



- 1 The Department properly served Respondents with a Notice of Hearing.
- 2 Respondent, James H. Stanley ("Stanley") has a last known address of 4041 Gulf Shore Blvd. N. # 618 Naples, Florida 34103 and was the principal control person and direct owner of Upper Quadrants Capital Management, LLC
- 3 Respondent, Upper Quadrants Capital Management, LLC ("UQCM") is an Illinois limited liability corporation and general partner of and investment advisor to Upper Middle Quadrant Fund, L P ("UM Fund") and Upper Left Quadrant Fund, LP ("UL Fund"). It has a last known address of 980 N. Michigan Av, Ste 1400, Chicago, Illinois 60611. At all relevant times UQCM was registered in Illinois as a state covered investment advisor. Its Illinois registration terminated December 31, 2009. It is currently registered in Florida, CRD #129929.
- 4 At all relevant times Stanley was registered with the State of Illinois as an investment advisor representative through UQCM. His Illinois registration terminated December 31, 2009. He is currently registered as an investment advisor representative in Florida. His CRD # is 1614409.
- 5 That Investor A was born in 1946 and is an Illinois resident.
- 6 That Investor A was not an accredited investor as defined in Section 4.H of the Act.
- 7 In June 2007 Investor A met with Stanley regarding UQCM. Stanley told her that UQCM managed several different funds with specific investment objectives and varying degrees of risk. Stanley showed her graphs and other articles that highlighted gains for the various UQCM funds.
- 8 Initially Investor A wanted to invest \$300,000 into the UL Fund but was told by Stanley that the investment into the fund required an investment of \$750,000. Investor A invested an additional \$398,000 into the UM Fund and Mr. Stanley waived the \$750,000 minimum investment requirement for each fund. The investments were made from Investor A's IRA.
- 9 That the Private Offering memorandum for the UL Fund provided that the investment should be viewed as "a conservative growth investment" for investors who had adequate means of support without reliance on distributions from the fund. The investment objectives of the UL Fund were represented as "preservation of principal, generation of income, and capital appreciation" in that order.

10. That the Private Offering memorandum for the UM Fund provided that the investment should be viewed as "a moderate growth investment" for investors who had adequate means of support without reliance on distributions from the fund. The investment objectives of the UM Fund were represented as "preservation of principal, generation of income, and capital appreciation" in that order.
11. Investor A informed Stanley that she was employed in a temporary job and needed distributions from her IRA for her living expenses.
12. Investor A had little or no retirement income and her investment with UQCM represented over 75% of her net assets. Stanley either failed to use due diligence to understand Investor A's financial situation, her investing background or her investment objections or simply ignored what Investor A told him.
13. That Stanley failed to inform Investor A that there were not any qualified investors in the UL Fund at the time she invested.
14. That the management fee for the UM Fund provided in the Private Placement Memorandum was 1.5% plus 30% participation in the profits for qualified investors. Approximately one week after investing in the fund Investor A was informed that the fee would be 3% as Investor A was not qualified. Respondent did not disclose this prior to selling Investor A the interest in the UM Fund.
15. That the management fee for the UL Fund provided in the Private Placement Memorandum was .75% plus 15% participation in the profits for qualified investors. Approximately one week after investing in the fund Investor A was informed that the fee would be 3% as Investor A was not qualified. Respondent did not disclose this prior to selling Investor A the interest in the UL Fund.
16. That as of April 2010 Investor A's UQCN Fund balances had dropped from \$698,000 to approximately \$190,000 which included withdrawals of approximately \$70,000 which she needed for living expenses.
17. Stanley sold or offered to sell promissory notes to one or more investors of the UM and UL Funds. Ultimately, Stanley sold an investor a promissory note, in the amount of the balance of the respective investor's account, that provided 10% interest calculated on an annual basis. Interest only payments were to be made quarterly for 4 years with principal due with the last payment.

18. In one instance in 2008 Stanley issued a promissory note in the amount of \$96,000.
19. At the time he issued the promissory note, Stanley had no reasonable expectation of paying back the promissory and in fact did not make the required interest payments.

WHEREAS, the proposed Conclusions of Law made by the Hearing Officer are correct and are hereby adopted as the Conclusions of Law of the Secretary of State:

1. The Department properly served the Notice of Hearing on Respondent.
2. The Notice of Hearing included the information required under Section 1102 of the Code.
3. The Secretary of State has jurisdiction over the subject matter pursuant to the Act.
4. In Illinois Investment advisers owe a fiduciary duty to their clients and therefore the investment adviser stands in a special relationship of trust and confidence with its clients. As a fiduciary, an investment adviser has an affirmative duty of care, loyalty, honesty, and good faith to act in the best interests of its clients
5. Section 12.F of the Act provides, *inter alia*, that it shall be a violation of the Act for any person to engage in any transaction, practice or course of business in conjunction with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
6. Section 12.J(1) of the Act provides that it shall be a violation of the Act for any person when acting as an investment advisor, investment advisor representative, or federal covered investment advisor, by any means or instrumentality, directly or indirectly to employ any device, scheme or artifice to defraud any client or prospective client.
7. Section 12.J (2) of the Act provides that it shall be a violation of the Act for any person when acting as an investment advisor, investment advisor representative, or federal covered investment advisor, by any means or instrumentality, directly or indirectly to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client.

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8. Section 8.E (1)(g) of the Act provides, *inter alia*, that the registration of an investment advisor or an investment advisor representative may be revoked if the Secretary of State finds that the investment advisor or the investment advisor representative has violated any of the provisions of the Act.
9. Section 8 E (3) of the Act provides, *inter alia*, that the Secretary of State may institute a revocation proceeding within two years after withdrawal became effective and enter a revocation order as of the last date on which registration was effective.
10. By virtue of the foregoing, the Respondent's registration as an investment advisor or as an investment advisor representative in the State of Illinois is subject to revocation effective December 31, 2009, pursuant to Sections 8.E (1)(g), and 8.E (3) of the Act.
11. Borrowing money from the investors of the UM and UL Funds without reasonable expectations as to the ability to repay the funds borrowed violated Respondent's fiduciary duty as an investment advisor.
12. By virtue of the foregoing findings of facts, Respondents violated Sections 12.F, 12J (1) and 12(J)2 of the Act.

WHEREAS, the Hearing Officer recommended that:

1. Respondent James H. Stanley's registration as an investment advisor representative in the State of Illinois be revoked effective December 31, 2009.
2. Respondent Upper Capital Management LLC's registration as an investment advisor in the State of Illinois be revoked December 31, 2009.
3. Respondents, James H. Stanley and Upper Quadrants Capital Management, LLC, be prohibited from offering or selling securities in the State of Illinois.
4. Respondents, James H. Stanley and Upper Quadrants Capital Management, LLC, be prohibited from acting as an investment advisor or investment advisor representative in the State of Illinois.

WHEREAS, the Secretary of State adopts in its entirety the Recommendations made by the Hearing Officer.

NOW THEREFORE, IT SHALL BE AND IS HEREBY ORDERED:

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1. Respondent James H. Stanley's registration as an investment advisor representative in the State of Illinois be revoked effective December 31, 2009.
2. Respondent Upper Capital Management LLC's registration as an investment advisor in the State of Illinois be revoked December 31, 2009.
3. Respondents, James H. Stanley and Upper Quadrants Capital Management, LLC, be prohibited from offering or selling securities in the State of Illinois.
4. Respondents, James H. Stanley and Upper Quadrants Capital Management, LLC, be prohibited from acting as an investment advisor or investment advisor representative in the State of Illinois.

ENTERED This 11<sup>th</sup> day of December 2012



JESSE WHITE  
Secretary of State  
State of Illinois

**NOTICE:** Failure to comply with the terms of this Order shall be a violation of Section 12.D of the ACT. Any person or entity that fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony for each offence.

This is a final order subject to administrative review pursuant to the Administrative Review Law [735 ILCS 5/3-101 et seq.] and the Rules and Regulations of the Act (14 Ill. Admin. Code, Ch. 1 Sec. 130.1123). Any action for judicial review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review.

Attorney for the Secretary of State:  
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