

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

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

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**NOTICE OF HEARING**

**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**

**Daedalus Capital, LLC and Stephen Messiah Coleman  
Care of:  
Grant Schumann, LLC  
230 W. Monroe Street  
Chicago, IL 60606**

You are hereby notified that pursuant to Section 11.E of the Illinois Securities law of 1953 [815 ILCS 5/1 et. Seq.] (The "Act") and Ill. Adim. Code 130, Subpart K, a public hearing will be held at 69 W. Washington Street, Suite 1220, Chicago, Illinois 60602, on the 16th day of September, 2014, at the hour of 10:00 AM, or as soon as possible thereafter, before George Berbas 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 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 ten (10) business days of the order.

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**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 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**

The grounds for such proposed actions are as follows:

1. Respondent Daedalus Capital, LLC ("Daedalus") is a Missouri limited liability company, and its principal place of business and last known address is located at 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.

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7. Respondent Coleman and Respondent Daedalus have accepted over \$346,000.00 from 4 Deuce investors.
8. Per the terms of the DEUCE subscription agreement, Respondent Daedalus had the authority to effect securities transactions on behalf of the DEUCE account, whereby Respondent Daedalus would have discretionary authority to direct custodians with respect to acquisition or disposition of stocks. Moreover, Respondent Daedalus would hold all or a portion of the DEUCE assets in cash or cash equivalents, and that the cash assets may periodically be invested in short-term money market funds managed by the custodians.
9. Proceeds from the securities transactions were to be used to satisfy the outstanding DEUCE notes when they became due.
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. 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.
12. The terms of the DEUCE agreement DO NOT state that Respondents Daedalus or Coleman could use the assets in the DEUCE account to pay personal or business expenses of Respondents Daedalus or Coleman.
13. Notwithstanding, Respondent Coleman 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.
14. Between 6/25/2012 and 2/16/2014, when the securities trading account was closed, Respondents Daedalus and Coleman affected several withdrawals, in excess of \$165,000, in the form of wire transfers from the securities trading account to Respondent Daedalus' business bank account.
15. 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."
16. As of 1/31/2014, the unvested liability of all the Deuce notes (principal + accumulated interest to date) was \$435,481.80.
17. As of 1/31/2014, Respondent Daedalus had \$180,277.00 in a securities trading account, and \$6,852.86 in a bank account.

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18. 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.
19. On or around February 16, 2014, Respondents Daedalus and Coleman closed the securities trading account which held the funds of the DEUCE, and wire transferred the proceeds, \$180,580.69, to Respondent Daedalus' bank account.
20. On April 29, 2014, a check was drawn against Respondent Daedalus' business bank account in the amount of \$50,000; the payee was A Brown Tale, LLC.
21. Respondent Coleman is listed as a co-manager of A Brown Tale, LLC.
22. On information and belief, A Brown Tale, LLC was established to fund the production of the play, "A Brown Tale."
23. As of May 2014, Respondents Daedalus and Coleman have \$99,118.69 remaining in Respondent Daedalus' bank account.
24. 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.
25. Respondent Coleman and Respondent Daedalus omitted to inform investors that they had insufficient assets to cover projected liabilities to current investors.
26. 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."
27. 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.
28. Moreover, Respondents Daedalus and Coleman failed to disclose Federal Tax liens which have been filed against Respondent Coleman and Respondent Daedalus.
29. 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.

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30. 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.
31. 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.

**COUNT II**

**OFFER AND SALE OF UNREGISTERED SECURITIES**

32. Section 5 of the Act requires the registration of a security being offered or sold in the State of Illinois unless an exemption applies.
33. 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.”
34. To date, the DEUCE has not been registered as a security with the Secretary of State of Illinois.
35. 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.
36. 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.

**COUNT III**

**FRAUD IN OFFERING INVESTMENT ADVICE**

**and**

**ACTING AS AN UNREGISTERED INVESTMENT ADVISER**

37. 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.
38. 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.
39. 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.
40. Respondent Daedalus and Respondent Coleman have clients sign documents that grant complete and unlimited discretionary trading authorization on the assets in clients' account.
41. 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.
42. 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.
43. Respondent Daedalus, by and through the actions of Respondent Coleman, charged a fee based upon the assets the clients had in the Alpha accounts.
44. The activities of Respondent Daedalus described in paragraphs 31 through 36 constitute acting as an Investment Adviser.

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45. The activities of Respondent Coleman described in paragraphs 31 through 36 constitute acting as an Investment Adviser Representative.
46. 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.
47. 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.”
48. 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.
49. 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.
50. Respondents Daedalus and Coleman failed to disclose Federal Tax liens which have been filed against Respondent Coleman and Respondent Daedalus.
51. 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.
52. 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.
53. 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.

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54. 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.

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

Dated: This 5th day of August, 2014.



JESSE WHITE  
Secretary of State  
State of Illinois

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You are further notified that you are required pursuant to Section 1104 of the Rules to file an answer to the allegations outlined above, or other responsive pleading within 30 (thirty) days of receipt of this notice. Your failure to do this within the prescribed time shall be deemed an admission of the allegations contained in the Notice of Hearing and waives your right to a hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to appear shall constitute default by you.

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 Department's website:

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