

ADV II Brochure

New Salem Capital, LLC

PO Box 4195
Telluride, CO 81435-4195
847-713-8001

April 30, 2011

This Brochure provides information about the qualifications and business practices of New Salem Capital, LLC. If you have any questions about the contents of this Brochure, please contact us at (847) 713-8001 / mwestman@newsalemcapital.com. 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.

New Salem Capital, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill, expertise or training in providing advisory services.

Additional information about New Salem Capital, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated April 30, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of New Salem Capital, LLC’s fiscal year. We may further provide other ongoing disclosure information about material changes as necessary. We will provide you with a new Brochure as necessary based on changes or new information, without charge.

Currently, our Brochure may be requested by contacting New Salem Capital, LLC at (847) 713-8001 or mwestman@newsalemcapital.com.

Additional information about New Salem Capital, LLC is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with New Salem Capital, LLC who are registered, or are required to be registered, as investment adviser representatives of New Salem Capital, LLC.

Item 3 Table of Contents

ADV II Brochure	i
Item 2 – Material Changes	ii
Item 3 -Table of Contents	iii
Item 4 – Advisory Business	1
Item 5 – Fees and Compensation	1
Item 6 – Performance-Based Fees and Side-By-Side Management	3
Item 7 – Types of Clients.....	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	4
Item 9 – Disciplinary Information	6
Item 10 – Other Financial Industry Activities and Affiliations	6
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	6
Item 12 – Brokerage Practices.	7
Item 13 – Review of Accounts.....	8
Item 14 – Client Referrals and Other Compensation.....	8
Item 15 – Custody	8
Item 16 – Investment Discretion.....	8
Item 17 – Voting Client Securities.....	9
Item 18 – Financial Information	9
Item 19 – Requirements for State-Registered Advisers.....	9

Item 4 – Advisory Business

Founded in 2002, New Salem Capital, LLC (“NSC”) is a Delaware limited liability company that provides investment advisory services to two private investment partnerships – New Salem Fund, L.P., a New York limited partnership (“NSF”), and Lincoln Partners, L.P., an Illinois limited partnership (“LP”). Each of NSF and LP may be referred to in this Brochure as a “Fund” or, together, as the “Funds”.

Mark D. Westman is the founder, managing member and sole owner of NSC and is responsible for the day to day management of the Funds.

NSC tailors the investments for each Fund to comply with the investment guidelines disclosed in the offering materials for the respective Fund. Each potential investor receives a complete set of offering materials prior to making any investment in either of the Funds.

As of December 31, 2010, NSC has \$11.4 million in assets under management, all of which is managed on a discretionary basis.

NSC does not participate in or sponsor any wrap fee programs.

Item 5 – Fees and Compensation

NSC has entered into Investment Advisory Agreements with each of the Funds, pursuant to which NSC provides investment advisory and administrative services to the Funds, as well as providing ancillary services such as office space and facilities. Each Investment Advisory Agreement between NSC and the Funds may be terminated at any time, without payment of any penalty, by the general partner of the applicable Fund or by the partners owning a majority of the equity interests of the applicable Fund. Such termination is effective 60 days after written notice is provided to NSC. In addition, each Investment Advisory Agreement terminates automatically if it is assigned.

New Salem Fund, L.P.

NSC receives a management fee, payable on the first day of each quarter, in an amount equal to 1% per annum of NSF’s net assets on the first day of such quarter. The management fee is prorated in the event the Fund is not in existence for the entire quarter. Management fees also are prorated for additional contributions made during the quarter. The General Partner (defined below) may waive or reduce the management fees for certain investors. Each quarter an invoice is sent to a certified public accountant (“CPA”) that is responsible for reviewing all fees, expenses and capital withdrawals from the Fund. As an independent representative, the CPA is responsible for confirming that the invoiced fees and expenses are in accordance with the Limited Partnership Agreement of NSF. Upon approval, the CPA forwards the invoice to the custodian, with a copy to NSC, and the fees are deducted directly from the Fund.

New Salem LLC, a New York limited liability company that is wholly-owned by Mark D. Westman (“General Partner”), serves as the general partner of NSF and receives an annual performance allocation equal to 20% of net profits adjusted for uncovered net losses incurred in

prior years. The management fee payable to NSC is deducted in determining the net profit or net loss of the Fund for any given year. The annual performance allocation is deducted directly from the capital accounts of the limited partners of the Fund.

The General Partner may, at its discretion, waive or reduce the management fee or performance allocation for certain investors.

Any limited partner may withdraw all or a portion of his capital account as of the end of each quarter pursuant to written notice, which must actually be received by the Fund at least 30 days prior to the withdrawal date; provided, however, that if a limited partner withdraws within the first 12 months following the date on which he became a limited partner, such withdrawal will be subject to a withdrawal charge as follows: 2% for withdrawals within the first 6 months, and 1% for withdrawals within the next 6 months. Any withdrawal charges will be redistributed to the remaining partners in NSF. The General Partner may require any limited partner to retire from the Fund on not less than 20 days' notice or, if the continued participation of any limited partner in the Fund might cause the Fund to violate any law, rule or regulation or expose the Fund to risk of litigation, administrative proceedings or any similar action or proceeding, on not less than 5 days' notice. In the event that a limited partner withdraws or is required to retire at any time other than at the end of a fiscal year, the determination as to whether an annual performance allocation is payable from such limited partner to the General Partner will be made with respect to such limited partner as though it were being made at the end of a fiscal year.

Lincoln Partners

NSC receives a management fee, payable on the first day of each month, in an amount equal to 1.5% per annum of net assets on the first day of such month. The management fee is prorated in the event the Fund is not in existence for the entire month, and for any additional contributions made to the Fund during the month. The General Partner may waive or reduce the management fees for certain investors. Each month an invoice is sent to a certified public accountant ("CPA") that is responsible for reviewing all fees, expenses and capital withdrawals from the Fund. As an independent representative, the CPA is responsible for confirming that the invoiced fees and expenses are in accordance with the Limited Partnership Agreement of LP. Upon approval, the CPA forwards the invoice to the custodian, with a copy to NSC, and the fees are deducted directly from the Fund.

The General Partner serves as the general partner of LP. For limited partners who make an initial contribution on or after January 1, 2006, the General Partner receives an annual performance allocation equal to 20% of net profits adjusted for uncovered net losses incurred in prior years. The management fee payable to NSC is deducted in determining the net profit or net loss of the Fund for any given year. The annual performance allocation is deducted directly from the capital accounts of the limited partners of the Fund.

The General Partner may, at its discretion, waive or reduce the management fee or performance allocation for certain investors.

Any limited partner may withdraw all or a portion of his capital account as of the end of each quarter pursuant to written notice, which must actually be received by the Fund at least 30 days prior to the withdrawal date; provided, however, that if a limited partner withdraws within the first 12 months following the date on which he became a limited partner, such withdrawal will be subject to a withdrawal charge as follows: 2% for withdrawals within the first 6 months, and 1% for withdrawals within the next 6 months. Any withdrawal charges will be redistributed to the remaining partners in LP. The General Partner may require any limited partner to retire from the Fund on not less than 20 days' notice or, if the continued participation of any limited partner in the Fund might cause the Fund to violate any law, rule or regulation or expose the Fund to risk of litigation, administrative proceedings or any similar action or proceeding, on not less than 5 days' notice. In the event that a limited partner withdraws or is required to retire at any time other than at the end of a fiscal year, the determination as to whether an annual performance allocation is payable from such limited partner to the General Partner will be made with respect to such limited partner as though it were being made at the end of a fiscal year.

Other Costs Involved

In addition to our advisory fees shown above, expenses associated with making investments on behalf of the Funds will also be incurred and charged to the applicable Fund. These fees include accounting, audit and legal expenses, administrative expenses, certain extraordinary expenses, research expenses (including research-related travel), and all investment expenses, such as commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees and other expenses related to the purchase, sale or transmittal of the Funds' assets. Additional information about brokerage costs and services is provided in "Item 12: Brokerage Practices."

Item 6 – Performance Based Fees and Side-By-Side Management

Each of the Funds pays NSC a performance-based fee (fees based on a share of capital gains or capital appreciation of the assets of the Funds) if earned, which is described in more detail in Item 5 above. The firm does no side-by-side management.

Item 7 – Types of Clients

New Salem Capital, LLC provides portfolio management services to two private limited partnerships – New Salem Fund, L.P., and Lincoln Partners LP.

Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss

NSC uses a variety of investment approaches and techniques in managing the Funds, both qualitative and quantitative. We may use one or more of the following methods of analysis or investment strategies when providing investment advice to clients:

Fundamental Analysis – Fundamental analysis involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience, and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value. The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

Cyclical Analysis – Cyclical analysis is a type of technical analysis that involves evaluating recurring price patterns and trends based upon business cycles. Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

Long Term Purchases – Securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

Short Term Transactions – Securities purchased with the expectation profits may be generated by taking advantage of short-term pricing anomalies. While frequent trading of securities can capitalize on short-term pricing anomalies, it also can result in increased brokerage and other transaction costs, as well as additional tax burdens that don't apply to buy and hold strategies. These factors could negatively affect investment performance.

Short Sale Transactions – Short sales are transactions in which an account sells a security it does not own. The account must borrow the security to make delivery to the buyer. The account is then obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The price at such time may be higher or lower than the price at which the security was sold by the account. If the underlying security goes down in price between the time the account sells the security and buys it back, the account will realize a gain on the transaction. Conversely, if the underlying security goes up in price during the period, the account will realize a loss on the transaction. Because the market price of the security sold short could increase without limit, the account could be subject to a theoretically unlimited loss. The risk of such price increases is the principal risk of engaging in short sales.

Options – The purchase or sale of options involves the payment or receipt of a premium by the account and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security for a specific price at a certain time or during a certain period.

Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the seller is exposed to the extent of the actual price movement in the underlying security, rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

Investing in securities involves risk of loss that you should be prepared to bear. This risk could be the chance that the Funds' return will be different than expected or the possibility of losing some or all of your original investment. The main risks of investing are:

- **Market Risk:** Your overall risk level will depend on the market sectors/countries in which the Funds are invested in, and the current interest rate, liquidity conditions, and credit quality of such sectors. The market also may fail to recognize the intrinsic worth of an investment or NSC may misgauge that worth.
- **Industry and Concentration Risk:** Companies that have similar lines of business are grouped together in broad categories called industries. Certain industries are grouped together in broader categories called sectors. NSC may overweight industries within a sector, which causes the account's performance to be susceptible to the economic, business or other developments that affect those industries. For example, your performance may be impacted by general economic conditions, product cycles, competition, government regulation, among other things.
- **Small and Mid-Size Company Risk:** The Funds may invest in small or mid-size companies which may involve greater risk of loss and price fluctuation. It might be harder to sell securities of small-cap issuers, and they often incur larger price swings than securities of larger companies.
- **Foreign Investment Risk:** The Funds may be invested in foreign securities. Investments in foreign securities involve different risks than U.S. investments, including fluctuations in currency exchange rates, potentially unstable political and economic structures, less efficient trade settlement practices, reduced availability of public information, and lack of uniform financial reporting and regulatory practices similar to those that apply to U.S. issuers. Foreign stock markets may also be less liquid than U.S. stock markets.
- **Liquidity Risk:** Liquidity risk exists when particular investments are difficult to purchase or sell. The Funds' investment in less liquid securities may reduce your return because it may be harder to sell the less liquid security at an advantageous time or price.

We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of New Salem Capital, LLC or the integrity of our management. Neither our firm nor any management person has any reportable disciplinary information.

Item 10 – Other Financial Industry Activities and Affiliations

Mark D. Westman is the sole owner and Managing Member of the General Partner, which is the general partner of each of the Funds. New Salem Fund, L.P. and Lincoln Partners, L.P. are both affiliates of NSC.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

New Salem Capital, LLC has adopted a Code of Ethics for all employees of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. In addition to the Code of Ethics, NSC's owner and employees are to be compliant with the CFA Institute recommendations as stated in the most current released version of the "Standards of Practice Handbook."

NSC's employees are required to follow our Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of NSC and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for the Funds. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of NSC will not interfere with (i) making decisions in the best interest of its clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Generally, NSC personnel may not effect transactions in securities for their own account, or for accounts in which they have an interest or control, where such securities are simultaneously contemplated for purchase or sale, or are being purchased or sold, by the Funds. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of NSC's clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between NSC and its clients.

NSC will provide a copy of the Code of Ethics to anyone upon their request at no charge.

Item 12 – Brokerage Practices

NSC has the authority to determine, without obtaining specific client consent, the securities and the amount thereof to be purchased or sold, whether transactions should be combined (blocked) with similar trades for other accounts, the broker/dealer to be used, and the commission rate to be paid. In selecting brokers and/or dealers to execute transactions, NSC is not required to solicit competitive bids and does not have an obligation to seek the lowest available commission. It is not the practice of NSC to negotiate “execution only” commission rates, as research and related services may be provided by the broker and included in the commission rate. Research and related services furnished by brokers may include, but are not limited to, written information and analyses concerning specific securities, companies, or sectors, as well as discussions with research personnel; market, financial and economic studies and forecasts; financial publications; statistical and pricing services, along with software, data bases and other technical and telecommunication services, lines and equipment utilized in the investment management process. Research services obtained by the use of commissions arising from portfolio transactions may be used by NSC in its other investment activities.

The research services obtained normally benefit many accounts rather than just the one(s) for which the order is being executed, and in some cases may not be used in connection with the account which actually paid the commissions to the broker providing the research. NSC does receive a benefit because our firm does not have to produce or pay for the research services that are provided by certain broker/dealers. There is an inherent conflict of interest in these arrangements where an incentive may exist for NSC to select a broker/dealer based on our firm’s interest in receiving the research and related services outlined above, rather than on our client’s interest in receiving most favorable execution.

In selecting brokers and negotiating commission rates, NSC will take into account the financial stability and reputation of brokerage firms, the referral of prospective investors (consistent with best execution), and the brokerage and research services provided by such brokers, although a specific client may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research services provided. Since commission rates are generally negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

Consistent with its duty to facilitate best execution and to obtain a more favorable commission rate, NSC may aggregate all client transactions in the same security and have these transactions executed as a block transaction. When NSC enters simultaneous trade orders in a security for its clients, NSC generally determines the allocation to each account when the orders are placed with the broker/dealer and provides the broker/dealer with the account and share breakdown when the order is entered. Each account will then generally pay or receive on a pro-rata basis the average share price for such security.

Even when execution of the order is not expected to be completed in a single day, NSC will generally attempt to make a pro-rata allocation. In certain cases, when NSC determines that a pro-rata allocation may not be feasible, NSC may make the allocation in consideration of several other factors, such as differences in the nature or investment objective of accounts. In any event,

NSC will endeavor at all times to adopt an allocation method that avoids preferential treatment and operates fairly and reasonably among all clients.

As a fiduciary, NSC has the responsibility to execute orders in the best interest of our clients. In the event any trade error occurs in the handling of any client transaction, the NSC's policy is to identify and correct any errors as promptly as possible without disadvantaging the client. Trade errors are documented with appropriate supervisory approval and maintained in a trade error file.

Item 13 – Review of Accounts

Client accounts are reviewed on an on-going basis to assure that the allocations remain in line with client investment objectives. Mark D. Westman, NSC's portfolio manager, is primarily responsible for reviewing all account transactions, portfolio positions and performance. Mr. Westman reviews market exposure and capital utilization measures from a variety of perspectives, including positions as a percentage of net capital or specific strategies, such as short positions, as a percentage of capital. Weekly reviews focus on sector breakdowns and value at risk data and monthly reviews focus on short interest on all positions and dividend yield reports on short positions.

Limited partners in the Funds receive a monthly snapshot, quarterly statements, and yearly audited financial statements.

Item 14 – Client Referrals and Other Compensation

NSC does not compensate any person for client referrals nor does it offer or receive any form of compensation for client referrals.

Item 15 – Custody

All of the Funds' accounts are held in custody by unaffiliated broker/dealers or banks, but NSC can access these accounts through its ability to debit advisory fees. The General Partner, an affiliate of NSC, may also access these accounts through its position as general partner of the Funds. For these reasons NSC is considered to have custody of those assets under government regulations. In order to comply with regulatory requirements, we provide all investors in the Funds with audited financial statements, which are sent to investors within 120 days of each Fund's fiscal year-end. In addition, we have engaged a CPA as our independent representative to review all fees, expenses, capital withdrawals and other distributions from the Funds. As an independent representative, the CPA is responsible for reviewing all distribution requests and confirming that all distributions are in accordance with the Limited Partnership Agreement of NSF or LP, as the case may be.

Item 16 – Investment Discretion

NSC receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the

particular client account. When selecting securities and determining amounts, NSC observes the investment policies, limitations and restrictions of the clients for which it advises.

Item 17 – Voting Client Securities

Unless a client has retained the right to vote proxies or as directed otherwise at the inception of the advisory relationship, NSC votes proxies for its clients. NSC votes proxies in a manner that, in its judgment, is in the best economic interest of clients. Because NSC generally makes investments in companies in which it has confidence in the management, proxies are frequently voted in accordance with managements recommendations. However, NSC votes proxies in a manner contrary to management’s recommendation when, in the judgment of NSC, the recommendation would not enhance shareholder value.

Where a material conflict of interest has been identified, NSC notifies the limited partners of the applicable Fund of the nature of the conflict of interest and either receives the consent of the limited partners to vote proxies in the manner requested by NSC or asks for direction from the limited partners as to how such proxies should be voted.

By August 31st of each year, NSC’s annual proxy voting record for the previous 12 months ending June 30th is available free of charge and a copy of this and NSC’s proxy voting policies and procedures can be obtained free of charge upon request.

Item 18 – Financial Information

NSC does not require or solicit the prepayment of more than \$500 in fees per client, six months or more in advance.

NSC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its clients and has not been the subject of a bankruptcy proceeding.

Item 19 – Requirements for State-Registered Advisers

NAME: Mark D. Westman Year of birth: 1963

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE:

Education: Augustana College, B.A., 1985; University of Chicago, MBA, 1993; Mr. Westman received his Certified Public Accountant (CPA) designation in 1989 (Wisconsin), and was awarded the Certified Financial Analyst (CFA) designation in 1994.

Business Background:

Telluride Lodging, LLC (2009 – present) – Chief Financial Officer and co-owner
New Salem Capital, LLC, (2002 – present) – CEO, Founder, and Managing Director
Lincoln Capital Management (1997-2001) – Principal and Manager of Private Partnership Group
Firstar Investment Research and Management Company (1992-1997) – Director of Research and Senior Portfolio Manager
Price Waterhouse (1985-1987)

Arthur Andersen (1987-1989)

DISCIPLINARY INFORMATION:

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

OTHER BUSINESS ACTIVITIES

Mr. Westman serves as the Chief Financial Officer and is a co-owner of Telluride Lodging, LLC, a Colorado limited liability company that offers property management and lodging services in Telluride and Mountain Village, Colorado.

ADDITIONAL COMPENSATION:

Mr. Westman is the sole owner and Managing Member of the General Partner, which is the general partner of each of the Funds. As set forth in Items 5 and 6 above, the General Partner receives an annual performance allocation equal to 20% of net profits adjusted for uncovered net losses incurred in prior years. Because Mr. Westman is the sole owner of the General Partner, he will benefit from any performance-based fees paid by the Funds to the General Partner. Performance-based compensation may create an incentive for NSC and Mr. Westman to invest the Funds' assets in investments that may carry a higher degree of risk to NSC's clients and the limited partners of the Funds.