

SALEM CAPITAL MANAGEMENT, Inc.

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Firm Brochure

(Part 2A of Form ADV)

This Brochure provides information about the qualifications and business practices of Salem Capital Management, Inc. (Salem Capital Management). If you have any questions about the contents of this Brochure, please contact us at: 781-932-9005 or by email at: KRatcliffe@SalemManagement.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.

Salem Capital Management is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Salem Capital Management is available on the SEC's website at www.adviserinfo.sec.gov

December 31, 2014

Material Changes

This Brochure dated December 31, 2014 is an annual update of our Brochure, as required by the United States Securities and Exchange Commission's (SEC) requirements and rules.

There have been no material changes since the last update (interim update dated September 30, 2014) of the Brochure.

Currently, our Brochure may be requested by contacting Kimberly A. Ratcliffe at 781-932-9005 or KRatcliffe@SalemManagement.com.

Additional information about Salem Capital Management 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 Salem Capital Management who are registered, or are required to be registered, as investment adviser representatives of Salem Capital Management.

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Advisory Business

Firm Description

Salem Capital Management is an independently-owned investment management firm which has been in business since 1989. The firm is principally owned by Hal Rubin. There are currently five employees including two Investment Advisers and three administrative staff. The firm is federally registered with the SEC (Securities and Exchange Commission) as a Registered Investment Adviser.

Salem Capital Management provides investment management advice to individual and institutional clients. Advice generally concerns equity and fixed income securities, and is tailored to the particular needs and objectives of each client. Salem Capital Management may consider the following factors in its advice to clients: income and liquidity requirements, taxes, education and retirement funding, estate planning strategies, time horizon, investment goals and risk tolerance. Salem Capital Management has written contracts with all clients stating that the relationship may be terminated by either party at any time.

Salem Capital Management's compensation is solely from fees paid directly by clients. The firm does not receive commissions based on the client's purchase of any financial product, and no commissions in any form are accepted. No referral fees are paid or accepted. No benefits are received from custodians/broker-dealers based on client securities transactions ("soft dollar benefits").

Assets under the direct management of Salem Capital Management are held by independent custodians, including UBS Financial, Morgan Stanley, TD Ameritrade, Schwab, State Street Bank, or others, in the client's name. Salem Capital Management is not deemed to have custody for the large majority of clients. For a limited number of clients, custodial agreements established between the client and their custodian provide disbursement authorization to Salem Capital Management, and therefore the firm is deemed to have custody of these client assets. Salem Capital Management acts only on client authorization for disbursement requests.

Principal Owners

Hal Rubin is principal owner of Salem Capital Management, Inc. There are no intermediate subsidiaries.

Types of Advisory Services

Salem Capital Management provides investment supervisory services (i.e. "asset management") and furnishes investment advice. After consultation with the client, Salem Capital Management selects and implements appropriate investments for their account. Each client account is reviewed on a continuous basis, rather than a set schedule. Developments affecting individual holdings, overall portfolio structure, or a client's financial position may trigger a change in account holdings. As part of its services, Salem

Capital Management provides a written portfolio appraisal and performance review on a quarterly basis. In addition, unlimited telephone consultation is offered; personal meetings are scheduled on an as-needed basis.

Tailored Services

Salem Capital Management tailors its services to the individual needs of clients. Client goals and objectives are clarified in meetings and via correspondence, and are used to determine the course of action for each client. The goals and objectives for each client are documented in our client files, and take into consideration the client's preferences regarding investing in certain securities or types of securities.

Managed Assets

As of December 31, 2014, Salem Capital Management managed approximately \$350,885,900 in assets for 111 client households. Approximately \$334,310,700 is managed on a discretionary basis and \$16,575,200 on a non-discretionary basis.

Fees and Compensation

Description and Amount

Salem Capital Management is compensated for services based on written fee agreements established in advance with clients. Our fees are most often based on a percentage of a client's assets under management. Occasionally we charge a flat fee which does not vary with account size. All fees are negotiable.

Salem Capital Management's current annual fee schedule for new accounts is as follows:

| <u>Fee Schedule - Annual Rates</u> | |
|------------------------------------|--------------|
| 0.7% on the first | \$ 1,000,000 |
| 0.6% on the next | \$ 1,500,000 |
| 0.5% over | \$ 2,500,000 |

Salem Capital Management's current minimum fee for new accounts is \$5,000. These fees may be modified from time to time, and variation in fees paid by clients does exist. A lower fee is sometimes charged when the assets under management are primarily fixed-income issues, for long-time clients, or in other special circumstances.

Fee Billing

Investment fees are charged quarterly in arrears, using the previous quarter-end market value for valuation purposes. Accounts initiated or terminated during a calendar quarter are charged a prorated fee.

Clients may choose to have fees deducted from a designated custodial account, or to be invoiced directly. The client must consent in advance to direct debiting of their investment

account for investment management fees, and those clients will receive a copy of the bill. All investment management bills include a detailed fee schedule showing relevant calculations.

Other fees

Clients may incur certain charges imposed by custodians, brokers, and other third parties such as custodial fees, brokerage commissions, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are usually relatively small, and are exclusive of and in addition to Salem Capital Management's fee, and Salem Capital Management shall not receive any portion of these commissions, fees, and costs.

Please see the section entitled "Brokerage Practices" on page 9 for more information.

Compensation for Sales of Investment Products

Salem Capital Management's compensation is solely from fees paid directly by clients. The firm does not receive commission based on the client's purchase of any financial product. No commissions in any form are accepted.

Performance-Based Fees and Side-By-Side Management

Sharing of Capital Gains

Salem Capital Management does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client) because of the potential conflict of interest. Performance-based compensation may create an incentive for the investment adviser to recommend an investment that may carry a higher degree of risk to the client. However, asset-based fees allow Salem Capital Management to participate in the growth of the client's wealth; in addition, asset-based fees can decline when the client's portfolio declines in value.

Types of Clients

Description

Salem Capital Management provides investment advice to individuals, high net worth individuals, corporate pension and profit-sharing plans, corporations, charitable institutions (including foundations and endowments), and government entities. Client relationships are long-term in nature.

Salem Capital Management usually requires a minimum \$5,000 annual fee (payable in arrears) in order to maintain a client account, but in certain circumstances, such as anticipated additional future assets or long-term historical client relationship, no minimum condition exists.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

The primary security analysis method at Salem Capital Management is fundamental analysis. To a lesser degree the firm also utilizes cyclical analysis. The main sources of information include financial newspapers and magazines, Bloomberg Professional® service, annual reports, prospectuses and filings with the SEC, corporate rating services, research materials prepared by brokerage firms and research materials prepared by independent research organizations. Employees of Salem Capital Management also participate in conference calls and attend off-site visits with corporate leaders and industry conferences.

Investment Strategies

The primary investment strategy we use for client accounts is asset allocation and security selection.

Asset allocation consists of determining the appropriate allocation of client funds to stocks, bonds and/or cash. This allocation is based on Salem Capital Management's outlook for returns for each type of investment, as well as the client's objectives. Most portfolios have some allocation to each asset class, in order to reduce market risk.

Security selection consists of determining the most attractive securities within each asset class. This allocation is based on Salem Capital Management's outlook for returns for each security, as well as the outlook for the industry or sector in which it operates. Most equity portfolios contain 25-30 stocks and are generally diversified across industry groups, in order to reduce company and industry risk. Salem Capital Management favors a conservative approach, preferring larger capitalization stocks and investment-grade bonds. Most securities purchased are held for at least one year. The firm does not engage in short-term trading (less than 30 days), short sales, margin transactions or option writing.

The investment strategy for a specific client is based upon the objectives, income needs and tax situation stated by the client during consultations. These objectives may change at any time. Each client portfolio is constructed solely for that client. We do not use model portfolios, although the firm does purchase many of the same securities for different clients.

Risk of Loss

Investing in equity and fixed income securities involves risk of loss that clients should be prepared to bear. Salem Capital Management's investment approach keeps the risk of loss in mind. However, as with all investments, clients face investment risks including the following: Loss of Principal Risk, Interest-Rate Risk, Market Risk, Inflation Risk, Reinvestment Risk, Business Risk, Liquidity Risk, Currency Risk, and Financial Risk.

Disciplinary Information

Legal and Disciplinary

The firm and its employees have not been involved in any legal or disciplinary events related to past or present activities.

Other Financial Industry Activities and Affiliations

Activities

Salem Capital Management does not engage in any other business.

Affiliations

The firm does not have any affiliations or arrangements with any other company or related person. We may at times recommend unrelated, third party professionals who have a greater expertise in certain disciplines when appropriate for the client; we do not receive any compensation for the recommendation or selection of these professionals.

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

Code of Ethics

Salem Capital Management has adopted a Code of Ethics which states employees' fiduciary obligation to place the interests of clients above personal and employer interests, and requires employees to comply with applicable Federal securities laws. Employees are required to comply with Salem Capital Management's Personal Securities Reporting Requirements, as well as the firm's Proprietary Trading and Insider Trading Policies. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

Salem Capital Management, as a firm, does not buy or sell securities which are recommended to clients. Employees of Salem Capital Management may at times buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades.

The Chief Compliance Officer of Salem Capital Management is Kimberly A. Ratcliffe. Ms. Ratcliffe reviews all employee trades each quarter, and her trades are reviewed by another employee. The personal trading reviews ensure that employee trades are placed after trades are placed for client accounts. The trades of employees are not of a significant enough value to affect the securities market. Personal holdings and transactions are reviewed on an annual basis to check for completeness.

Brokerage Practices

Selecting Brokerage Firms

Salem Capital Management does not have any affiliation with product sales firms. Specific custodian recommendations are made to clients based on their need for such services. Salem Capital Management recommends custodians based on the proven integrity and financial responsibility of the firm, best execution of orders at reasonable commission rates, bond inventory selection, and the quality of client service.

Salem Capital Management occasionally recommends full service brokerage firms, discount brokerage firms and trust companies (qualified custodians), such as UBS Financial, Schwab and State Street Bank & Trust Company. Salem Capital Management does not receive fees or commissions from any of these arrangements. Salem Capital Management may benefit from other services provided by custodians, such as research and continuing education. These benefits are standard in a relationship with these custodians and are not in return for client recommendations or transactions.

Salem Capital Management reviews total account fees (including both commissions and other incidental custodial charges) for each client annually. The review is documented in Salem Capital Management's "Compliance Manual".

Soft Dollars

Salem Capital Management does not receive research or other products or services other than execution from a broker-dealer or third party in connection with client security transactions ("soft dollar benefits"). All independent research products are paid for directly by Salem Capital Management.

Client Referrals

Salem Capital Management does not recommend broker-dealers based on, or in return for client referrals.

Directed Brokerage

Salem Capital Management does not routinely recommend, request or require that a client direct us to execute transactions through a specific broker-dealer. Clients who direct use of a particular broker occasionally also negotiate commission rates with that broker. Such commission rates may be higher than Salem Capital Management could negotiate on trades and may prevent participation in new issues offered by another broker.

Aggregated Orders

Salem Capital Management may aggregate the purchase or sale of securities for client accounts. Aggregation of orders is done for more efficient trade execution, to obtain similar pricing on trades, and for certain orders where minimum purchase requirements exist. Aggregation of orders is not done when concurrent review of accounts is not possible.

Review of Accounts

Account Reviews

Each client account is reviewed on a continuous basis rather than a set schedule. Market conditions, security specific information, political events, tax-law changes and other on-going factors are considered on a daily basis, and in relation to client's specific holdings. Account reviewers include Hal Rubin, Chairman, and Kimberly A. Ratcliffe, Vice President.

Regular Reports

Written reports are sent to clients on a quarterly basis. The report consists of a portfolio appraisal and an individualized letter. The letter summarizes the performance of the client's account, as well as Salem Capital Management's general thoughts on the economy and investment markets. Clients with taxable accounts also receive a Realized Capital Gain and Loss Report at the end of each calendar year, which may correspond with information provided on tax documents (Form 1099) provided by custodians.

In addition to regular written reports, client meetings are held on an as-needed basis. Topics of discussions usually include market conditions, account performance and holdings, and client objectives and needs.

Client Referrals and Other Compensation

Incoming referrals

Salem Capital Management has been fortunate to receive many client referrals over the years. The referrals have come from current clients, employees, accountants, brokers, and other sources. Salem Capital Management does not pay for referrals.

Referrals to Other Professionals

Salem Capital Management does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Custody

Account Statements

All assets are held at qualified custodians, who provide account statements directly to clients at their address of record at least quarterly. Clients are encouraged to carefully review the statements provided by custodians and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

SEC "Custody"

According to a recent ruling by the SEC, investment advisers are deemed to have "custody" of client funds if certain conditions are met. Salem Capital Management is deemed to have

custody of client funds because the firm has the authority to withdraw advisory fees from client accounts by clients who instruct us to do so. For a limited number of clients, custodial agreements established between the client and their custodian provide disbursement authorization to Salem Capital Management, and therefore the firm is deemed to have custody of these client assets. Salem Capital Management acts only on client authorization for disbursement requests and has engaged an independent public accountant to conduct an annual surprise examination of client funds and securities. All client assets are held at qualified custodian firms; these custodians provide account statements directly to clients at their address of record at least quarterly. All clients receive a copy of their investment management bill.

Investment Discretion

Discretionary Authority for Trading

Salem Capital Management accepts discretionary authority to manage securities accounts on behalf of clients. This authority is not assumed until the client executes an Investment Counsel Agreement. The Investment Counsel Agreement provides Salem Capital Management with the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of securities to be bought or sold. Salem Capital Management is not authorized to direct delivery of securities or payment to itself, or to direct any disposition of securities or cash except to the client or against counter-value. Discretionary trading authority facilitates placing trades in clients' accounts on their behalf so that we may promptly implement their investment policy. In some cases, clients are provided with an opportunity to review and discuss these recommendations prior to implementation.

If discretionary trading authority has not been given, Salem Capital Management receives approval from the client to implement an investment program prior to placing trades.

Limited Power of Attorney

In some cases, client custodial agreements provide Salem Capital Management with limited power of attorney to effect transactions on client's behalf.

Voting Client Securities

Proxy Votes

Clients retain proxy voting authority for all securities unless the client notifies us to the contrary. Clients will receive proxy solicitations directly from their custodian or a transfer agent. Clients may contact Salem Capital Management via telephone or email for advice regarding the voting of proxies.

Proxy Voting Policy

Salem Capital Management votes proxies from companies owned by clients in which Salem Capital Management advisers serve as co-trustee, or in certain other special circumstances. In cases where Salem Capital Management does vote proxies, the firm normally votes each issue as recommended by each company's Board of Directors, and clients do not direct voting on any particular solicitation. Salem Capital Management has determined that the cost to its clients of analyzing proxy issues is greater than the benefit its clients receive as a result of proxy issue analysis.

Should any conflict of interest arise between Salem Capital Management's interest and the interest of clients, it is the policy of the firm to provide the pertinent clients with a full description of the nature of the conflict and to allow the clients to vote their proxies entirely in accordance with their own preferences. However, in the history of the firm, there has never been such a conflict of interest, and it is not expected that any such occurrence would occur in the future.

Clients may contact Salem Capital Management at 781-932-9005 for any question regarding a particular proxy vote, or for a copy of our proxy voting policy.

Financial Information

Financial Condition

A balance sheet is not required to be provided because Salem Capital Management does not require prepayment of fees, and does not serve as custodian for client funds or securities, other than as described above. Salem Capital Management does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

Brochure Supplement (Part 2B of Form ADV)

Supervised Persons

Kimberly A. Ratcliffe and Hal Rubin

SALEM CAPITAL MANAGEMENT, Inc.

400 Unicorn Park Drive

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As of December 31, 2014

This Brochure Supplement provides information about Kimberly A. Ratcliffe and Hal Rubin that supplements the Salem Capital Management Brochure. You should have received a copy of that Brochure. Please contact Pallavi Dedhia, Office Manager, if you did not receive Salem Capital Management's Brochure, or if you have any questions about the contents of this supplement.

Additional information about Kimberly A. Ratcliffe or Hal Rubin is available on the SEC's website at www.adviserinfo.sec.gov

Education and Business Standards

Salem Capital Management requires that any employee whose function involves determining or giving investment advice to clients must either hold the Chartered Financial Analyst® designation (CFA charter) or have at least five years experience in investment counseling.

Further detail regarding the Chartered Financial Analyst® designation follows.

The CFA charter is a globally respected graduate-level investment credential established in 1962 and awarded by the CFA Institute – the largest global association of investment professionals.

There are currently more than 90,000 CFA charterholders working in more than 135 countries. To earn the CFA charter, candidates must:

- 1) pass three sequential, six-hour examinations;
- 2) have at least four years of qualified professional investment experience;
- 3) join the CFA Institute as members; and
- 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

High Ethical Standards

The CFA Institute Code of Ethics and Standards of Professional Conduct, enforced through an active professional conduct program, require CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

Global Recognition

Passing the three CFA exams is a difficult feat that requires extensive study (successful candidates report spending an average of 300 hours of study per level). Earning the CFA charter demonstrates mastery of many of the advanced skills needed for investment analysis and decision making in today's quickly evolving global financial industry. As a result, employers and clients are increasingly seeking CFA charterholders – often making the charter a prerequisite for employment.

Additionally, regulatory bodies in 19 countries recognize the CFA charter as a proxy for meeting certain licensing requirements, and more than 125 colleges and universities around the world have incorporated a majority of the CFA Program curriculum into their own finance courses.

Comprehensive and Current Knowledge

The CFA Program curriculum provides a comprehensive framework of knowledge for investment decision making and is firmly grounded in the knowledge and skills used every day in the investment profession. The three levels of the CFA Program test proficiency with a wide range of fundamental and advanced investment topics, including:

- ethical and professional standards,
- fixed-income and equity analysis,
- alternative and derivative investments,
- economics,
- financial reporting standards,
- portfolio management, and
- wealth planning.

The CFA Program curriculum is updated every year by experts from around the world to ensure that candidates learn the most relevant and practical new tools, ideas, and investment and wealth management skills to reflect the dynamic and complex nature of the profession. To learn more about the CFA charter, visit www.cfainstitute.org.

Hal Rubin, President

Educational Background:

- Date of Birth: May 19, 1939
- Union College

Business Experience:

Hal Rubin co-founded Salem Capital Management in 1990 and has been employed with the firm ever since. Prior to working at Salem Capital Management Hal Rubin was Vice President and Portfolio Manager at Loomis, Sayles & Company from 1980 to 1990. Before working at Loomis, Sayles & Company, Mr. Rubin was Manager of Alex, Brown & Sons (Boston office) and other investment banking firms.

Disciplinary Information: None

Other Professional Activities: Peddie School Investment Committee (Co-Chairman)

Additional Compensation: None

Supervision:

Kimberly Ratcliffe reviews Hal Rubin's investment advisory work through frequent office interactions and mutual attendance at client meetings. Hal Rubin's compliance-related activities are supervised by Kimberly Ratcliffe, Chief Compliance Officer.

Hal Rubin's contact information: 781-932-9005 HRubin@SalemManagement.com

Kimberly A. Ratcliffe, CFA, Vice President**Educational Background:**

- Date of Birth: May 4, 1961
- Princeton University, AB Economics, 1983
- Boston University, MBA, 1989

Business Experience:

Kimberly Ratcliffe has worked at Salem Capital Management since 2001. Prior to working at Salem Capital Management, she was a Portfolio Manager and Research Analyst at a number of firms, including BayBank Investment Management.

Disciplinary Information: None

Other Professional Activities: None

Additional Compensation: None

Supervision:

Hal Rubin reviews Kimberly Ratcliffe's investment advisory work through frequent office interactions and mutual attendance at client meetings. Kimberly Ratcliffe's compliance related activities are reviewed by Janet Hall and Hal Rubin.

Kimberly Ratcliffe's contact information:

781-932-9005 KRatcliffe@SalemManagement.com