

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

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IN THE MATTER OF: SHARATH M. URYS )  
\_\_\_\_\_)

FILE NO. 1000093

**NOTICE OF HEARING**

TO THE RESPONDENT:

Sharath M. Sury  
(CRD#: 2647231)  
367 Santana Heights #7028  
San Jose, California 95128

Sharath M. Sury (CRD#: 2647231)  
C/o S4 Capital, LLC.  
One South Dearborn Street  
Suite 2100  
Chicago, Illinois 60603-2302

You are hereby notified that pursuant to Section 11. F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 3<sup>rd</sup> day of November, 2010 at the hour of 10:00 a.m. or as soon as possible thereafter before James L. Kopecky, Esq., or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered revoking Sharath M. Sury's (the "Respondent") registration as an investment adviser representative in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

1. That at all relevant times, the Respondent was registered with the Secretary of State as an investment adviser representative in the State of Illinois pursuant to Section 8 of the Act.
2. That on March 2, 2010 the United States Securities and Exchange Commission (SEC) entered an Order MAKING FINDINGS AND IMPOSING A CEASE-AND-DESIST ORDER AND REMEDIAL SANCTIONS(Order) in Administrative Proceeding File No. 3-13683 against the Respondent which imposed the following sanctions:

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- a. cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and 206(2) of the Advisers Act;
  - b. barred from association with any broker, dealer, or investment adviser and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser, or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter, with the right to reapply for association after two (2) years to the appropriate self-regulatory organization, or if there is none, to the Commission;
  - c. Any reapplication for association will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis of the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order; and
  - d. pay a civil penalty in the amount of \$130,000.
3. That the Order found:
- a. S4 Capital, L.L.C. (formerly known as Chicago Analytic Capital Management, LLC and Valence Capital Group, LLC) is a Delaware Limited Liability Company located in Chicago, Illinois. It has been registered with the Commission as an investment adviser since March 2000.
  - b. The respondent, 37 years old, is a resident of Chicago, Illinois. He has been the CEO and majority owner of S4 Capital since 2001. He has held Series 3, 7, and 63 licenses since 1995. He is currently a registered representative associated with Chicago Analytic Trading Company Facts.
  - c. From December 2005 to February 2006, the Respondent caused an unregistered hedge fund managed by S4 Capital to engage in undisclosed, unhedged, high-risk trading, primarily in Google stock options, which

resulted in substantial losses to the fund. During this period, the Respondent failed to disclose to investors in the hedge fund with whom S4 Capital had investment advisory investments, that he was engaging in risky, unhedged trading that was contrary to the investment strategy described in the hedge fund's private placement memorandum and their personal investment objectives and that the fund was suffering mounting losses. He also sent certain investors emails that lulled them into believing that their investments were profitable and failed to disclose the risky trading and related losses. In total, his undisclosed high-risk trading caused the Hedged Equity Fund to lose all of its assets, totaling approximately \$12 million, in about two months.

- d. From February 2003 through April 2006, S4 Capital actively managed two unregistered hedge funds: the CACM Core Equity Fund, L.P. d/b/a/Hedged Equity Fund, L.P. ("Hedged Equity Fund") and the CACM Market Neutral Fund, L.P. ("Market Neutral Fund") (collectively the "Funds"). S4 Capital was the general partner and the investment adviser to these Funds, which were limited partnerships. The Respondent assisted in the drafting of the Funds' offering materials and acted as the primary portfolio manager of the Funds. At the beginning of 2005, the Funds' trader left S4 Capital, and he also became the trader for the Funds.
- e. In March 2003, the respondent solicited Investors A, a husband and wife, to enter into an investment advisory relationship with S4 Capital. He created an S4 Capital investor supervision agreement and an investment policy statement for these investors. The investment policy statement stated that the Investors A risk tolerance was low, that they shared a clear aversion to downside risks, and that portfolio losses greater than 10% were generally unacceptable. The investment policy statement further provided that S4 Capital would pursue "prudent blend of capital preservation, liquidity, stable tax-exempt income generation and modest inflation-adjusted capital preservation" and "consistent acceptable rates of return without a significant or meaningful deterioration of principal." He, through S4 Capital, recommended that the Investors A money be invested in fixed income securities and conservative hedged investments, using "absolute return" strategies that would protect against downside risk and provide liquidity. Based on the investment supervision agreement and policy statement, Investors A invested approximately \$40 million with S4 Capital.
- f. In the Fall of 2005, after experiencing a period of low returns on their, original investments with S4 Capital, Investors A informed S4 Capital's President that they wanted to withdraw their money, totaling \$51.9 million, from S4 Capital and invest it elsewhere.

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- g. At the end of November 2005, the Respondent and S4 Capital's President met with Investors A in an attempt to retain them as S4 Capital clients. During this meeting, the Respondent gave a PowerPoint presentation to Investors A and provided five investment options. He recommended that Investors A invest in what was presented as a "barbell" investment approach. He described this investment approach as a continuation of Investors A diversified portfolio, which limited volatility, limited downside loss, increased transparency, and increased liquidity. This investment strategy was to be comprised of a stable source of capital preservation through investments in the bond market and a source of capital growth through investments in hedged equities. For this latter aspect of the proposed strategy, he recommended the Hedged Equity 1.
- h. Investors A were also provided with a copy of the Hedged Equity Fund's private placement memorandum, which stated that the fund's investment objective was "to provide investors with participation in equity markets with reduced exposure to the markets overall agility" and that the fund would "seek superior overall relative rates of returns by limiting downside risks through hedging or reduced equity exposure and actively participating in the upside through increased market exposure." It further stated that the fund's investment approach was "to manage a diversified portfolio of U.S. common stocks, equity index securities and equity options in order to be highly correlated to the broad movements in the U.S. stock market on the upside and less correlated on the downside," that "the investment will be closely monitored on an ongoing basis for continued positive momentum," and that [p]ositions will be eliminated when they no longer exhibit positive characteristics."
- i. The Respondent's oral and written statements to Investors A did not truthfully describe his investment management of the Hedged Equity Fund.
- j. Beginning in at least October 2005, the respondent, through S4 Capital, used risky and unhedged trading strategies for the Hedged Equity Fund and the Market Neutral Fund, causing them to experience an enormous amount of volatility.
- k. In 2005, S4 Capital's Operations and Compliance Officer ("OCO") prepared internal periodic "flash reports" of the Hedged Equity Fund's performance. The OCO distributed these reports several times a week via email to the Respondent, among others. The flash reports included a "risk metrics" section which provided a comparison of the volatility of the Hedged Equity Fund's performance to the volatility of general market indices, including the S&P 500 index. The November 23, 2005 flash report stated that the Hedged Equity Fund's volatility for the preceding 30 trading days, 60 trading days, and year had been 77.35%, 93.26%, and

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59.12%, respectively. In contrast, the S&P 500 index volatility was reported as having been 12.02%, 11.18%, and 10.53%, respectively, for those same time periods.

- l. In addition, on October 20, 2005, the Respondent placed at least 77% of the Market Neutral Fund's equity and approximately 9% of the Hedged Equity Fund's equity in unhedged, Google options that were expiring in just two days. These trades were levered positions which were extremely risky and far from being market neutral. His trades were in effect a wager that Google's third quarter earnings would be higher than analysts' expectations. At the end of the trading day on October 20, 2005, Google announced third quarter revenues of \$1.578 billion and earnings per share of \$1.32. Analysts had previously forecasted revenues for the quarter of \$892 million and earnings per share of \$1.25. On October 21, 2005, he sold the Google options, realizing a 241% gain for the Funds. While his trading strategy had produced large returns, the strategy was extremely risky and inconsistent with the Funds' stated investment strategies.
- m. After completing the October trades in unhedged, Google options, S4 Capital ceased trading for the Hedged Equity Fund. S4 Capital also began closing down the Market Neutral Fund.
- n. The respondent knew that the Hedged Equity Fund's portfolio was far more volatile than the S&P 500 index. He also knew that, as expressed in Investors A's investment policy statement, portfolio losses greater than 10% were generally unacceptable. He nonetheless advised investors A to invest in the Hedged Equity Fund, the historical volatility of which vastly exceeded a 10% downside risk level, and concealed from Investors A the historical and contemporaneous risks and volatility of the Hedged Equity Fund.
- o. At the beginning of December 2005, based on the representations that they received, Investors A transferred approximately \$8.25 million of the \$51.9 million they had invested with S4 Capital to the Hedged Equity Fund. They also left the remainder of their investment with S4 Capital in bonds, cash, cash equivalents, and non-affiliated, third-party funds.
- p. On November 30, 2005, the Hedged Equity Fund had a balance of approximately \$3.73 million. Investors A investment in the Hedged Equity Fund thus more than tripled the size of the Fund.
- q. Prior to Investors A investment in the Hedged Equity Fund, six trusts had invested approximately \$4 million in the Hedged Equity Fund in 2003. These Trusts were all managed by the same trustee, Investor B. Investor B was also an investment advisory client of S4 Capital. Before Investor B made these investments in the Hedged Equity Fund, the Respondent had

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created an investment policy statement stating that Investor B's investment objective was to pursue a long term growth and income strategy, while achieving an expected return of 4-7%. Investor B wanted moderate capital appreciation with capital preservation. He also provided Investor B with the Hedged Equity Fund's private placement memorandum, which contained the representations discussed above.

- r. Contrary to the representations made in the Hedged Equity Fund's private placement memorandum and the Respondent's oral presentations to Investors A, he, through S4 Capital, continued to cause the Hedged Equity Fund to engage primarily in high-risk stock and options day-trading, including trading in Google stock and options. He failed to disclose this extremely risky trading and the fund's mounting losses resulting from his risky trading to Investors A and B.
- s. The Respondent also sent Investors A several emails that falsely reassured them that the Hedged Equity fund's investments were consistent with the Fund's and Investors A investment objectives and/or that their investments were profitable.
- t. On December 30, 2005, the Hedged Equity Fund had incurred more than \$1.5 million in realized and unrealized trading losses in December. Instead of disclosing these losses, the Respondent on December 30, 2005, sent an email to Investors A reiterating that their investment strategy was a "barbell" approach consisting of capital preservation in the bond market and ital growth through hedged equities.
- u. By January 11, 2006, Investors A had earned no profits from the Hedged Equity fund, which remained in a deficit position. Despite the fund's poor performance, the Respondent sent investors A another email on January 11, 2006 stating "I am planning to begin hedging your equities exposure. Best to take some of our (early) profits off the table."
- v. In mid-January 2006, S4 Capital's Chief Compliance Officer met with S4 Capital's President and told him that the Respondent should immediately stop trading unhedged, Google options in the Hedged Equity Fund because Investors A would never tolerate such losses. S4 Capital's President also confronted him about his risky trading. Nevertheless, he, through S4 Capital, continued to take increasingly large, unhedged positions in Google options in hopes that Google would report positive fourth quarter earnings.
- w. By January 18, 2006, the Hedged Equity Fund had lost nearly \$4.8 million. However, on January 18, 2006, the Respondent sent Investors A another email which stated, among other things, that their investment strategy "continues to be a prudent course."

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- x. On January 20, 2006, Google's stock experienced a sharp price decline as a result of news that the U.S. Justice Department had sued Google to compel the production of documents and that Yahoo, one of Google's direct competitors, had announced that it had missed analysts' expectations for the fourth quarter of 2005. After receiving this negative news, rather than disclosing the resulting losses, the Respondent, on January 20, 2006, instead sent Investors A an email stating "Today has seen some extraordinary activity, I think there is some merit to begin considering an allocation to equities. Indeed, putting on collared hedge positions would be a very prudent move at present, especially if we begin to see better earnings reports in the coming weeks. I'm hopeful that you will find the current strategy more rewarding in the long term than the more defensive strategy we used to protect your portfolio in the past 18 months." By the close of trading on Friday, January 20, 2006, his trading caused the Hedged Equity Fund to realize losses of approximately \$3,137,640 when a total of 4,418 Google call contracts expired worthless.
- y. On January 22, 2005, S4 Capital's President confronted the Respondent and told him that the trading losses were unacceptable, and demanded to know why he placed the majority of the Hedged Equity Fund's assets in Google options. He admitted to S4 Capital's President that he was hoping for better than expected fourth quarter earnings for Google and he was trying to mirror his trading in unhedged, Google options in the Market Neutral Fund and Hedged Equity Fund on October 20, 2005 which resulted in a 241% gain for the Funds.
- z. On January 23, 2006, the Hedged Equity Fund lost an additional \$1,989,095 when sold a total of 3,300 February Google calls purchased between January 18, 2006 and January 20, 2006. The risky trading and these losses were not disclosed to Investors A and B.
- aa. As a result of the Respondent's unhedged, high-risk trading strategy, S4 Capital and the Hedged Equity Fund incurred a \$4,202,555 margin call on January 25, 2006. By this time, the Hedged Equity Fund had lost approximately \$7.2 million due to the significant losses it had incurred and did not have sufficient capital to meet this margin call. As a result, he and S4 Capital's President, through S4 Capital, caused the Market Neutral Fund to loan \$4,205,000 to Hedged Equity Fund in order to meet the margin call. He and S4 Capital's President caused Hedged Equity Fund to execute a promissory note for this loan. The note was guaranteed by the assets of the Hedged Equity Fund and S4 Capital. However, at that time, the Hedged Equity and S4 Capital had insufficient assets to make this guarantee, and the Hedged Equity Fund immediately defaulted on the promissory note, which was due the next day.

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- bb. As of January 31, 2006, the Hedged Equity Fund held positions with an aggregate market value of \$9,729,115. This \$9,729,115 included the \$4,205,000 loaned from the Market Neutral Fund. After the close of trading that same day, Google announced that it had missed analysts' expectations and Google's stock price declined sharply thereafter. At the close of trading on January 31, 2006, the Hedged Equity Fund owned \$7,855,700 worth of net long Google call options representing nearly 81% of the portfolio's total value. The respondent and S4 Capital used over \$2 million of the Market Neutral Fund's loan to establish these positions.
  - cc. On February 1, 2006, as the value of Google rapidly declined, the Respondent began liquidating the Google options held in the Hedged Equity Fund. By February 3, 2006, all of the remaining positions in the Hedged Equity Fund were liquidated. Between February 3, 2006 and February 7, 2006, he, through S4 Capital, used all of the available cash from the sale of the Google options positions to repay approximately \$3,913,000 to the Market Neutral Fund from the Hedged Equity Fund, and he repaid the remainder of the loan from his personal assets.
  - dd. The Respondent's undisclosed high-risk trading caused the Hedged Equity Fund to lose all of its assets, totaling approximately \$12 million, in about two months time. Approximately \$11.6 million, or nearly 95%, of these losses were the result of the Respondent's trades in Google stock and options violations
  - ee. As a result of the conduct described above, the Respondent willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.
  - ff. As a result of the conduct described above, the respondent willfully aided and abetted and caused S4 Capital's violations of Sections 206(1) and 206(2) of the Advisers Act, which prohibits any investment adviser from, directly or indirectly, employing any device, scheme or artifice to defraud any client or prospective client and engaging in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client.
4. That Section 8.E(1)(k) of the Act provides, inter alia that the registration of an investment adviser representative may be revoked if the Secretary of State finds that such investment adviser representative has any order entered against him after notice and opportunity for a hearing by the United States Securities and Exchange Commission arising from any fraudulent or deceptive act or a practice in violation of any statute, rule, or regulation administered or promulgated by the agency.



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5. That the Respondent had notice and opportunity to contest the issues in controversy, but chose to resolve the matter with the SEC.
6. That by virtue of the foregoing, the Respondent's registration as an investment adviser representative in the State of Illinois is subject to revocation pursuant to Section 8.E (1)(k) 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.

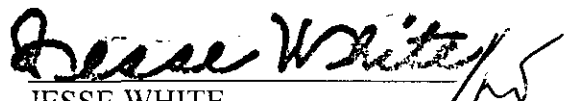
Furthermore, you may be represented by legal counsel, may present evidence, may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held by the office of the Secretary of State, Securities Department, is below.

<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 14<sup>th</sup> day of September 2010

  
JESSE WHITE  
Secretary of State  
State of Illinois

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