

Form ADV : Part 2 A & B

As of March 17 , 2011

Part 2A: The Brochure: This brochure discloses information about the qualifications and business practices of the investment advisory firm named below for the benefit of its clients and prospective clients. Please note that the terms "registered investment adviser" or "registered" do not imply a certain level of skill or training. If the adviser uses a wrap fee program, it is found in Appendix 1. If you have any questions about the contents of this brochure, please contact us at the contacts given below.

Part 2B: The Brochure "Supplement" discloses information about persons providing advice.

2A: Brochure : Item 1 :Cover Page :

Lenox Capital Management, Inc.

["Lenox CM"]
322 Alana Drive
New Lenox, ILLINOIS 60451-1784

[crd # 124971 / SEC # 801- 68884]

Telephone : 815-485-5559

or

Facsimile : 815-485-9130

Email : lenoxfin@aol.com

website : NONE for the advisor

*Please note that this brochure has not been approved by the Securities & Exchange Commission or by any state securities authority. This firm is registered with the SEC and notice filed in one or more states; **registration does not mean approval or verification by those regulators.** More information about the firm is at Investment Adviser Public Disclosure : www.adviserinfo.sec.gov.*

If an item does not apply to the firm, it must state that it does not apply. All information must be true and may not omit any material facts.

2A: Brochure : Item 2: Material Changes : *If we amend this disclosure brochure, we are to send you either a new copy of the brochure or at least this item 2 describing the changes made so you can decide if you want us to send you a complete, new copy. A summary of material changes is :*

☐ attached as an exhibit to or

☐ included here as part of this updated brochure

or : No summary of material changes is required because there have been no material changes to this adviser's brochure since its last annual updating amendment.

The changes made are:

In Item

In Item

Item 2 requires that an adviser amending its brochure identify and discuss the material changes since the last annual update on the cover page or the following page or as a separate document accompanying the brochure. This item is designed to make clients aware of information that has changed since the prior year's brochure and that may be important to them. Whenever there is a material change to the form ADV , the firm must either send this item 2 with an offer to send the whole ADV, or else send the whole ADV Part 2AB.

2A: Brochure : Item 3 : Table of Contents : Information that investment advisers must provide to prospective clients initially and to existing clients annually : 18 disclosure items that describe this firm’s advisory business. and (if applicable) Appendix 1 with disclosures required for a “wrap fee” program brochure [*a specialized brochure*].

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Item 4. : This advisory firm's business

4. A. **Lenox Capital Management, Inc.** ("the firm," "Lenox CM" or "the investment advisor") is an Illinois corporation [IRS EIN **36-3944385**] that registered to do business as an investment advisory firm on 5.23.1998. Note : The use of the phrase "registered investment adviser" or the term "registered" do not imply a certain level of skill or training.

Mr. Douglas S. Ruth is the firm's sole owner, its President and an advisory representative. [Please see the Part 2B for a biography.]

The firm's business hours are from 8 am to 5 pm (Central time), Monday through Friday.

4.B. Lenox CM offers Portfolio Management for individuals, businesses and institutional clients. Lenox CM provides investment supervisory services for its client accounts. Most accounts will be discretionary in nature. If a client opts for a non-discretionary account, she or he must specifically allow the investment advisor in each instance to choose the types and quantities of investments in a client's account.

Item 4. B. Financial Plans

Mr. Ruth is also able to create a financial plan for clients who wish to obtain one. The firm does not obligate in any way its client to follow a plan's recommendations, nor, if the client does choose to implement the plan's recommendations, to do so through Mr. Ruth and Lenox Capital Management, Inc. or its affiliated broker/ dealer. Clients should consider whether the plan has interrelated elements that may not have the same intended effects if implemented only in part.

If a client does elect to use Mr. Ruth's services as an adviser, as a registered representative of a broker / dealer, or as an insurance agent, then the client should be aware that Mr. Ruth will receive the forms of compensation those services charge, and that such a relationship inherently creates a potential for a conflict of interest, in that the remuneration creates an incentive to make certain recommendations.

4.C. Do we tailor our advisory services to a client's individual needs and how do we do so?
Can clients impose restrictions on investing in certain securities or types of securities?
Financial planning services are based on each client's individual needs.

As a fiduciary, an investment adviser is to make only those recommendations that demonstrably are in the client's own best interests, which means that they, too, must be based on an individual's stated and/or established, individual needs, goals, risk tolerance and investment time horizon.

The firm seeks to establish what are suitable investments through a careful, fact-finding interview and discussions with each client.

Clients may set reasonable restrictions in writing as to what investments they desire to hold or not to invest in. The firm asks that clients who wish to do so provide clear, written instructions in that case. Lenox Capital Management does exercise discretion with regard to most client accounts. Clients may opt to have their account managed on a non-discretionary basis. If a client opts for non-discretionary management, she or he must approve of any securities transactions prior to their being effected. It is the client who allows the power of discretion to an adviser by means of a limited power of attorney, which the client may revoke at any time.

A client's ability to impose restrictions on the adviser's discretion occurs at the beginning of the process at which time a client accepts or chooses not to invest in the recommended programs. Clients may

withdraw from the programs at any time as well. Otherwise, the firm does not itself exercise discretion over the investment platforms that pursue their goals as stated in their prospectuses and ADV forms Part 2A.

4.D. Do we participate in a wrap fee program providing portfolio management services? NO, Lenox CM does not participate in any wrap fee program or recommend wrap fees to its clients. Clients should understand that advisers who do recommend wrap fee programs typically will receive a portion of the wrap fee .

4. E. As of 3.16.2011 this firm managed assets of \$40.2 million in a continuous and regular manner. Of that total, \$31.0 are in discretionary accounts and \$ 9, 190, 128 were in non-discretionary accounts.

Item 5 :Fees and Compensation. . — How our firm is compensated

5.A. Standard Fee Schedule .:

Lenox's non-negotiable advisory fees are charged quarterly in arrears on the value of the client portfolio's holdings as noted below :

- 0.25 of 1 % of the portfolio's common stock holdings
- 0.0075 of 1% of the portfolio's holdings in bonds and preferred stocks

Clients who use Mr. Ruth to effect recommended transactions will be charged the commission for his services as a registered representative of his affiliated broker/ dealer at the time of the transaction; clients pay a transaction fee of no more than 2% of trade price; with a minimum commission of no less than \$60 per trade. On a per share basis clients pay different rates per the table shown below :

Discount Commission Schedule

<u>\$ Range per transaction</u>	<u>Commission Rates</u>
\$0 - 2,500	\$29 + 1.6% of principal amount
\$2,501 - 6,000	\$54 + 0.6% of principal amount
\$6,001 - 22,000	\$72 + 0.3% of principal amount
\$22,001 - 50,000	\$94 + 0.2% of principal amount
\$50,001 - 500,000	\$144 + 0.1% of principal amount
\$500,001 & over	\$244 + 0.025% of principal amount

Item 5. A. Financial Plans

The fee to create a financial plan for clients is a fixed fee of \$200. The fee is due upon presentation of a plan. If a client does elect to use Mr. Ruth's services as an adviser, as a registered representative of a

broker / dealer, or as an insurance agent, then the client should be aware that Mr. Ruth will receive the forms of compensation those services charge, and that such a relationship inherently creates a potential for a conflict of interest, in that the remuneration creates an incentive to make certain recommendations.

5.B. . Disclosure : Does our firm bill its clients for the incurred advisory fees by :

- Sending an invoice to the client, OR by obtaining each client's signed permission to deduct the advisory fees from the client's account held by the custodian, OR
- May clients select either method of billing? Yes, but Lenox CM does not encourage it.

How often does the adviser assess fees (or bill clients)? Lenox CM charges its portfolio management fees quarterly in arrears. It charges for its financial plans upon presentation of the plan.

Primarily, Lenox CM does practice "direct billing" that requires us to obtain a client's written permission to deduct our fees directly from the client's account held by the custodian. [See the ADV Part 1B, Item 2. I] We do send invoices to a few clients who have requested that we do so, but it is a practice that Lenox CM does not encourage. Lenox CM does create an invoice for its financial planning services.

5.C. . Disclosure : Other types of fees or expenses clients may pay in connection with the advisory services. Clients should be aware that the fee paid to Lenox is for its investment advice and that it is in addition to other fees and charges they may have to pay to any third party's investment platform for its management, including management fees for mutual funds, closed-end funds and exchange-traded funds. Fees paid to these parties lower the net asset valuation for the client's account.

When placing a transaction order to buy or sell securities, advisory clients may have to pay any or all of the following charges in addition to the advisory fees charged by this firm.

- | | |
|-------------------------|--|
| • Brokerage commissions | • administrative fees for investments in mutual fund fees, |
| • custodian fees | • and 12b-1 fees in addition to administrative fees, |
| • postage charges | and other marketing fees for mutual funds, paid to |
| • processing charges | a broker dealer; |
| • Ticket charges | • account maintenance fees charged by a broker |
| • Early surrender | dealer for an account, especially if inactive. |
| • Transfer fees | |

We direct clients to this brochure's Item 12 for further discussion of brokerage costs.

5.D. . Disclosure : Do clients pay fees in advance? How may a client obtain a refund of a pre-paid fee if the contract is terminated prior to a billed period's end? How will the amount of the refund be determined? NO. Lenox charges its fees in arrears.

Cancellation of management services is effective within five (5) working days after receipt of written notice of termination from the client. Either party to the investment advisory agreement may terminate the contract/ agreement for any reason at any time.

5.E. Disclosure : Does the firm or any of its supervised persons accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds? YES. In his capacity as a broker/ dealer agent, Mr. Ruth may receive the usual 12b-1 portion of administration fees associated with a client's purchase of mutual funds.

Clients should be aware that any such arrangement, in which the person making a recommendation will also receive some form of remuneration as a result of a client's following the recommendation, that an incentive to make the recommendation exists and inherently creates the possibility of a conflict of interests. It is always an adviser's foremost fiduciary duty to make only those recommendations that are in the client's sole interest.

Disclosure 5.E.1. Whenever an investment advisory firm's representatives may earn a commission, or mutual fund management 12b-1 fees, or other forms of sales charges in their capacity as the registered representatives of a broker-dealer, that arrangement creates an incentive to recommend those sales and, as a consequence, an inherent possibility for a conflict of interest. An advisor is a fiduciary who is required to make only those recommendations for a client that solely are in the client's own best interest, uninfluenced by any calculation of personal gain. Our firm addresses this potential conflict of interest first by informing clients of the conflict in this disclosure brochure.

We do not normally reduce our advisory fees to offset the commissions or markups [or commissions to offset fees.

Disclosure 5.E.2. [Explain] Clients always have the option to purchase through unaffiliated broker-dealers and their agents those investment products our firm recommends

Disclosure 5.E.3 Does our advisory firm receive more than half its revenue from commissions and other sales-based compensation? No, our firm's only business activity, in time and in revenues, is its fee-based advisory service. The firm does have a related broker dealer that earns commissions.

Disclosure 5.E. 4. Do we charge advisory fees in addition to commissions or markups? We do, of course, charge advisory fees. That is how most investment advisers perform business. Our investment advisory firm is / is not also a broker dealer and therefore does / not receive commissions or markups.

Other disclosures for this section : Our firm does not recommend primarily mutual funds to our clients. Mr. Ruth recommends mostly equity stocks and bonds, rarely mutual funds. Any mutual fund recommendations would include "no-load" funds, which impose no commission or sales charge ("load") on the shareholder and are purchased directly from the fund company, rather than through a broker.

Item 6.:Performance-Based Fees and Side-By-Side Management.

Does our firm charge performance-based fees [fees based on a portfolio's increase in asset value] ? No, it does not. [See also: Form ADV Part 1A, Item 5. E. (6).

Does our firm have a supervised person who manages an account that pays performance fees?

No, it does not.

NOTE : Regulators have stated that performance fees can cause incentives for an adviser to manage a portfolio with an eye to short term gains only, including investments that are more speculative or have a higher risk of loss. They may also tempt an advisor to allocate more time to them than to other clients' portfolios due to the possibility of a higher fee. As a fiduciary, an investment adviser is to provide equitable treatment to each client's managed portfolio as if it were the adviser's own portfolio - within the investment parameters agreed to with the client.

Item 7. : Types of Clients.

Typically our clients include high net worth and other individuals, and pension and profit-sharing plans. We are prepared to provide services to corporations and other businesses, charitable organizations, estates, and trusts as well. The firm does not require a minimum initial account size.

Item 8. : Methods of Analysis, Investment Strategies and Risk of Loss.

A. An adviser must describe its methods of analysis and investment strategies used in formulating its investment advice. It must explain in detail any unusual risks.

Caution : Investing in securities involves risk of loss.

In formulating advice, the adviser may apply fundamental and/ or technical analytical methods.

Fundamental Analysis – Called the “bottom-up” approach to investing, a fundamental analysis seeks an in-depth understanding of a **specific firm/** company to evaluate its intrinsic value and its future prospects before investing in its stock. Such an analysis studies the firm’s management, its debt, equity and cash flow, history of financial performance/ growth, dividend payout percentages, its products, operating efficiency and marketing structures, among other factors. The firm’s balance sheet and income statement are two key sources of information about the firm.

Fundamental Analysis will compare a firm’s stock price with its earnings per share and its net earnings to its gross revenues and compare both with the averages for that industry sector. The ratio of current liabilities to current assets is another important element of this form of evaluation. A central focus is deciding whether the stock is over-valued or undervalued.

As a term in large-scale economics, a fundamental analysis studies gross national product, inflation and interest rates, trade and unemployment trends, consumer confidence, savings and spending patterns and inventories in order to predict the larger movements of national and international economies. These larger concerns greatly influence the elements considered in a fundamental analysis of any given company.

Risks inherent in using a fundamental analysis : The factors involved can require time-consuming study that can fall behind the need to make decisions, if such factors begin to change rapidly. Few of the numbers are absolutes; many are relative to other factors or industry sector information. Most require intelligent judgment and experience to be applied meaningfully to stock values.

Fundamental analysis places value on the financial structure and health of the firm to be invested in. These factors at times are of little or no interest to the market place, such that the stock prices for very sound companies may wither when investors look to other reasons and areas for investing.

For a relatively short time period, a firm can falsify facts to hide poor performance or a fragile financial situation. The independence of balance sheets’ and other reports’ numerical information from such possible manipulation may not be readily verifiable.

Additionally, time spent using any one analytical method will compete with other analytical methods

which might have proven more useful and profitable.

In formulating our investment advice, the firm uses research prepared by others, corporate rating services, annual reports, prospectuses, and filings with the SEC, and company press releases.

Technical – Technical Analysis is, together with fundamental analysis, one of the two major schools of stock market study. This form of value analysis focuses on patterns of **volume and price fluctuations** for a **given stock** as compared to the activity of the larger, general market(s) indicators. Securities are evaluated for purchase or sale based on an analysis of market statistics such as volume and prices over time as seen on charts, etc. that are believed to establish relational patterns that can predict future movements in the markets.

This relative comparison has little or no concern for any company's fundamental structure, production or worth. Market indicators kept in view include volume and direction of market activity, as indicators of supply and demand for securities, often using one or more established index/ indices, such as the NASDAQ, S&P 500, and the Dow Jones Industrial Average. Trends and Penetrations (e.g. of previous "highs") are another type of indicator used. The patterns discerned, often using charts for a quick grasp of the relationship of various factors, are used to predict future market moves and their effects on stocks in general and/ or on particular sectors of the market.

Problems encountered using a technical analysis : Technical analysis purports to see patterns deemed repeatable in similar market conditions. Market conditions may consist of many factors any one of which may alter the outcome of an otherwise very similar situation. No one indicator is absolutely reliable, and a multiple of indicators may just as likely complicate understanding and evaluation as much as or more than it allows deeper insight into the market's mechanics.

The understandings offered clients in explanation tend to use generic Technical Analysis, while the working concepts that are derived from those basics and modified by experience and a firm's emphasis may well be hidden in part or completely as proprietary strategy /strategies that may let one advisor or market participant outperform another.

Technical analysis assumes that all the market factors are known to and considered by all the market's participants, although, in fact, the market can act in highly partial and even apparently irrational ways. A market termed "dynamic" indicates a sense that the underlying causal relationships may be shifting.

In addition to these methods, the firm considers tax consequences in its capital management recommendations, and the goals, needs, objectives, and risk tolerances of the client.

Our advisory firm does not attempt to predict short-term trends and/or market movements, except in rare instances dictated by sudden changes in a client's circumstances.

It supports both "active" and "passive" index investment strategies, combining both strategies to create portfolios containing longer-term core holdings and those the Advisor believes adds value or "alpha" to client accounts.

The adviser uses various sources of information for its analyses; these sources may include any or all of the following :

- Financial newspapers and magazines
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Company press releases

8. B. An advisor must explain the material risks involved in frequent trading if its strategy involves frequent trading of securities. An advisor must explain how frequent trading can affect performance. [An adviser is not required to discuss its cash balance practices.](#)

The firm's trading strategies include holding for the long term (a year or more) and short term purchases (sold within a year). What may be regarded as "frequent trading" varies according to

- the client and the strategy for that client's specific account – one client may have multiple accounts that apply different strategies
- to the type of security or relative mix of securities involved
- and to the current nature of the market.

All these tactics are intended to enhance the portfolio's value and ability to meet a client's stated goals. All trades will add some costs to be deducted from a client's account and could reduce the overall return or growth in a client's account, if carefully measured against what its value would have been had the adviser not placed the transactions.

8.C. Do we recommend primarily a particular type of security? What are the material risks involved with that type of security? Are those risks unusual or significant?

We primarily recommend stocks and bonds on various exchanges. We are prepared to provide advice on most types of securities, including :

<u>Equity Securities</u>		Notable risks involved with this type of investment
exchange-listed securities		Market fluctuations can bring losses, lower dividends
over-the-counter securities		More susceptible to market fluctuations; higher risk
Corporate debt securities		Same as exchange listed, corporate bonds involve credit risk
Municipal securities		Same as exchange listed; It is possible that they can default
<u>Investment company securities</u>		
variable annuities		Same as variable life
mutual fund shares		Market fluctuations can bring losses; various fees
US government securities		Returns can be low or even, rarely, negative. As hedge against equity market risk, mirror them.

Please see Item 12 for further description of our brokerage practices.

Item 9 :Disciplinary Information.

What facts about any legal or disciplinary event involving our firm or its personnel should you know of, because it is material to an evaluation of the integrity of our firm or its management persons?

The SEC requires that we inform you, our client, if our firm or any of our management persons has been involved in any of the events listed below in 9. A, B, and C. and, beyond those points, if there is any material fact about any legal or disciplinary event that you should know about in order to evaluate our integrity. Clients may also see specific questions answered in the ADV Part 1A, Item 11, available online at the Investment Adviser Public Disclosure site.

Lenox CM has not been involved in any of the legal and/ or disciplinary events listed under

this heading as of the filing date of this ADV Part 2AB.

Item 10 : Other Financial Industry Activities and Affiliations.

What material relationships does our firm or any of our management persons have with related financial industry participants? What material conflicts of interest may arise from these relationships and how are these conflicts addressed?

A. Have we, or has any of our management persons, registered either as a broker-dealer or as the representative of a broker-dealer? OR, Do we or any management person have such a registration pending?

Mr. Ruth is also the President and a registered representative of Lenox Financial Services, Inc., a broker-dealer. Clients must be aware that an inherent risk for a conflict of interest exists in this arrangement, in that Mr. Ruth will receive advisory fees for his recommendations and then the normal commissions for his services in his capacity as a registered representative of a broker-dealer, if a client chooses to execute the recommended transaction through Mr. Ruth's brokerage firm.

Lenox CM places its trade orders through Southwest Securities, Inc. ("SWS"). Advisory client trades will include a transactional charge of \$60 up to a maximum of 2%, of which SWS retains \$27 to cover clearing costs and the remainder is paid to Mr. Ruth in his registered representative capacity as commission income for placing the order.

B. Have we, or has any of our management persons, registered as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of any of these entities named here? OR, Do we or any management person have such a registration pending?

No, none of this item applies to our firm.

C. Do we have any "related person" – a person or a firm that we control or that controls us through ownership or as an officer – with whom we have a material relationship, any arrangement that may cause a conflict of interest when providing our clients with investment advice?

As noted above in Item 10. A. , Lenox Capital Management is related by Mr. Ruth's ownership to the broker dealer , Lenox Financial Services.

Mr. Ruth is also licensed to sell life insurance products in Illinois; he does so as an agent of his own firm, Douglas Ruth Financial Services, Inc. The commissions for these products will not be paid to the investment advisory firm; commissions for variable annuities will be paid by clients to the designated broker dealer and subsequently paid to Mr. Ruth in his capacities as an insurance agent and registered representative of the broker/ dealer..

Investment advisory clients who may choose to purchase insurance products through Mr. Ruth should be aware that a potential conflict of interests always exists whenever such products are recommended by the advisor who will then receive remuneration for the sale of the recommended product(s). No advisory client is obligated in any way to obtain any insurance product, recommended or otherwise, through Mr. Ruth.

Otherwise, our firm has no related firm or person who is :

- a Municipal Securities Dealer
- an offshore fund

- a Government Securities Dealer or Broker
- an investment company or other pooled investment vehicle , including a mutual fund,
- a closed-end investment company
- a unit investment trust
- a private investment company
- a hedge fund
- another investment adviser/ financial planner
- a futures commission merchant, commodity pool operator or commodity trading advisor
- a bank or a thrift institution
- an accountant or accounting firm
- a lawyer or a law firm
- an insurance company or agency
- a pension consultant
- a real estate broker or dealer
- a sponsor or syndicator of limited partnerships.

We typically recommend that our advisory clients use the brokerage services of our related broker dealer, Lenox Financial Services. Doing so creates an inherent risk for a conflict of interest, due to the commissions that Mr. Ruth will earn if advisory clients use him to that end. We address this issue by disclosing here in this ADV.

An adviser's **related persons** are: (1) the adviser's officers, partners, or directors (or any person performing similar functions); (2) all persons directly or indirectly controlling, controlled by, or under common control with the adviser; (3) all of the adviser's current employees; and (4) any person providing investment advice on the adviser's behalf.

D. Do we recommend or select other investment advisers for our clients? NO. Lenox CM does not do so.

Item 11. Code of Ethics / Advisory Persons' own trading and possible personal interest in our clients' trades.

A. As required by SEC rule 204A-1 or similar state rules our firm has adopted a Code of Ethics. The firm has a Code of Ethics that provides policies and procedures regarding review of the proprietary trading activities of the firm's associates, as a means to prevent the use of insider information, among other points; a copy will be provided to any client or customer upon written request.

Please note that using any insider information, information that is not readily available to all participants in the securities markets (upon making a reasonable effort to obtain that information), for any person, ourselves or relatives or clients or any other person, is strictly illegal and punishable by fines and imprisonment.

How our firm controls sensitive information:

- Building security : doors are locked after hours.
- locked cabinet files
- password protected computer screens and databases
- fire prevention equipment
- office area under continual supervision during business hours

Steps the firm has taken to prevent employees from misusing any insider information : the question applies only to Mr. Ruth in his offices. He is well aware of the severity of the prohibition against using insider information for any person.

Privacy Policy Statement

Lenox Capital Management, Inc.

We collect nonpublic personal information about you from the following sources:

- Information we receive from you on applications or other forms;
- Information about your transactions with us, our affiliates, or other parties such as any unaffiliated broker dealers..

We do not disclose any nonpublic personal information about our customers or former customers to anyone, including nonaffiliated third parties, except as both permitted by law and agreed to in advance by our clients, or as may be legally required by subpoena.

That information may include: your name, address, social security number, assets, income, information about your transactions with us, our affiliates, or others, such as your account balance, payment history ,and parties to transaction. We do not exchange information with any consumer-reporting agency.

Confidentiality and Security

We restrict access to nonpublic personal information about you to those employees who need to know that information in order to provide products or services to you. We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

If you cease being our client, we will continue to safeguard that information until such time as it may be destroyed in an appropriate manner.

11. B. [also in Form ADV Part 1A, Item 8. (1)(2) (3)]

Does our firm or a related person recommend to our clients, or do we buy or sell for our clients' accounts, securities in which we or a related person has a material interest?

Our firm and/ or its associates **do**

- in their capacity as a broker/ dealer agent, transact purchases or sales of any client's securities directly to any other person (an "agency cross transaction" that side-steps using a securities market place), but only rarely;
- buy or sell for the firm or for themselves securities (other than shares of mutual funds) that we also recommend to our advisory clients;
- invest or are permitted to invest in securities related to those we may recommend to clients, such as derivatives

Our firm and its associates **do not**

- buy securities for the firm or for themselves from advisory clients (principal transactions);
- sell securities the firm or its associates own to advisory clients (principal transactions);
- in their capacity as a broker/ dealer agent, transact purchases or sales of any client's securities directly to any other person (an "agency cross transaction" that side-steps using a securities market place)
- buy or sell for the firm or for themselves shares of mutual funds that we also recommend to our advisory clients; [because we do not normally recommend mutual funds to our clients];
- recommend securities (or other investment products) to our advisory clients in which our firm or any person or other firm related to our firm has some other proprietary (ownership) or other financial interest.

- Act as an investment adviser to an investment company that we recommend to our clients.

11. C. **Personal Trading** : investing in the same or related securities

Does our firm permit itself, its personnel, or a person related to our firm (by ownership or other forms of control) to invest in the same securities that we recommend to our clients, or in securities that are related to those securities, such as options or other derivatives?

Mr. Ruth may, for his own account or for the account held in his advisory firm's name, buy or sell positions in securities that are the same as, similar to, or the opposite of those he recommends to his clients, due to differences in investment objectives, financial needs or time horizons. If Mr. Ruth's own investment transactions are deemed by the adviser to be of a size relative to the security available such that there is a possibility of influencing the price of the security in question and any client is also recommended to take or sell a position in the same security, that client will first be notified by the adviser of the adviser's own position in the security in question, prior to any transactions, noting any possible conflict of interest that may be involved. Separate transactions for accounts held by associates of Lenox Capital Management and for the firm itself will always be placed after client transactions.

When our firm or its personnel buy or sell securities for their own accounts during the same period when we place orders for our advisory clients, we normally process each order by itself in alphabetical order by client, or by numerical order, using the account number, based on the account computer print out. We do not usually aggregate or "bunch" our orders.

Does any person in our firm participate in or have an interest in our clients' transactions? How does such a person participate or what is the interest and what conflicts of interest can that create? No, no one in the firm has a financial interest in any investment transaction the firm recommends to its clients. Examples of such interests would include an adviser recommending that clients invest in a pooled investment vehicle that the firm advises or for which the investment adviser serves as the general partner, or when an adviser with a material financial interest in a company recommends that a client buy shares of that company.

Lenox CM is a one-advisor firm; it enforces its own guidelines by self-discipline.

11. D. **Personal Trading** : investing in the same or related securities at the same time.

What specific conflicts do we have when our firm or a related person trades in the same securities at or about the *same time* as it places trades for a client's account?

The possible conflicts of interest that arise whenever we recommend, or, in our discretion, buy or sell for you a security that we may also buy or sell for ourselves are

- using your order's market effect to benefit ourselves ("front running");
- using your order as "inside information" that would give us an unfair advantage in the markets to benefit ourselves or any other person (which is an illegal act);
- gaining a lower brokerage cost for ourselves in bunching orders, which can create an incentive to involve your account in that transaction.

"The SEC generally dislikes 'contemporaneous' trading," that is, that anyone in our firm might enter an order for her or his own account at the same time as an order in the same security for a client. Note that these restrictions are not applied to investments in mutual funds that are unaffiliated with our firm. Unaffiliated means a mutual fund that we have not ourselves created or helped establish and/ or in some way act as the fund's managers.

The SEC has stated that “an adviser’s ability to place its own trades before or after client trades in the same security may affect the objectivity of the adviser’s recommendations” and therefore states further that the SEC believes *disclosure of this practice* is warranted. The SEC has not in that opinion stated a specific length of time before or after. In that respect it could also be noted conversely that clients might have reservations in employing an adviser who does not invest in the same securities the adviser recommends.

Item 12 :Brokerage Practices.

12. A. Does our firm select a broker/ dealer for you? On what basis do we do so? How do we determine the reasonableness of the broker’s compensation (commission charges)?

We recommend our related broker-dealer for our advisory clients’ transactions. We believe the commissions we obtain are fair and competitive. We base our selection of ourselves as the broker-dealer especially on the ease in transmitting orders and in getting follow up on order fills.

Mr. Ruth is also the President and a registered representative of Lenox Financial Services, Inc., a broker-dealer. Clients must be aware that an inherent risk for a conflict of interest exists in this arrangement, in that Mr. Ruth will receive advisory fees for his recommendations and then the normal commissions for his services in his capacity as a registered representative of a broker-dealer, if a client chooses to execute the recommended transaction through Mr. Ruth’s brokerage firm.

Trades are placed through Southwest Securities, Inc. (“SWS”). Advisory client trades will include a transactional charge of \$60 up to a maximum of 2%, of which SWS retains \$27 to cover clearing costs and the remainder is paid to Mr. Ruth in his registered representative capacity as commission income for placing the order.

Commissions charged at the related firm may be higher or lower than those available through other brokerage firms for essentially the same services. Clients are not obligated to effect trades through the related broker/ dealer, except that if they do wish to use Mr. Ruth for that service, then he is obligated by FINRA rules to use the broker/ dealer with which he is registered and its clearing broker/ dealer :

Southwest Securities (SEC no. 8-17102), of Dallas, Texas
for brokerage services, Clearing broker-dealer on a fully disclosed basis.

12. A. 1. Research and other “Soft Dollar” benefits : NO, neither the investment adviser, Lenox CM, nor its related broker dealer receives any soft dollar benefits.

Required disclosures / explanations:

- a. If an adviser uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, the adviser receives a benefit in not having to produce or purchase them itself.
- b. Any such benefit creates an incentive to select or recommend the broker-dealer that provides it; an adviser’s duty is to select a broker-dealer based on the most favorable execution services for the adviser’s clients.

Clients need to understand that “soft dollars” are an enticing benefit for an adviser in so far as they provide access to research and / or other products both of use to the adviser in its business and at no expense to the adviser. Clearly, such an enticement creates an incentive to use the broker-dealer in question and may cause the adviser to use a broker that charges the adviser’s clients higher commission rates than another broker-dealer. An adviser has a duty to seek the best execution of trades for its clients, which includes considerations in addition to the commission rate, however.

Are there additional, material conflicts of interest involved in our use of directed brokerage, due to a relationship with the broker-dealer? In his capacity as a broker/ dealer agent, Mr. Ruth may receive the usual 12b-1 portion of administration fees associated with a client's purchase of mutual funds.

Clients should be aware that any such arrangement, in which the person making a recommendation will also receive some form of remuneration as a result of a client's following the recommendation, that an incentive to make the recommendation exists and inherently creates the possibility of a conflict of interests. It is always an adviser's foremost fiduciary duty to make only those recommendations that are in the client's sole interest.

12. A. 2. Brokerage for client referrals

Do we direct brokerage to a specific broker-dealer in return for client referrals either to our firm or to a related firm? No, we do not.

12. A. 3.

[a] Do we "routinely recommend, request or require" our clients to direct brokerage?

We do recommend the use of our related broker dealer, Lenox Financial Services, for our clients' brokerage needs. We do not "request or require" that they do so and will work with any broker dealer of a client's choice as long as the relationship can be established with that firm. Clients should know that not all advisers do require directed brokerage. We inform our clients here that such a relationship creates an inherent risk for a conflict of interest. By directing brokerage we may not be able to achieve the most favorable execution for client transactions, at an increased cost to our clients than they might have incurred with another broker-dealer.

[b] Do we permit a client to direct brokerage to a specific broker-dealer? Yes. Our practice is as noted above. Clients should understand that their choice of broker-dealer may lead to higher brokerage costs than they might have otherwise obtained, due to higher rates or an inability to aggregate orders and thereby reduce transaction costs.

12. B. When we place orders with a broker/ dealer for our clients, do we aggregate or "bunch" your trade order with orders for other clients?

In the process of rebalancing client portfolios, Lenox identifies in a grid those clients whose portfolios have exceeded pre-established percentual guidelines and then proceeds to sell positions accordingly. On rare occasions the firm is able to "bunch" such orders to obtain an average price for the shares sold for all its clients; normally these sales, which occur usually once or twice a year, are done client by client from the grid list : some client will be first and another one will be last, based either alphabetically or numerically by account number. Higher account numbers are almost always traded after lower numbered accounts for purchases. Clients with larger gains will be the first ones to exit a position, which could possibly result in a lower sell price for subsequent clients if a security's price is trending consistently downward.

Costs associated with aggregating or blocking client securities transactions :

"Each client that participates in an aggregated order will participate at the average share price for all of the Adviser's transactions in that security on a given business day: transaction costs are charged at the same rate per client, regardless of the level of participation in the trade. LFS's transaction fee is included in the maximum advisory fee noted above. We use Lenox Financial Services, with Southwest Securities as the clearing broker.

Item 13 :Review of Accounts.

13. A. Does someone in our firm review your investment account portfolio and how often?

Mr. Douglas Ruth, the firm's owner and President, is the sole reviewer of all accounts, ca. 400-500 in number. In principle, reviews are conducted on an on-going basis. Mr. Ruth will occasionally send his clients a letter commenting on the current stock market situation.

13. B. What factors might trigger a review in addition to our periodic reviews?

Major moves in the national markets or changes in the nation's economy, as well as any information a client makes known to us regarding changes in that client's financial situation or goals all provide important reasons for an adviser to re-evaluate the recommendations it provides to its clients.

13. C. What regular reports do we or others provide you? Are they written reports? What do they contain?

At his own discretion, Mr. Ruth provides either a quarterly or semi-annual report to advisory clients, depending upon his review's findings and the recommendations he makes to clients for changes in their portfolio composition.

Item 14 :Client Referrals and Other Compensation.

A. Does someone other than a client of our firm pay our firm or related persons, or otherwise provide some economic benefit to our firm, for the investment advice we provide to our clients? [12b-1 fees; other; sales awards or prizes]

Yes. Advisory representatives who are also registered representatives of the related broker dealer will receive 12(b)-1 fees if they place an advisory client's investments in mutual funds. The payment creates an incentive to recommend such funds and thereby a potential conflict of interest. An investment adviser is to recommend to its clients only those investments that are in the client's own best interest, free of any taint of the influence that the prospect of additional income may exert.

We address the potential for a conflict of interest for an advisory representative in this situation by disclosing it to our clients.

B. Does our firm or a firm related to us through some form of ownership pay someone, directly or indirectly, for client referrals? NO. Lenox CM does not pay for any referrals.

Item 15: Custody.

Does our firm have custody of your assets? YES. Lenox CM uses direct billing to obtain its fees. The practice of "direct billing" has been defined by the SEC as a form of custody, but also as a "modern practice" that does not require annual audits. Direct billing also requires that the client receive at least quarterly statements from the account custodian, showing the advisory fee. Southwest Securities is the clearing firm that acts as the qualified custodian(s) of our clients' assets.

The custodian will send our clients at a minimum a quarterly account statement, monthly statements or confirmations for any month in which there was trade transaction activity in the account. NOTE : These statements should be reviewed carefully. It is not the custodian's responsibility to ascertain the accuracy of the calculation for fees subtracted from your account.

Item 16 :Investment Discretion.

A. Does our firm have discretionary authority over your assets? YES, Lenox CM does exercise discretion over a majority of its clients' accounts. Clients may opt for non-discretionary management as well.

B. What limitations are there, or can you place, on our discretionary authority? Suitability parameters, as the client and the adviser establish in the initial interview, are the over-riding limitation on any discretion. Clients may set reasonable restrictions in writing as to what investments they desire to hold or not to invest in. Lenox Capital Management does exercise discretion with regard to most client accounts. If a client opts for non-discretionary management, she or he must approve of any securities transactions prior to their being effected.

An advisor's fiduciary duty limits the firm's discretion to making only those recommendations that are in the client's own best interest. Clients may make known specific limitations on investments if they do so in signed and dated, written directions. The firm gains discretionary authority over a client's account only if and when that client signs a limited power of attorney stating that allowance specifically. A client may revoke that permission at any time.

Item 17. : Voting Client Securities.— proxy voting practices

A. Does our firm have or will it accept authority to vote client securities? The firm will **not** vote any client proxies. If you wish to know how we voted your investment proxies in a specific security's questions, please write us a request stating which security or security investment proxy you want to review and we will send to you the information you seek.

B. This is our policy and our procedures : that we do not vote proxies. We state this here in these disclosures. Our firm urges our clients to read and participate in the voting process tied to the shares they own in various companies as an excellent means for our clients to become familiar with those companies in which they are invested.

Item 18 :Financial Information.

A. Custody situations : Does our firm have custody of your funds or your securities investments?

- Do we require prepayment of a fee of \$500 (\$1200 for an SEC registrant) or more, 6 or more months in advance of services? We do not.
- Do we practice "Direct Billing" (charging our fees to your account)? We do practice "direct billing" as described above in Item 15 : "Custody"
- Do we or someone in our firm act as the trustee for an advisory client? No, we do not.

18. B. Financial difficulties :

No, it does not. Lenox Capital Management has no financial difficulties as of the filing time of this ADV Part 2A; the firm undertakes to inform clients if it were to have any threatening financial difficulties.

18. C. Has our firm been the subject of a bankruptcy petition during the last 10 years? No, it has not.

Item 19 :State Registrant Information. (NOT CURRENTLY APPLICABLE)

If you are registering or are registered with one or more *state securities authorities*, you must respond to the following additional Item.

- A. Identify each of your principal executive officers and *management persons*, and describe their formal education and business background. If you have supplied this information elsewhere in your Form ADV, you do not need to repeat it in response to this Item. See Item
- B. Describe any business in which you are actively engaged (other than giving investment advice) and the approximate amount of time spent on that business. If you have supplied this information elsewhere in your Form ADV, you do not need to repeat it in response to this Item. . [see Item 10: Other Financial Industry Affiliations]

The approximate amount of time spent on these activities is :

- _____ as the registered representative of a broker-dealer
- _____ providing insurance products

- C. In addition to the description of your fees in response to Item 5 of Part 2A, if you or a *supervised person* are compensated for advisory services with *performance-based fees*, explain how these fees will be calculated. Disclose specifically that performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the *client*.
- D. If you or a *management person* has been *involved* in one of the events listed below, disclose all material facts regarding the event.

1. An award or otherwise being *found* liable in an arbitration claim alleging damages in excess of \$2,500, *involving* any of the following:

- (a) an investment or an *investment-related* business or activity;
- (b) fraud, false statement(s), or omissions;
- (c) theft, embezzlement, or other wrongful taking of property;
- (d) bribery, forgery, counterfeiting, or extortion; or
- (e) dishonest, unfair, or unethical practices.

2. An award or otherwise being *found* liable in a civil, *self-regulatory organization*, or administrative *proceeding* involving any of the following:

- (a) an investment or an *investment-related* business or activity;
- (b) fraud, false statement(s), or omissions;
- (c) theft, embezzlement, or other wrongful taking of property;
- (d) bribery, forgery, counterfeiting, or extortion; or
- (e) dishonest, unfair, or unethical practices.

E. In addition to any relationship or arrangement described in response to Item 10.C. of Part 2A, describe any relationship or arrangement that you or any of your *management persons* have with any issuer of securities that is not listed in Item 10.C. of Part 2A.

Lenox Capital Management, Inc.
322 Alana Drive
New Lenox, ILLINOIS 60451-1784

Telephone : 815-485-5559

or

Facsimile : 815-485-9130

Part 2B: The Brochure Supplement : Here we provide information about advisory personnel on whom you rely for investment advice. We must provide this supervised person's supplement to you, our client initially at or before the time when *that* specific supervised person begins to provide you with advisory services.

Item 1. Cover Page.

This brochure supplement provides information about Douglas Scott Ruth that supplements the Lenox Capital Management brochure. You should have received a copy of that brochure. Please contact Trish at 815-485-5559 if you did not receive Lenox Capital Management's brochure or if you have any questions about the contents of this supplement. Additional information about Mr. Ruth is available on the SEC's website at www.adviserinfo.sec.gov.

Douglas Scott Ruth

Born 1960

CRD # 1381205

Item 2. Educational Background and Business Experience

Mr. Douglas Scott Ruth is the firm's sole owner, its President and investment representative.

Formal Education after High School:

Prairie State College; Associates Degree;
Governors State University, BBA (Finance)

Past Five Years' Employment:

- Lenox Financial Services, Inc. : President from 07/1994 to present
- Lenox Capital Management, Inc. : 05/23/1998
- Dreher and Associates, Broker-Dealer, 07/1985 – 06/1994

Mr Ruth has passed the following examinations / holds the following professional designations:

- Series 7 – General Securities Registered Representative (6/20/85)
- Series 24 – General Securities Principal (9/21/93)
- Series 28 – Limited Financial and Operations Principal (2/25/94)
- Series 53 – Municipal Securities Principal (12/8/93)
- Series 86 -- Research Analyst (8/10/2007)

- Illinois Insurance Licenses
 - Accident/ Health (9/12/87)
 - Life (9/12/87)
 - Variable Contracts (10/16/87)

Item 3. Disciplinary Information.

There are no disciplinary, legal or regulatory events to disclose regarding Mr. Ruth. Clients may review his information on line at the Adviser Public Disclosure site using his name or his CRD #.

Item 4. Other Business Activities.

Mr. Ruth is also the President and a registered representative of Lenox Financial Services, Inc., a broker-dealer. Clients must be aware that an inherent risk for a conflict of interest exists in this arrangement, in that Mr. Ruth will receive advisory fees for his recommendations and then the normal commissions for his services in his capacity as a registered representative of a broker-dealer, if a client chooses to execute the recommended transaction through Mr. Ruth's brokerage firm. The firm addresses this possible conflict of interest by disclosing it to the firm's clients.

Trades are placed through Southwest Securities, Inc. ("SWS"). Advisory client trades will include a transactional charge of \$60 up to a maximum of 2%, of which SWS retains \$27 to cover clearing costs and the remainder is paid to Mr. Ruth in his registered representative capacity as commission income for placing the order.

Mr. Ruth is also licensed to sell life insurance products in Illinois; he does so as an agent of his own firm, Douglas Ruth Financial Services, Inc. The commissions for these products will not be paid to the investment advisory firm; commissions for variable annuities will be paid by clients to the designated broker dealer and subsequently paid to Mr. Ruth in his capacities as an insurance agent and registered representative of the broker/ dealer..

Investment advisory clients who may choose to purchase insurance products through Mr. Ruth should be aware that a potential conflict of interests always exists whenever such products are recommended by the advisor who will then receive remuneration for the sale of the recommended product(s). No advisory client is obligated in any way to obtain any insurance product, recommended or otherwise, through Mr. Ruth. The firm addresses this possible conflict of interest by disclosing it to the firm's clients.

Item 5. Additional Compensation.

In his capacity as a broker/ dealer agent, Mr. Ruth may receive the usual 12b-1 portion of administration fees associated with a client's purchase of mutual funds. Clients should be aware that any such arrangement, in which the person making a recommendation will also receive some form of remuneration as a result of a client's following the recommendation, that an incentive to make the recommendation exists and inherently creates the possibility of a conflict of interests. It is always an adviser's foremost fiduciary duty to make only those recommendations that are in the client's sole interest.

Item 6. Supervision.

Mr. Ruth is his own supervisor. He maintains on file in the firm's offices reports of his proprietary trading activities and the formulation of his recommendations for the regulator to review at will.

Item 7. State Registration requirements

Mr. Ruth has no events to disclose under this item; he has not declared bankruptcy nor does he have any legal or disciplinary events to disclose.

Deliver a brochure to clients

An advisory firm must give a firm *brochure* to each *client* before or at the time it enters into an advisory agreement with that *client*. See SEC rule 204-3(b) and similar state rules.

Each year the IA firm must (i) deliver, within 120 days of the end of its fiscal year, to each *client* a free updated *brochure* that either includes a summary of material changes or is accompanied by a summary of material changes,

or (ii) deliver to each *client* a summary of material changes that includes an offer to provide a copy of the updated *brochure* and information on how a *client* may obtain the *brochure*. See SEC rule 204-3(b) and similar state rules.

The IA firm does not have to deliver an interim amendment to *clients* unless the amendment includes information in response to Item 9 of Part 2A (disciplinary information). An interim amendment can be in the form of a document describing the material facts relating to the amended disciplinary event. See SEC rule 204-3(b) and similar state rules.

Note: As a fiduciary, an advisory firm has an ongoing obligation to inform its *clients* of any material information that could affect the advisory relationship. As a result, between *annual updating amendments* the firm must disclose material changes to such information to *clients* even if those changes do not trigger delivery of an interim amendment. See General Instructions for Part 2 of Form ADV, Instruction 3.

Question: May an advisor deliver its *brochure* electronically? Yes. The SEC has published interpretive guidance on delivering documents electronically, which advisors can find at <www.sec.gov/rules/concept/33-7288.txt>.