

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF: James H. Stanley, Jr. and)	
Upper Quadrants Capital)	CASE # 10-00187
Management, LLC)	
)	

NOTICE OF HEARING

TO THE RESPONDENTS: Upper Quadrants Capital Management, LLC
James H. Stanley, Jr. Managing Member
980 N. Michigan Av, Ste 1400
Chicago, Illinois 60611

Upper Quadrants Capital Management, LLC
c/o James H. Stanley, Jr.
4041 Gulf Shore Blvd. N #
Naples, Florida 34103

James H. Stanley, Jr.
4041 Gulf Shore Blvd. N # 618
Naples, Florida 34103

You are hereby notified that pursuant to Section 11.E of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 17th day of February 2012, at the hour of 10:00 a.m., or as soon as possible thereafter, before James L. Kopecky, Esq. or such duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered pursuant to Section 11.E of the Act prohibiting Respondents from selling or offering for sale securities in the State of Illinois, acting as an investment advisor or as an investment advisor representative in the State of Illinois, revoking his registration as an investment advisor and/or granting such other relief as may be authorized under the Act including but not limited to imposition of a monetary fine in the maximum amount pursuant to 11.E(4) of the Act, payable within 10 (ten) days of the order.

The grounds for such proposed actions are as follows:

Count I
Fraud or Deceit

1. 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.
2. 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, LP (“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.
3. 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.
4. That Investor A was born in 1946 and is an Illinois resident.
5. That Investor A was not an accredited investor as defined in Section 4.H of the Act.
6. 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. In fact each fund was extremely risky. Stanley showed her graphs and other articles that highlighted impressive gains for the various UQCM funds.
7. 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. Stanley convinced Investor A to invest an additional \$398,000 into the UM Fund and waived the \$750,000 minimum investment requirement for each fund. The investments were made from Investor A’s IRA.
8. 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.

9. 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.
10. Investor A informed Stanley that she was retired and needed distributions from her IRA for her living expenses.
11. 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.
12. Stanley failed to advise Investor A of the highly risky nature of the trading strategies of the Funds.
13. That Stanley failed to inform Investor A that there were not any qualified investors in the UM 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. 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.
18. That by virtue of the foregoing, the Respondents have violated Section 12.F under the Act.

Count II

Lack of Suitability

- 1-16. Paragraphs 1-16 of Count I are realleged and incorporated by reference as paragraphs 1-16 of Count II and are fully set forth herein.
17. 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.
18. UQCM as the investment advisor as well as general partner to the UM and UL Funds had a duty to both Funds as well as to Investor A including knowing the financial background of Investor A.
19. Stanley knew or should have known that Investor A did not in any way possess the financial means necessary, as defined in the Private Placement Memoranda, to invest in either the UM or UL Funds.
20. Stanley had no reasonable basis for recommending that Investor A invest in the Funds.
21. 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.
22. 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.
23. That by virtue of the foregoing, the Respondents have violated Sections 12.J(1) and 12.J(2) under the Act.

Count III **Fraud or Deceit**

- 1-16. Paragraphs 1-16 of Count I are realleged and incorporated by reference as paragraphs 1-16 of Count III and are fully set forth herein.
17. Stanley sold or offered to sell promissory notes to one or more investors of the UM and UL Funds. The promissory note, in the amount of the balance of the respective investor's account, 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 and only made the first 2 quarterly interest payments.
19. Respondent had no reasonable expectation of paying back the promissory note referenced in paragraph 18 when he issued it and in fact did not make the required interest payments.
20. Borrowing money from the investors of the UM and UL Funds violated Respondent's fiduciary duty as an investment advisor.
21. 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.
22. 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.
23. That by virtue of the foregoing, the Respondents have violated Sections 12.J(1) and 12.J(2) under the Act.

Count IV
Retroactive Revocation

- 1-16. Paragraphs 1-16 of Count I are realleged and incorporated by reference as paragraphs 1-16 of Count IV and are fully set forth herein.
17. 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.
18. 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.
19. 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.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

The Rules promulgated under the Act and pertaining to Hearings held by the Office of the Secretary of State, Securities Department may be viewed online at <http://www.cyberdriveillinois.com/departments/securities/lawrules.html>.

Delivery of notice to the designated representative of any Respondent constitutes service upon such Respondent.

DATED: This 28th day of December 2011.



JESSE WHITE
Secretary of State
State of Illinois

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