

Meritus Capital Management, Inc.

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ADV Part 2 Brochure – March 2011

This brochure provides information about the qualifications and business practices of Meritus Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (847) 289-7700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Meritus Capital Management, Inc. also is available on the SEC's web site at www.adviserinfo.sec.gov. The searchable CRD/IARD number for Meritus Capital Management, Inc. is #123247.

Item 2. Material Changes

This brochure contains no material changes from the previous Form ADV Part II drafted in August, 2008. At the present time, Meritus Capital Management, Inc. (“Adviser”) continues to offer investment supervisory services in which the Adviser is appointed as the investment adviser that has discretionary trading authorization. Additionally, the firm provides financial planning services. Finally, the Adviser offers two programs whereby clients may be placed with a wrap fee program or with a third-party investment adviser entitled Mesirow Financial, Inc. FA Connect and Mesirow Financial, Inc. Manager Connect.

These services continue as presented in the earlier 2008 ADV Part II disclosure document. As the previous document detailed the fees and other aspects of the Adviser’s services, this brochure is materially the same in virtually every respect. Clients are urged to read this information carefully.

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Item 4. Advisory Business

Meritus Capital Management, Inc. was formed in August, 1998 as a corporation under the laws of the State of Illinois and is registered with the SEC as a registered investment adviser. The firm is affiliated with Meritus Financial Group, Inc. ("MFG"), a registered broker-dealer and member of FINRA, by virtue of common ownership by Meritus Financial, Inc. and ultimately Lynn M. Schmidt, who holds more than 25% ownership.

The Adviser's services are comprised of providing investment supervisory services, and in furnishing investment advice through financial planning consultations to clients, including on more than an occasional basis, advice on matters not involving securities.

Ms. Schmidt, President of the Adviser, determines the general investment direction and advice given to clients of the firm. Ms. Schmidt may recommend that clients' assets be actively managed by the Adviser, or that they utilize the services of third party Investment Managers through the Adviser's relationship with Mesirow Financial, Inc, a qualified custodian clearing firm. The advice given may be implemented through the use of numerous investment products and strategies, with all recommendations based on the individual needs of each client.

As of December 31, 2010, the Adviser had assets under management of approximately \$40,182,069 million through 76 customer relationships. The related accounts are managed on a discretionary basis given the Adviser via a Limited Power of Attorney authorization executed in writing by each client.

Item 5. Fees and Compensation

Investment Supervisory Services: In offering investment supervisory services whereby the Adviser is granted discretionary trading authority to manage the client's assets, the Adviser charges the following fees as a percentage of assets under management:

<u>Assets Under Management</u>			<u>Annual Fee</u>
\$ 50,000	---	\$ 100,000	2.75 %
\$ 100,001	---	\$ 250,000	2.00 %
\$ 250,001	---	\$ 1,000,000	1.50 %
	over	\$ 1,000,000	1.25 %

In addition, the client may have transaction costs associated with each trade in their account to cover execution and custodial expenses.

Fees are payable quarterly, in advance, and are debited automatically from the client's accounts. Paid at the beginning of each calendar quarter, fees are based upon the value of the account at the end of the preceding quarter. All fees are negotiable, and the firm may negotiate a flat fee on a case-by-case basis.

A client may terminate the advisory contract before the termination date and receive a pro-rated refund of any fees previously paid for the current quarter. Termination can be made at any time upon 5 days prior written notice to the Adviser

Financial Planning: The Adviser also offers financial planning to its clients. Hourly charges for financial planning range from \$250--\$500, based on the complexity of the situation. The client is billed directly for this service by the Adviser.

Clients are under no obligation to use the services of the Adviser to carry out the recommendations made in the Plan, but most often choose to do so.

Clients may terminate this service at any time upon written notice to the Adviser and in such event; a refund of any unearned fees will be made based upon time already expended by the Adviser on behalf of the client.

Mesirow Financial, Inc. Program - FA Connect: The Adviser may recommend that clients utilize the services of the Mesirow FA Connect program. In that program, Mesirow acts as wrap-fee program sponsor and clearing broker-dealer for the clients. The Adviser makes the recommendations and advisory clients agree to pay one flat fee, based upon assets under management for advisory services, brokerage execution, and custodial services. In addition, through this program, the clients have access to FundServ, a mutual fund family of no-load or load-waived funds. The fee schedule for this service is as follows:

<u>Assets Under Management</u>			<u>Annual Fee</u>
	up to	\$ 100,000	.20 %
\$ 100,000	---	\$ 249,000	.35 %
\$ 250,000	---	\$ 499,999	.32 %
\$ 500,000	---	\$ 999,000	.30 %
\$ 1,000,000	and up		.25 %

Fees are debited automatically from the client's accounts and are payable quarterly in advance. Fees are based upon the account value of the client's account as of the end of the preceding quarter.

Mesirow Financial, Inc. Program - Manager Connect: The Adviser may recommend that clients utilize the services of the Mesirow Manager Connect Program. In that program, Mesirow provides to the Adviser and its clients, access to a list of Investment Managers who have been screened for performance and will be subject to ongoing monitoring and evaluation by the Adviser.

Clients of the Adviser may be placed with one of these Investment Managers for investment supervisory services. The minimum account size for this program is \$100,000. The fee schedule ranges depend upon the choice of equity fixed income or mutual fund manager. The ranges are as follows:

<u>Assets Under Management</u>				<u>Annual Fee</u>
\$ 100,000	---	\$ 249,999		.35% to 1.0 %
\$ 250,000	---	\$ 499,999		.35% to .95 %
\$ 500,000	---	\$ 999,999		.35% to .85 %
\$ 1,000,000	---	\$ 2,999,999		.25% to .75 %
\$ 3,000,000	and up			.25% to .65 %

Fees are payable quarterly, in advance, by automatic debit of the client's account. Fees are based upon the account value at the end of the preceding quarter.

To the extent mutual funds are selected to fill components of the overall investment strategy, the annual advisory fee set forth above does not include the customary fees and expenses associated with investing in mutual funds or other costs of establishing and maintaining an account with mutual funds, including Rule 12b-1 fees and expenses. The client is advised that, in addition to the annual advisory fee set forth above, each mutual fund in which assets are invested will incur separate investment advisory fees and other expenses for which the client will bear a proportionate share.

Termination: The relationship between parties for either Mesirow Program may be terminated for any reason upon 5 days prior written notice to the Adviser. The Adviser shall return the prorated portion of any advisory fees and shall transfer the funds and/or securities in the client's accounts to a new designated custodian in accordance with the client's written request.

Item 6. Performance-Based Fees

Meritus Capital Management, Inc. does not offer any of its services whereby it is compensated by performance-based fees.

Item 7. Types of Clients

Meritus Capital Management, Inc. offers its services to individuals (some of whom are accredited), pension and profit sharing plans, trusts, estates, and charitable organizations, as well as to corporations and other miscellaneous business entities.

The Adviser requires a minimum portfolio size of \$50,000 for managed accounts. The minimum account size for the Manager Connect Program is \$100,000.

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

Meritus Capital Management, Inc. undertakes extensive due diligence on potential investments. Typical areas of research include the use of charting, fundamental, and technical security analysis. The main sources of information used in this analysis include: financial newspapers and magazines, inspection of corporate activities, research materials prepared by others and corporate rating services, timing services, and the review of annual reports, prospectuses, and company press releases. The Adviser uses various combinations of research methods and sources of information to fully understand any given product and its characteristics before deciding to use that product when implementing a client's account strategy.

The Adviser uses multiple product types in investing client assets: equities, corporate debt, CDs, municipal and US government securities, mutual funds and variable insurance products, as well as option contracts on securities on occasion. Each of these products has its own unique risk and reward characteristics and can be used in varying circumstances to achieve the clients' goals for the account.

The Adviser also uses multiple investment strategies to implement the advice given to clients, depending on the situation: long term and short term purchases, active trading of a certain stock, short sales and trading on margin, and again, the occasional writing of option contracts. As with the products themselves, each of these strategies have their own risk and reward capabilities unique to that particular

strategy. Coupled with the many choices of securities used to implement any given strategy, the possibilities for furthering the goals for each account are seemingly endless.

Often, more than one type of strategy with more than one type of investment vehicle are used within one client's account(s) to achieve the results desired according to that client's particular situation, goals, and risk tolerance. The Adviser attempts to build and maintain a close relationship with all clients by gathering and updating specific information to assist the Adviser in determining what is in the best interest of the client.

Both equity and debt investing are risky and the loss of all capital is possible. Clients are provided additional information on the types of investments recommended for their account(s) and are encouraged to seek additional information and to ask questions. Clients are also allowed the opportunity to place restrictions on their account(s) regarding the types of securities purchased and sold, as well as the types of investment strategies used.

Item 9. Disciplinary Information

There are currently no material legal or disciplinary events against either the Adviser or any affiliated management person.

Item 10. Other Financial Industry Activities and Affiliations

The Adviser is affiliated with Meritus Financial Group, Inc. ("MFG"), a registered broker-dealer and member of FINRA, by virtue of common ownership by Meritus Financial, Inc. ("MFI") and ultimately Lynn M. Schmidt. MFG, as broker-dealer, may effect transactions in securities for advisory clients of the Adviser. As such it will receive separate and customary compensation for this activity. The Adviser believes that the fees and commissions charged by MFG and the services provided by MFG are comparable to the service of an independent broker-dealer.

The principal executive officers and associated persons of MFG, in their capacity as registered representatives, will effect securities transactions, and will receive separate, yet customary, compensation for effecting securities transactions for clients of the Adviser. These fees will include commissions and 12b-1 fees for the sale of investment company products.

In addition, MFI is a tax consulting firm and licensed insurance agency with the State of Illinois and an affiliate of the Adviser and MFG, the broker-dealer. Certain principal executive officers and associated persons of the Adviser ("IARs") are also agents of MFI. If an advisory client implements recommendations made by these IARs in their capacities as tax consultants, insurance agents, and/or broker, the IAR will receive additional compensation in the form of insurance commissions.

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

Meritus Capital Management, Inc. and its personnel strive to maintain the highest level of professional and personal ethics at all times. The Adviser has adopted a code of Ethics to ensure that securities transactions by the Adviser's employees are consistent with the Adviser's fiduciary duty to its clients and to ensure compliance with legal requirements and the standards of business conduct. A printed copy of the Adviser's Code of Ethics is available upon request.

The Adviser and its affiliates have interests that differ in certain respects from those of the clients of any of the companies. Prospective customers should recognize that relationships and transactions of the kinds described below involve inherent conflicts between the interests of the clients and those of the Adviser and its affiliates. In the event conflicts of interest arise between Meritus Capital Management, Inc. and its or its affiliates' clients, every effort is made to resolve them.

The principal executive officers of the Adviser and its affiliated companies are engaged in other activities apart from those related to the services to clients that the Adviser provides, and may have conflicts of interest in allocating management time, services, and functions among the entities. The Adviser's officers and associated persons are also officers, representatives, agents or employees of those affiliates. For example, Ms. Schmidt is President of both Meritus Capital Management, Inc. (the Adviser) and Meritus Financial, Inc. (the insurance agency), while acting as a principal and registered representative of Meritus Financial Group, Inc. (the broker-dealer), among other activities.

The principal executive officers feel that they will have sufficient time, however, to discharge fully their responsibilities to the clients of each entity, and to any other

business activities in which they are or may become involved. They will devote as much time to the various businesses as is reasonably required in their judgment.

Ms. Schmidt may, from time to time, buy or sell, in her own account, securities, which are recommended to clients. When applicable, the client is informed of the personal position or contemplated transaction prior to effecting a transaction on the client's behalf. The client's transactions are always completed before Ms. Schmidt enters orders for her own account.

In the general course and conduct of business, an advisory client may be purchasing or selling a security which a brokerage non-advisory client, of their own accord and decision, wishes to sell or purchase. These transactions are neither related nor intentionally recommended.

Item 12. Brokerage Practices

Meritus Capital Management, Inc. is affiliated with Meritus Financial Group ("MFG"), a registered broker-dealer and member of FINRA. MFG, as broker-dealer, may effect transactions in securities for advisory clients of the Adviser. As such it will receive separate and customary compensation for this activity. The Adviser believes that the fees and commissions charged by MFG and the services provided are comparable to the service of an independent broker-dealer.

Generally, the Adviser will effect securities transactions through its affiliated broker-dealer, MFG, who currently clears its brokerage transactions through Mesirow Financial, Inc. as the qualified custodian. Through the relationship with MFG and Mesirow, the Adviser receives economic and non-economic benefits. These benefits include, but are not necessarily limited to: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk; access to block trading which provides the ability to aggregate securities transactions and allocate the appropriate shares to client accounts; the ability to have investment advisory fees deducted directly from client accounts; and access to an electronic communications network for client order entry and account information.

The Adviser considers the following factors before suggesting a particular brokerage firm to clients: the products offered, the level of service, and the ability to meet client needs. In assessing the reasonableness of their commissions, the firm compares various brokerage firm rates and advises clients of the best overall firm. The firm

remains flexible in the use of other brokerage firms upon client request or where otherwise appropriate.

Clients are allowed to choose their broker-dealer preference. Clients who direct their brokerage accounts to broker-dealers of their own independent choosing however, may not receive best execution of their trades. For example, such clients usually cannot participate in block orders with other clients and receive the lower transaction costs such trades afford. In such block transactions, share prices and commission rates are averaged across the client accounts participating in the block transaction, resulting in lower transaction costs across the board.

Item 13. Review of Accounts

Client accounts are primarily reviewed by Ms. Lynn M. Schmidt, the President of the Adviser, and Mr. Anthony J. Czechorski, Chief Compliance Officer of the Adviser. All accounts are reviewed monthly to determine what, if any, action is necessary. Comprehensive reviews are on a quarterly basis.

The Adviser requires transaction confirmations and monthly reporting statements for its managed accounts delivered to each client directly from the custodian firm where the assets are actually held. Clients will also receive quarterly account statements generated by the Adviser. Clients should carefully review and compare these documents and contact the Adviser immediately if any discrepancies are found.

Item 14. Client Referrals and Other Compensation

Meritus Capital Management, Inc. does not compensate individuals for client referrals except as allowed for registered individuals and, in those cases, discloses the arrangement to the client in advance.

Item 15. Custody

Meritus Capital Management, Inc. does not maintain custody of client funds or securities.

Item 16. Investment Discretion

Meritus Capital Management, Inc. offers discretionary investment supervisory services to its clients. The client grants discretion to the Adviser via a Limited Power of Attorney authorization.

Specifically, the client authorizes the Adviser, or an agent associated with the Adviser, to make investment decisions and to act on those decisions on behalf of the client without first contacting said client. This discretion will apply only to the choice of the securities to be bought or sold, the amount of securities bought or sold, and the price at which securities are bought or sold.

Item 17. Voting Client Securities

Meritus Capital Management, Inc. does not vote proxies or consider any other corporate actions on behalf of clients. The Adviser shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held by a client. Clients shall retain the authority and responsibility for, and the Adviser shall be expressly precluded from, rendering any advice or taking any action with respect to the voting of any such proxies.

Item 18. Financial Information

The Adviser does not require prepayment of more than \$1200 in fees from clients six months or more in advance, and therefore is not required to provide financial information as part of this document.