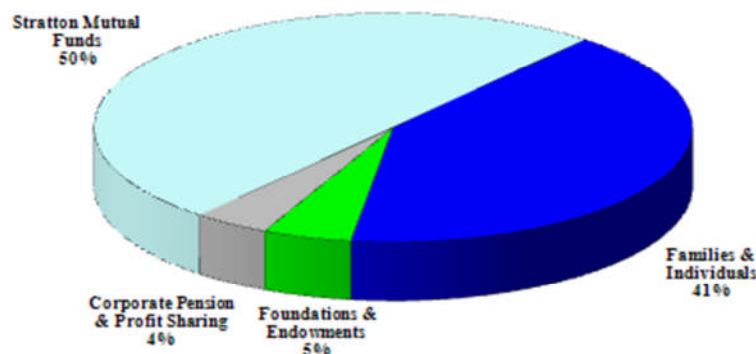
Performance based fees are fees that are based on a share of capital gains on, or capital appreciation of, the assets of a client (often a hedge fund client). If an investment adviser receives performance-based fees for some clients and charges non-performance based fees for other clients, such as an asset-based fee, a conflict of interest arises from managing these two types of accounts at the same time. This is called “side-by-side management and the investment adviser has an incentive to favor accounts for which they receive a performance-based fee. Stratton Management Company does not have this conflict, because neither the firm nor any of its portfolio managers receive performance-based fees.

Types of Clients

Stratton Management Company has Individual Wealth Management clients which include high net worth individuals and families. We also manage money for Institutional clients such as endowment funds, foundations and corporate pension and profit sharing plans. We are also the investment adviser to the Stratton Mutual Funds and to wrap account programs.

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Total Assets Under Management as of
December 31, 2010 - \$2.0 Billion



For individuals and institutions our minimum account size is \$2 million. For retail investors who invest in the Stratton Mutual Funds the current minimum initial investment is \$2,000. Investment minimums for the wrap account programs we manage are set by the program sponsor.

Methods of Analysis, Investment Strategies and Risk of Loss

Individual Wealth Management -- When we build a new portfolio for an individual client, our bias will always be toward the value style of investing. However, our strong commitment to personalized client service empowers our portfolio managers to assess the needs and concerns of each client on an individual basis. We begin the portfolio construction process by examining the client's risk tolerance, investment time horizon, need for current income, and their own expectations of portfolio growth. Once this assessment is complete, a portfolio is constructed consisting of the proper allocation between equity and fixed income securities and among the different sectors of each of those two asset classes.

Fixed income securities include preferred stock (except convertible preferred stock), corporate and municipal bonds. Investment Grade fixed income securities are believed by rating firms to have a relatively low risk of default. Stratton typically does not select non-investment grade bonds for client accounts and considers the following factors when selecting bonds.

- How many individual bonds will be purchased and in what denominations (i.e., par amounts);
- The current investment rating;
- Whether the client has requested any maximum dollar price for new purchases (if a premium dollar price is acceptable, what maximum applies)
- Any specific direction regarding diversification among purposes (i.e., only direct taxing authority municipal bonds); or for corporate debt, diversification among industries.

Institutional Model Portfolio Management -- Each of our institutional model portfolios is quantitatively based and fundamentally refined. We employ thoroughly designed, well-researched quantitative models to reduce the overall equity universe to a smaller, more manageable group of undervalued stocks with superior capital

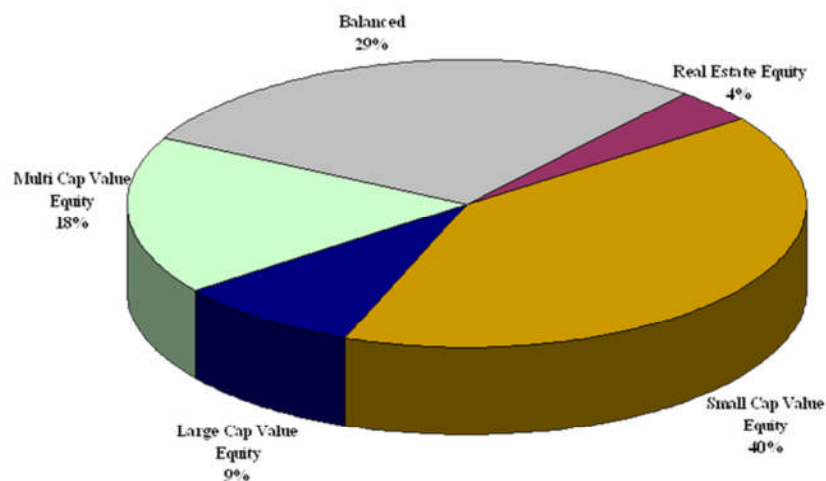
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appreciation potential. Once this stage is complete, the portfolio managers assigned to each respective product carry out fundamental research on this select list of companies in order to identify attractive buy candidates. When consensus is achieved regarding a particular issue, action is taken in a uniform manner for all Institutional client accounts following that model. The process is similar with regard to the sale of existing holdings. When the quantitative models signal deterioration in earnings, full valuation, or company fundamentals that are no longer promising, a holding is eliminated.

Large-Cap Value Model -- The management team of Stratton's Large-Cap Value product employs a combination of quantitative and qualitative research to identify undervalued Large-Cap equities with superior capital appreciation potential. Our Large-Cap quantitative model calculates a weighted composite of valuation, earnings and price-movement measures. This reduces the overall Large-Cap universe to a more manageable group of attractive candidates. Once this group is established, management conducts qualitative research in order to identify potential buy candidates.

Small-Cap Value Model -- Stratton's Small-Cap Value management process is relatively consistent with that of its Large-Cap Value product. As with the Large-Cap Value product, the management team of Stratton's Small-Cap Value portfolio employs a combination of quantitative and qualitative research to identify undervalued small-cap equities with superior capital appreciation potential. Our Small-Cap quantitative model calculates a weighted composite of valuation, earnings and price-movement measures. This model reduces the overall small-cap universe to a more manageable group of attractive candidates. Once this group is established, management conducts qualitative research in order to identify potential buy candidates.

Assets under Management as of December 31, 2010 -- \$2.0 billion



Risks Associated with Investments -- Clients should be aware that investing in securities carries with it the risk of loss, especially in the short term. Clients should be prepared to bear losses for periods when individual securities fall in value, or negative economic or market conditions cause stock and bond markets to fall broadly.

Securities are: not FDIC insured, not a deposit, may lose value, not bank guaranteed, not insured by any federal government entity.

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Disciplinary Information

Because a client should be aware of any legal or disciplinary events that would be important to an evaluation of an investment adviser's business and the integrity of its management, we are required to disclose to you if the firm, or a management person of the firm, has certain past or pending, disciplinary actions either by a Court, the SEC or other regulatory agency or organization during the past 10 years.

Neither Stratton Management Company, nor any of its management personnel, has anything that needs to be reported under this section.

Other Financial Industry Activities and Affiliations

Stratton Management Company also provides trust services through its subsidiary, Semper Trust Company. Semper Trust Company is a Pennsylvania Chartered, non-depository trust company. Semper Trust Company currently serves as trustee for Living Trusts; Revocable and Irrevocable Trusts; Testamentary Trusts; Marital and Bypass Trusts and Charitable Trusts. Semper Trust Company oversees the collection and distribution of investment income of the Trust as well as rendering of discretionary decisions in accordance with the Trust instrument.

For Semper Trust Company clients, Stratton Management Company, in its role as investment adviser, develops an investment strategy that focuses on both the provisions of the Trust document and the specific needs of the income beneficiaries and those who are to receive the remainder of a trust when it is dissolved.

Stratton Management Company is a wholly owned subsidiary of Susquehanna Bancshares, Inc. ("SBI"). Other subsidiaries of SBI include banking and non-banking affiliates. These affiliates include Valley Forge Asset Management Corp., an investment adviser and broker-dealer.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Each of our employees is required to adhere to the standards of conduct outlined in our Code of Ethics and Insider Trading Policy. Our Code of Ethics addresses employee trading and ownership of stocks, bonds, and Stratton Mutual Fund shares with corresponding reporting requirements. Our Code of Ethics also provides guidelines regarding the acceptance of gifts and the acceptance of board service positions with publicly owned companies. A copy of our Code of Ethics is available to our clients on request.

Our Insider Trading Policy prohibits any employee from acting upon, misusing or disclosing any material non-public information, known as inside information. Our policy covers the definitions of an insider, what is considered non-public information, and outlines procedures for identifying inside information and reporting any such information to our executive management and chief compliance officer. Any violations of the firm's policy will result in disciplinary action and/or termination of employment.

Participation or Interest in Client Transactions -- Stratton Management Company and its employees are not permitted to participate in client transactions. When we recommend or purchase one or more of the Stratton Mutual Funds for a client account, Stratton Management Company waives its investment advisory fee to the

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client on the amount of assets so invested. We do this to address a conflict of interest because we receive a separate management fee from the mutual funds.

On holdings of mutual funds that are not affiliated with Stratton Management, we will charge our advisory fee. Clients should be aware that these fees are in addition to the underlying mutual fund's expenses and as a result, client expenses for owning these shares will be higher than the expenses shown in the fund's prospectus.

Personal Trading Conflicts of Interest -- Stratton's employees may buy or sell securities personally that are recommended and/or owned by our clients with certain restrictions and reporting requirements. Our Code of Ethics addresses how and when any employee may trade in a security for their own account or a family-related account. The Chief Compliance Officer and Chief Executive Officer of the firm personally review each employee's trading activity quarterly, at a minimum. On any trading day, the head trader and the Chief Compliance Officer has the authority to allow or prohibit any employee from trading in their personal accounts based on activity currently taking place for clients of the firm. Employees can only receive permission to trade in a security after 3:00 p.m. and if the firm has not traded more than \$100,000 in executed market value for clients in the security on that day.

Brokerage Practices

Broker Selection -- Stratton Management has a Best Execution Committee that meets at least annually and reviews and approves a list of approved brokers for equity trading. In doing this, the Committee considers the full range and quality of a broker's services, including execution capability, commission rates, and the value of any research, financial responsibility, and responsiveness, among other things. Fixed income brokers will be selected by the trading desk due to the limited availability of inventory when purchasing bonds, and to obtain competitive pricing when selling bonds.

In purchasing or selling our clients' securities, it is our policy to obtain the best execution available for our clients working through a brokerage firm. In doing so, we assign portfolio executions in accordance with the reliability, quality and operational capabilities of a broker's services, and its ability to negotiate commission rates to a fair and prevailing discount in relation to the size of the transaction.

Research and Other Soft Dollar Benefits -- Securities transactions may be placed with brokers who provide us with supplemental research and brokerage services as outlined in the "safe harbor" under Section 28(e) of the Securities Exchange Act of 1934. Some examples of the research services that are paid for with client commissions are: Bloomberg, FactSet Research System, and Zacks Investment Research.

This benefits Stratton Managements because we do not have to produce or pay separately for this research and it may cause us to select a broker based on our interest in receiving research. All clients of the firm may benefit from research products paid for by clients of the firm who generate large commission volumes. Stratton Management has the ability to negotiate commissions by having "unbundled" relationships with brokers whereby the first penny of commission covers the cost of executing the transaction, and the balance of the commission negotiated is applied directly towards the cost of the research product or brokerage service. As a result, we believe overall client commission costs remain competitive in relation to the size of each transaction, and are not higher than those costs obtainable from other brokers for the same products and services.

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Stratton Management Company utilizes both proprietary (created by the broker-dealer that we trade through) and third party research-related products and services on a soft dollar (commission) basis. We make a good faith determination of the usage and value of any research products in relation to the commissions paid for those services. Our Soft Dollar Committee meets at least annually to review and approve each of the firm's soft dollar arrangements, and create a master brokerage budget for the year. The Chief Compliance Officer has responsibility to keep records for any items which may have a "mixed use." A "mixed use" product has both a research and an administrative use. We carefully determine what percentage is used for research, and what percentage is used for non-research purposes. Examples of a "mixed use" product that Stratton Management Company utilizes are the AXYS portfolio management system and the Moxy trade order management system. Stratton Management determines what portion of the time these systems are used to aid in the investment decision-making or trade execution process and what portion of the time they are used for administrative purposes. Once that calculation is made, we document the allocation, and pay for any non-research component in "hard" dollars, rather than with client commission dollars.

Brokerage for Client Referrals -- We do not direct brokerage commissions to firms in return for any client referrals they may make to us, or our related persons.

Client Directed Brokerage -- If a client requests that we use a specific brokerage firm when executing trades for their account, we will honor their request. Clients should be aware that if they instruct us to direct brokerage from their account to a specific brokerage firm we may not be able to seek best execution for the client and/or to obtain beneficial research.

Trade Aggregation -- Stratton Management Company may combine or "aggregate" orders for the purchase and sale of securities on behalf of investment advisory clients. We typically only aggregate orders for clients that follow one of our "Model" portfolios. All client accounts that participate in an aggregated order will receive the average share price for all the transactions in that security with a common broker. When only a part of an order is completed on a given day we may assign shares bought or sold to client accounts using either of the following methods: Pro-rata allocation or Random allocation. A pro-rata allocation is made as a percentage of the day's execution based on each account's percentage of the original order. A random allocation may be assigned to fill client orders in thinly-traded securities or when using limit orders to avoid allocating excessively small amounts of securities to client accounts. In this case, we may seek to allocate to those accounts whose order size matches the executed amount most closely. On the next trading day, should the trade still not be completed, the random allocation method would favor different client accounts, so that over time, all eligible accounts would have an opportunity to receive allocations until the total order is filled. We place our clients' interests first, and our trading practices and procedures prohibit unfair trading practices. We seek to disclose or avoid any actual or potential conflicts of interests and resolve such conflicts in the client's favor.

Review of Accounts

Stratton Management Company runs a report each week of all securities held by our clients. Each security is reviewed by the portfolio managers who have one or more client accounts holding that security. We hold weekly Investment Committee meetings at which the portfolio managers and analysts jointly review the latest reported earnings, company forecasts and economic outlook. Under normal conditions, client portfolios are reviewed monthly for composition. Investment decisions on specific securities are made individually in relation to their suitability and desirability for each client account.

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Client portfolios may be reviewed more frequently than monthly during periods of unusual market action, individual stock news, a change in the client's circumstances, etc.

Client Referrals and Other Compensation

Stratton Management Company may compensate persons, i.e., individuals or entities, for the referral of advisory clients to the firm provided appropriate disclosures and regulatory requirements are met. Stratton presently does not compensate persons for soliciting client referrals. We have an arrangement where some employees of our affiliate, Valley Forge Asset Management Corp., act in a sales capacity on behalf of Stratton Management Company for which we pay on a pro-rated basis for the costs associated with these employees.

Custody

Stratton Management Company does not physically hold any client assets, and we systematically reconcile our records to duplicate statements and/or data downloads we receive from each independent qualified custodian chosen by our clients. In some cases, such as where our affiliate, Semper Trust Company, acts as a trustee on an account, we may have the authority to send money from the account to pay expenses or send income or principal to the beneficiaries, etc.

We encourage all of our clients to carefully review the periodic portfolio appraisals they receive from us, against the statements they receive at least quarterly directly from their independent qualified custodian. Clients should question any discrepancies they might see with both parties.

Investment Discretion

Our contracts with clients define whether we have investment discretion or if the client retains investment discretion. In the event a client retains investment discretion, we will ask the client for signed approvals before buying or selling any security for their account. A client may also grant us investment discretion on all but some aspects of their account. For example, a new client may come to us with a portfolio that includes a holding the client does not wish to be sold (such as company stock) or a client may wish us not to purchase specific securities or to maintain a larger percentage of their account in cash than we would normally recommend for that client.

Voting Client Securities

If a client authorizes us to do so, we will vote proxies on the securities they hold in their account. We have designed our policies and procedures regarding proxy voting to ensure that proxy votes are conducted in the best interest of our clients. Because we typically buy securities of companies we believe are well managed, Stratton Management Company will generally vote in favor of management's recommendations for routine matters. For non-routine matters, direction will be provided by the Firm's Investment Committee who will

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ultimately cast a proxy vote after evaluating the relevant facts and circumstances of the issues at the time of the vote on a case-by-case basis. Should there be any material conflicts of interest regarding a proxy vote, we will resolve them in the best interest of our clients. Any client may obtain a report on how we have voted their proxies by contacting us at 800-578-8261.

Addressing Conflicts of Interest -- Because Stratton Management Company is owned by Susquehanna Bancshares, Inc. (SBI), it is the policy of our firm not to purchase SBI securities for any account where we have investment discretion, unless specifically authorized to do so by the client. In that event, we also request that each client sign a letter annually authorizing us to continue to hold the SBI securities for their account. Where possible, SBI would be directed to send proxy material directly to client to vote their SBI shares.

For client accounts that hold shares of Stratton Mutual Funds, we will not cast a vote on behalf of clients for proxy items that are of a financially beneficial or material nature to Stratton Management. In such cases proxy materials will be sent directly to the clients holding these securities for them to vote. We may vote our clients Stratton Mutual Fund shares on routine matters such as the approval of auditors, uncontested Election of Directors, etc.

Financial Information

Stratton Management Company has no financial conditions that are likely to impair our ability to meet our contractual obligations to our clients.