

State of Missouri  
Office of Secretary of State

Case No. AP-07-41

IN THE MATTER OF:

STEPHEN M. COLEMAN,  
DAEDALUS CAPITAL, LLC,  
CHICKEN LITTLE FUND GROUP,  
DAEDALUS ALPHA INC., and  
ALPHA STRATEGY FUND, L.P.,

Respondents.

**AMENDMENT TO ORDER TO CEASE AND DESIST AND ORDER TO SHOW  
CAUSE WHY CIVIL PENALTIES AND COSTS SHOULD NOT BE IMPOSED**

Now, on the 27th day of August, 2008, the Commissioner of Securities Matt Kitz finds and orders that:

1. On October 17, 2007, the Enforcement Section of the Securities Division (the "Petitioner") filed a Petition for Order to Cease and Desist and Order to Show Cause Why Civil Penalties and Costs Should Not Be Imposed and Order to Refer to Administrative Hearing Commission for Revocation of Registration.
2. On October 25, 2007, the Commissioner issued an Order to Cease and Desist and Order to Show Cause Why Civil Penalties and Costs Should Not Be Imposed (the "C&D Order").
3. On July 25, 2008, the Petitioner filed an Amended Petition for Order to Cease and Desist and Show Cause Why Civil Penalties and Costs Should Not Be Imposed (the "Amended Petition").
4. In the Amended Petition, the Petitioner alleges, among other things, that:
  - a. On July 15, 2008, Respondent Daedalus Capital, LLC ("Daedalus Capital") and Respondent Stephen M. Coleman ("Coleman") sent to certain persons in the State of Missouri a letter (the "July 15 Letter") stating that Daedalus Capital and Coleman had "decided to raise \$10 million buy [sic] issuing general obligation bonds" in Daedalus Capital.
  - b. In the July 15 Letter, Daedalus Capital and Coleman wrote:

"There have been challenges. The current matter with Missouri Secretary of State is unique in only one respect: The State made its allegations public. There have been many prior, private investigations. The State has investigated me on two other occasions, with no effect. The Securities and Exchange Commission has investigated me on three occasions over the past twenty years, with no effect. They look and they leave. The real question is why did they come? I believe it is because we are small and, therefore, perceived to be easy prey by them or a competitor. I also believe that our consistent excellence as equity investors puzzles some folks.

My conclusion is that we have to get bigger. In order to do this, I have decided to raise \$10 million buy [sic] issuing general obligation bonds for Daedalus Capital, L.L.C. We expect this to be the first of many such offerings. The bonds will have a 5 year maturity. They will have an interest rate of 12.5%, paid quarterly in arrears. The bonds will be 90% collateralized initially by an equity separate account that we will create from the offering proceeds. We expect to grow this account using the Coleman Method. We are highly confident that our bonds will be excessively collateralized from stock market gains by the time that they mature. We expect to price the bonds at \$1,000 each with a \$10,000 minimum initial investment. We expect to have formal offering documents available soon. . . .
5. At all time relevant to this order, no registration, request for exemption or notice filing exemption has been filed with the Commissioner by any of the Respondents for "general obligation bonds for Daedalus Capital, L.L.C."
6. Under Section 409.3-301, RSMo. (Cum. Supp. 2007), it is unlawful for a person to offer or sell a security in Missouri unless (1) the security is a federal covered security, (2) the security, transaction or offer is exempted from registration under the Missouri Securities Act of 2003 (the "Act"), or (3) the security is registered under the Act.
7. Missouri courts have held that the Act has "perfectly valid reasons to protect investors from premature offers of unregistered securities," and that such premature offers include instances where an offeror has announced, prior to registration, that securities will be sold at some later date and has assigned an approximate monetary value to those securities. See *Moses v.*

*Carnahan*, 186 S.W.3d 889, 903 (Mo. App. 2006).

8. Under Section 409.5-503, RSMo. (Cum. Supp. 2007), a person claiming an exemption, exception, preemption or exclusion in an administrative proceeding under the Act has the burden to prove the applicability of such claim
9. Respondents Daedalus Capital and Coleman violated Section 409.3-301, RSMo. (Cum. Supp. 2007) when they offered securities that were not registered, exempt or federal covered securities.
10. In the Amended Petition, Petitioner requested that the commissioner order all respondents in this matter, including Daedalus Capital and Coleman, to cease and desist from offering or selling any security in the State of Missouri.
11. In the Amended Petition, Petitioner requested that the commissioner issue a final order imposing a civil penalty of up to \$1,000 against Respondent Coleman, and a civil penalty of up to \$1,000 against Respondent Daedalus Capital, for violation of Section 409.3-301, RSMo. (Cum. Supp. 2007).
12. In the Amended Petition, Petitioner alleges that:
  - a. Coleman told MR1 that Chicken Little Fund Group (“CLFG”) preferred stock had “low or limited” risk when the CLFG private placement memorandum stated that CLFG preferred stock made it “suitable only for investors who had substantial net worth and income . . . .”;
  - b. MR1 used part of his retirement savings to purchase CLFG preferred stock even though the CLFG private placement memorandum – which Coleman and Daedalus Capital drafted – stated that it was an investment “suitable only as a long-term investment” and only for those who can “afford the complete loss of his or her investment . . . .”;
  - c. Coleman advised MR2 to purchase CLFG preferred stock even though MR2 did not qualify as an investor with “substantial net worth and income” as required by the CLFG private placement memorandum;
  - d. Coleman advised MR2 to purchase CLFG preferred stock and used proceeds from that offering to pay for his personal financial plan; and
  - e. Coleman advised MR2 to purchase CLFG preferred stock and received more compensation from CLFG than that listed in the CLFG private placement memorandum.
13. In the Amended Petition, Petitioner alleges that:
  - a. Daedalus Capital advised MR2 to purchase CLFG preferred stock and a month after MR2 so invested, Daedalus Capital used such investment proceeds from the CLFG offering differently from that described in the CLFG private placement memorandum, i.e. to pay Respondent Coleman’s personal federal tax lien;
  - b. Daedalus Capital advised MR2 to purchase CLFG preferred stock and Daedalus Capital used such investment proceeds from the CLFG offering differently from that described in the CLFG private placement memorandum, i.e. to pay Respondent Coleman’s personal financial plan; and
  - c. Daedalus Capital advised MR2 to purchase CLFG preferred stock and received more compensation from CLFG than that listed in the CLFG private placement memorandum.
14. Under Section 409.5-502(a)(2), RSMo. (Cum. Supp. 2007), “[i]t is unlawful for a person that advises others for compensation, either directly or indirectly or through publications or writings, as to the value of securities or the advisability of investing in, purchasing, or selling securities or that, for compensation and as part of a regular business, issues or promulgates analyses or reports relating to securities: (1) To employ a device, scheme, or artifice to defraud another person; or (2) To engage in an act, practice, or course of business that operates or would operate as a fraud or deceit upon another person.”
15. Respondents Daedalus Capital and Coleman violated Section 409.5-502, RSMo. (Cum. Supp. 2007) when they engaged in the conduct described in Paragraphs 12 and 13, above.
16. In the Amended Petition, Petitioner requested that the commissioner order all respondents in this matter, including Daedalus Capital and Coleman, to cease and desist from actions which violate section 409.5-502, RSMo.
17. In the Amended Petition, Petitioner requested that the commissioner issue a final order imposing civil penalties of up to \$10,000 against Respondent Coleman, and civil penalties of up to \$10,000 against Respondent Daedalus Capital, for multiple violations of Section 409.5-502, RSMo. (Cum. Supp. 2007).
18. This order is in the public interest and necessary for the protection of public investors and consistent with the provisions of the Act.

## **ORDER**

**NOW, THEREFORE**, it is hereby ordered that Respondent Coleman and Respondent Daedalus Capital, their agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this Order are prohibited from and shall cease and desist from:

- A. offering or selling securities, including general obligation bonds, in the State of Missouri unless those securities are registered with the Securities Division of the Office of the Secretary of State in accordance with the provisions of the Act, or are otherwise exempt from such registration or qualify as a federal-covered security; and
- B. in the course of advising others for compensation, either directly or indirectly or through publications or writings, as to the value of securities or the advisability of investing in, purchasing, or selling securities or, for compensation and as part of a regular business, in the course of issuing or promulgating analyses or reports relating to securities: (1) employing a device, scheme, or artifice to defraud another person; or (2) engaging in an act, practice, or course of business that operates or would operate as a fraud or deceit upon another person.

**IT IS FURTHER ORDERED** that, pursuant to Section 409.6-604(d), RSMo. (Cum. Supp. 2007), the Commissioner will determine whether to grant the Enforcement Division's petition for an imposition of a civil penalty of up to one thousand dollars, against each of Respondent Coleman and Respondent Daedalus Capital, for a violation of Section 409.3-301, RSMo. (Cum. Supp. 2007), in a final order, unless such Respondents show cause why such penalty should not be imposed.

**IT IS FURTHER ORDERED** that, pursuant to Section 409.6-604(d), RSMo. (Cum. Supp. 2007), the Commissioner will determine whether to grant the Enforcement Division's petition for an imposition of a civil penalty of up to ten thousand dollars, against each of Respondent Coleman and Respondent Daedalus Capital, for multiple violations of Section 409.5-502, RSMo. (Cum. Supp. 2007), in a final order, unless such Respondents show cause why such penalty should not be imposed.

**IT IS FURTHER ORDERED** that this amendment applies only to and only concerns the allegations related to Sections 409.3-301 and 409.5-502, RSMo. (Cum. Supp. 2007), raised in Petitioner's Amended Petition, and in no manner vacates, supersedes or impacts any provision of the C&D Order, which remains fully operative and in effect.

**IT IS FURTHER ORDERED** that the issues addressed herein will be addressed at the already-scheduled hearing in this matter on October 23 and 24, 2008. If any party wishes to request a separate hearing on this issue or otherwise desires that a hearing commence in a different fashion, within fifteen days after receipt of a request in a record from such party or person, the commissioner will schedule such a hearing.

**SO ORDERED.**

ROBIN CARNAHAN  
SECRETARY OF STATE

(Signed/Sealed)  
MATTHEW D. KITZI  
COMMISSIONER OF SECURITIES

#### **CERTIFICATE OF SERVICE**

I hereby certify that on this 27th day of August, 2008, a copy of the foregoing AMENDMENT TO ORDER TO CEASE AND DESIST AND ORDER TO SHOW CAUSE WHY CIVIL PENALTIES AND COSTS SHOULD NOT BE IMPOSED, filed in the above-styled case, **was mailed by U.S. Mail to:**

Larry D. Coleman  
8801 E. 63rd Street, #208  
Raytown, Missouri 64133  
ATTORNEY FOR RESPONDENTS  
STEPHEN M. COLEMAN, DAEDALUS  
CAPITAL, LLC, AND CHICKEN LITTLE  
FUND GROUP

**and by hand-delivery to:**

Lori Neidel  
Chief Enforcement Counsel  
Enforcement Section, Securities Division

