

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

IN THE MATTER OF:)	
)	
)	File No. 1200150
DAEDALUS CAPITAL, LLC, its managers,)	
officers, affiliates, subsidiaries, representatives,)	
successors, and assigns, and;)	
STEPHEN M. COLEMAN, an individual.)	
)	

TEMPORARY ORDER OF PROHIBITION

TO THE RESPONDENTS:

Daedalus Capital, LLC (CRD # 112705)
724 W. Evergreen Ave.
Chicago, IL 60610

Stephen Messiah Coleman (CRD # 1004434)
724 W. Evergreen Ave.
Chicago, IL 60610

National Registered Agents, Inc.
In care of:
Daedalus Capital, LLC
200 W. Adams St.
Chicago, IL 60606

WHEREAS, pursuant to the authority granted under Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act"), the Secretary of State has determined that the offer or sale of securities by any person employed by Respondent Daedalus Capital, LLC, or by Respondent Stephen Messiah Coleman, is subject to a Temporary Order of Prohibition.

SUMMARY

Respondent Daedalus Capital, LLC and Respondent Stephen Messiah Coleman were at one time registered as an investment adviser and investment adviser representative. Respondents were prohibited from offering and selling securities within the State of Missouri by the Missouri Securities Department. Respondents relocated to Illinois and began offering two investment programs. In selling these programs, Respondents mischaracterized how the funds were to be used. Contrary to representations that the funds would be held in a financial institution and used to trade equities, Respondents used the funds to cover personal and business expenses. In addition, Respondents failed to disclose material information regarding the financial condition of

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Daedalus. Furthermore, Respondents failed to register the securities which the Respondents sold, and failed to register as an Investment Adviser.

FACTS COMMON TO ALL COUNTS

WHEREAS, the Secretary of State finds that the grounds for such Temporary Order of Prohibition are as follows:

1. Respondent Daedalus Capital, LLC (“Daedalus”) is an Illinois limited liability company formed in the State of Illinois on April 20, 2012, and has a last known address of 724 W. Evergreen Ave. Chicago, IL 60610.
2. Respondent Stephen Messiah Coleman (“Coleman”) is the founder and Chief Investment Officer of Respondent Daedalus, and has a last known address of 724 W. Evergreen Ave. Chicago, IL 60610.
3. A Missouri Order issued by the Securities Division of the Missouri Secretary of State prohibited Respondent Daedalus and Respondent Coleman from acting as an Investment Adviser, and prohibited Respondents from the offer and sale of securities in the State of Missouri.
4. Despite being subject to the Order by the State of Missouri, Respondent Daedalus and Respondent Coleman continued to offer, advertise and promote two investment programs. The two investment programs are the DEUCE and the ALPHA.

COUNT I

FRAUD IN THE OFFER AND SALE OF SECURITIES

5. The DEUCE is an investment in a note issued by Respondent Daedalus. Under the terms of the Notes, Daedalus guarantees to double investors’ money in 5 years or less.
6. The offer or sale of investments in the DEUCE constitutes the offer and sale of a security as those terms are defined in Sections 2.1, 2.5, and 2.5a of the Act.
7. Respondent Coleman and Respondent Daedalus have accepted over \$346,000.00 from 4 Deuce investors.
8. The Deuce Agreement states that Daedalus shall manage and invest the Holder’s assets in the DEUCE which shall be held at one or more financial institutions chosen by Daedalus in an account or accounts designated by Daedalus from time to time.
9. Despite this statement in the Deuce subscription agreement which indicated that the invested assets shall be held at one or more financial institutions, Respondent Coleman

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and Respondent Daedalus, on several occasions, used the assets from the Deuce Offering to pay personal and business expenses of Respondent Coleman and/or Respondent Daedalus.

10. Respondent Coleman and Respondent Daedalus represented that Respondent Daedalus would manage the proceeds from the Notes utilizing the "Coleman Method," a self-titled method of maintaining concentrated positions in the equity market.
11. While soliciting investments in the Deuce, Respondents implied to investors that Daedalus was in good financial condition by making statements such as "The Coleman Method has a 0.00% probability of losing your money in three years or longer" and "Daedalus Capital, L.L.C. is one of the best money management firms in the world."
12. As of 1/31/2014, the unvested liability of all the Deuce notes (principal + accumulated interest to date) was \$435,481.80.
13. As of 1/31/2014, Respondent Daedalus had \$180,277.00 in a securities trading account, and \$6,852.86 in a bank account.
14. As of 1/31/2014, Respondent Daedalus had no other significant tangible assets, thus the Deuce had an unfunded liability of approximately \$248,404.00.
15. Despite the fact that Respondent Daedalus had a significant underfunding in the Deuce, Respondent Daedalus, by and through the actions of Respondent Coleman, continued to solicit investments in the Deuce without disclosing the unfunded liability.
16. Respondent Coleman and Respondent Daedalus omitted to inform investors that they had insufficient assets to cover projected liabilities to current investors.
17. On or around January 6, 2014, Respondents sent a letter, signed by Respondent Coleman and printed on Respondent Daedalus letterhead, to at least one Deuce investor. Despite significant underfunding in the Deuce at the time the letter was dated and sent, Respondent Coleman claimed the "underlying investments are performing in the manner expected. We are highly confident that we will be able to fulfill our obligation to you."
18. The Deuce Agreement discloses that the State of Missouri ordered Respondents Daedalus and Coleman to pay a \$50,000 fine for offering investors unregistered investments. However, Respondent Coleman and Respondent Daedalus omitted to disclose to investors that the fines remain unpaid creating an omission to state a material fact necessary in order to make this statement not misleading.
19. Moreover, Respondents Daedalus and Coleman failed to disclose Federal Tax liens which have been filed against Respondent Coleman and Respondent Daedalus.

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20. Section 12.A of the Act states *inter alia* that it shall be a violation of this Act for any person to offer or sell any security except in accordance with the provisions of this Act.
21. Section 12.F states *inter alia* it shall be a violation of the provisions of this Act for any person to engage in any transaction, practice or course of business in connection with the sale of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
22. Section 12.G of the Act states *inter alia* that it shall be a violation of this Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
23. By virtue of the Foregoing, Respondent Coleman and Respondent Daedalus have each violated Sections 12.A, 12.F, and 12.G of the Act.

COUNT II

OFFER AND SALE OF UNREGISTERED SECURITIES

24. Section 5 of the Act requires the registration of a security being offered or sold in the State of Illinois unless an exemption applies.
25. When Respondents were asked to explain what exemption Respondents were relying upon from registration of the DEUCE as a security with the Secretary of State of Illinois, Respondent Coleman stated under oath on February 10, 2014:

“Daedalus Capital, LLC is not using an exemption from registration. The DEUCE is our invention.... We did not seek registration of the DEUCE because it is borrowed money, like a bank loan. It is a security, but not a securities offering.”
26. To date, the DEUCE has not been registered as a security with the Secretary of State of Illinois.
27. Section 12.A of the Act states *inter alia* that it shall be a violation of this Act for any person to offer or sell any security except in accordance with the provisions of this Act.
28. Section 12.B of the Act states *inter alia* that it shall be a violation of the provisions of this Act for any person to deliver to a purchaser any security required to be registered under Section 5, Section 6, or Section 7 hereof unless accompanied or preceded by a prospectus that meets the requirements of the pertinent subsection of Section 5, Section 6, Section 7.

29. By virtue of the Foregoing, Respondent Coleman and Respondent Daedalus have each violated Sections 12.A and 12.B of the Act.

COUNT III

FRAUD IN OFFERING INVESTMENT ADVICE

and

ACTING AS AN UNREGISTERED INVESTMENT ADVISER

30. 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.
31. Respondent Daedalus describes the ALPHA Investment Management Agreement as a focused-equity product designed for those who seek to profit from portfolios constructed by Respondent Daedalus. The portfolios maintain concentrated positions in 1 to 5 common stocks.
32. Respondent Daedalus and Respondent Coleman would advise clients utilizing the ALPHA programs, to open an account at a broker-dealer ("Broker-Dealer") offering on-line trading.
33. Respondent Daedalus and Respondent Coleman have clients sign documents that grant complete and unlimited discretionary trading authorization on the assets in clients' account.
34. Rather than following industry practice of filing a Limited Power of Attorney with the Broker Dealer granting Respondent Daedalus and Respondent Coleman the power to execute trades in the customers' accounts, Respondent Daedalus and Respondent Coleman requested each investor to provide them with the investor's user name and password to access and execute trades through the Broker Dealers website.
35. Respondent Daedalus and Respondent Coleman accessed the on-line accounts misrepresenting themselves as the owner of the account. On information and belief, Respondent Daedalus and Respondent Coleman did this to avoid detection of the identity of Respondent Coleman and the possibility that Coleman's prior regulatory history may cause the Broker Dealer to refuse to do business with Respondent Daedalus and/or Respondent Coleman.
36. Respondent Daedalus, by and through the actions of Respondent Coleman, charged a fee based upon the assets the clients had in the Alpha accounts.

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37. The activities of Respondent Daedalus described in paragraphs 31 through 36 constitute acting as an Investment Adviser.
38. The activities of Respondent Coleman described in paragraphs 31 through 36 constitute acting as an Investment Adviser Representative.
39. Section 8 of the Act provides, *inter alia*, that all investment advisers and investment adviser representatives, except as otherwise provided, shall be registered with the Secretary of State.
40. When Respondents were asked to explain what exemption Respondents were relying upon from registration as investment adviser and investment adviser representative with the Secretary of State of Illinois, Respondent Coleman stated under oath on February 10, 2014:

“Daedalus Capital, LLC is not using an exemption from registration. We are an investment adviser, but not a registered investment adviser for several reasons.”
41. To date, Respondent Daedalus and Respondent Coleman have not registered as an investment adviser and/or an investment adviser representative with the Secretary of State of Illinois.
42. The Alpha Agreement discloses that the State of Missouri ordered Respondents Daedalus and Coleman to pay a \$50,000 fine for offering investors unregistered investments. However, Respondent Coleman and Respondent Daedalus omitted to disclose that the fines remain unpaid creating an omission to state a material fact necessary in order to make this statement not misleading.
43. Respondents Daedalus and Coleman failed to disclose Federal Tax liens which have been filed against Respondent Coleman and Respondent Daedalus.
44. Section 12.C of the Act states *inter alia* that it shall be a violation of the provisions of this Act for any person to act as a investment adviser or investment adviser representative, unless registered as such, where such registration is required, under the provisions of this Act.
45. Section 12.G of the Act states *inter alia* that it shall be a violation of this Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
46. 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

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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.

47. 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.
48. By virtue of the foregoing, Respondent Daedalus violated Sections 12.C, 12.G, 12.J(1) and 12.J(2) of the Act.
49. By virtue of the foregoing, Respondent Coleman violated Sections 12.C, 12.G, 12.J(1) and 12.J(2) of the Act
50. Section 11.F(2) of the Act states *inter alia* the Secretary of State may temporarily prohibit, for a maximum period of 90 days, by an order effective immediately, the offer or sale of securities, or the offer or sale of securities by any person, or the business of rendering investment advice without the notice and prior hearing in this subsection prescribed, if the Secretary of State shall in his or her opinion, based on credible evidence, deem it necessary to prevent an imminent violation of the Act or to prevent losses to investors which the Secretary of State reasonably believes will occur as a result of a prior violation of this Act.

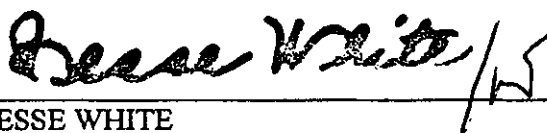
NOW IT IS HEREBY ORDERED THAT:

Respondent **DAEDALUS CAPITAL, LLC**, and any representative and employee, is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois for a period of 90 days, effective May 16, 2014, subject to further order of the Secretary of State.

Respondent **STEPHEN M. COLEMAN** is **PROHIBITED** from the offer or sale of securities in or from the state of Illinois for a period of 90 days, effective May 16, 2014, subject to further order of the Secretary of State.

Delivery of this Order or any subsequent notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 16th day of May, 2014.



JESSE WHITE
Secretary of State
State of Illinois

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Illinois Securities Department
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A public hearing will be set within thirty (30) days of the Respondent's filing a written request for hearing with the Secretary of State at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602. Said hearing will be held at the aforesaid address before a Hearing Officer duly designated by the Secretary of State.

YOUR FAILURE TO REQUEST A HEARING WITHIN THIRTY (30) DAYS AFTER RECEIPT OF THIS ORDER SHALL CONSTITUTE AN ADMISSION OF ANY FACTS ALLEGED HEREIN AND SHALL CONSTITUTE A SUFFICIENT BASIS TO MAKE THIS ORDER FINAL.

You are further notified that if you request a hearing that you may be represented by legal counsel, may present evidence; may cross-examine witnesses and otherwise participate. 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 and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at the Departments website:

<http://www.cyberdriveillinois.com/departments/securities/abtil.html>