FILED

SEP 22 2016

Kansas
Securities Commissioner

BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF KANSAS

In the Matter of:

STANLEY ADVISORS, LLC (CRD NO. 154548), and
ADAM A. STANLEY (CRD NO. 2864184)

Docket No. 17 E001
KSC No. 2015-6291

Respondents.

_______________________________________/
Pursuant to K.S.A. 17-12a412 & K.S.A. 17-12a604

ORDER TO CEASE AND DESIST AND NOTICE OF INTENT TO IMPOSE ADMINISTRATIVE SANCTIONS

Staff for the Office of the Kansas Securities Commissioner ("KSC Staff") allege that sufficient evidence exists to provide cause under K.S.A. 17-12a412 and K.S.A. 17-12a604 to invoke administrative sanctions against the Respondents pursuant to the Kansas Uniform Securities Act ("KUSA"). If the allegations set forth below are found to be true, through either administrative adjudication, failure of the Respondents to make a timely request for hearing, or default of the Respondents, it is the intention of KSC Staff to seek an order from the Commissioner to impose sanctions upon the Respondents. Such sanctions may include, *inter alia*, revocation of registration, suspension of registration, conditions or limitations on registration, censure, bar or suspension from association with an investment adviser registered in the State of Kansas, fines, restitution, disgorgement, an order for costs, and/or a permanent cease and desist order.

If the Respondents wish to contest the facts alleged below or offer evidence and argument to mitigate those facts, then the Respondents must file a request for hearing within 33 days after the date of mailing on the *Certificate of Service* attached to this Order. The request for hearing must be in the manner and form prescribed by K.A.R. 81-11-3 and K.A.R. 81-11-5, and it must be filed with the Office of the Kansas Securities Commissioner, 109 SW 9th St., Suite 600, Topeka, Kansas, 66612. The request for hearing must be verified under oath by the Respondents. If the Respondents dispute any of the allegations set forth below, Respondents shall specifically deny such allegations or such allegations will be deemed admitted by the Respondents. If a request for hearing is not timely filed, the Commissioner may issue a final order without further proceedings.

I. FINDINGS OF FACTS

1. Respondent Stanley Advisors, LLC ("SAL" or "Firm"), CRD No. 154548, is a Kansas limited liability company ("LLC") formed on November 3, 2010. Its business is located at a residence at 7800 Glenwood Street, Overland Park, Kansas, 66204 ("Glenwood Street Location").
2. SAL has been registered with the Office of the Kansas Securities Commissioner ("KSC") as an investment adviser ("IA") since November 3, 2010, and is therefore subject to the Kansas Securities Commissioner's ("Commissioner") jurisdiction.
3. Respondent Adam A. Stanley ("Stanley"), CRD No. 2864184, is an individual residing at [redacted]
4. Stanley has been registered with the KSC as an investment adviser representative ("IAR") since November 3, 2010, and is therefore subject to the Commissioner's jurisdiction.
5. Stanley is the Managing Member and sole IAR, employee, control person, and owner of SAL. Therefore, SAL is directly controlled by Stanley.
6. Stanley, on behalf of SAL, performs asset management services for approximately 15 client families on a non-discretionary basis.

7. On May 6, 2016, KSC Senior Examiner Kenneth J. Becker initiated a routine compliance examination of SAL by issuing a document request letter ("Request Letter"). On or about August 27, 2015, an onsite interview of SAL was performed by Becker. Heather L. Gallagher, KSC Staff Attorney, was present as an observer.

8. The onsite examination took place at 10600 Oak Street, Apt. No. 304, Kansas City, Kansas, 66109 ("Oak Street Location"). Stanley moved the Firm and his residence to the Oak Street Location in spring of 2015. Becker conducted a follow-up phone interview with Stanley on February 17, 2016 ("Phone Interview").

9. Multiple deficiencies were discovered throughout the examination process, some of which were repeat violations from the Firm's November 9, 2011 KSC exam (KSC File No. 2012-5946), which was conducted by former KSC Senior Special Agent Jason Vinsonhaler.

10. An order against Respondents SAL and Stanley is in the public interest.

High Standards of Commercial Honor and Just and Equitable Principles of Trade

11. According to the Firm's investment advisory agreements, the Firm agreed to charge investment advisory fees in advance, on a traditional quarterly schedule (i.e. fees due on January 1, April 1, July 1, and October 1). According to the Firm's Form ADV Part 2, said fees were supposed to be calculated based on each client's value of assets under management as of the last day of the calendar quarter.

12. During 2014 and 2015, Respondents deducted investment advisory fees on a premature and late basis from more than one client on more than one occasion. An example of investment advisory fees being deducted on a premature basis occurred during June of 2015:

a. All of SAL's clients should have been billed on July 1, 2015 for the services that the Firm would provide from July 1, 2015 to September 30, 2015.

b. On May 15, 2015, investment advisory fees of $1,500 were collectively deducted from two client accounts for the services to be performed by SAL from July 1, 2015 to September 30, 2015. This action took place 47 days in advance of when the investment advisory fees should have been deducted from said accounts.

c. On June 1, 2015, investment advisory fees of $1,000 were collectively deducted from four client accounts for the services to be performed by SAL from July 1, 2015 to September 30, 2015. This action took place 30 days in advance of when the investment advisory fees should have been deducted from said accounts.

d. On June 17, 2015, investment advisory fees of $7,353.88 were collectively billed to the remaining client accounts for the services to be performed by SAL from July 1, 2015 to September 30, 2015. This action took place 14 days in advance of when the investment advisory fees should have been billed to said accounts. All but two of the remaining clients had sufficient funds available to pay said fees so the payments were deducted accordingly.

13. Based on a review of the documentation provided, Senior Examiner Becker was able to determine that from the first quarter of 2014 to the first quarter of 2016, investment advisory fees were prematurely deducted from client accounts approximately 35 times. During that same period of time, investment advisory fees were deducted from client accounts approximately six times on a late basis.

14. Prematurely deducted fees were also calculated incorrectly. The value of each client's assets under management was determined on or around the date that each fee was

prematurely calculated and deducted, rather than on the last day of the quarter as provided for in the investment advisory agreements executed by SAL's clients.

15. During the Phone Interview, Senior Examiner Becker asked Stanley why investment advisory fees were being deducted prematurely. Stanley responded that SAL was having cash flow problems and most of his clients were his friends and they knew he was in poor financial shape so they told him he could deduct fees early.

16. During the Phone Interview, Senior Examiner Becker asked if all of SAL's clients were his friends because there was at least one month within which all of SAL's clients were billed prematurely. Stanley responded that deducting fees prematurely was a mistake and he shouldn't have taken said actions.

17. During the Phone Interview, Stanley claimed to have received verbal permission from SAL's clients to deduct fees on a premature basis. When asked, Stanley indicated he does not have written documentation showing that SAL's clients provided him with permission allowing him to deduct fees on a premature basis prior to Stanley deducting the fees.

Frequency of Preparation of Firm Balance Sheet

18. Within the Request Letter, Senior Examiner Becker requested that Stanley provide the Firm's two most recent balance sheets.

19. Stanley submitted two Firm balance sheets to Senior Examiner Becker that were dated December 31, 2014 and March 31, 2015.

20. Based on the balance sheets submitted by Stanley, Senior Examiner Becker determined that the Firm's balance sheets were being prepared on a quarterly basis.

21. When Senior Examiner Becker asked during the Phone Interview why Firm balance sheets were only being prepared on a quarterly basis, Stanley stated he was not aware of the monthly requirement.

Method to Prepare Balance Sheet

22. Based on the two Firm balance sheets that Stanley submitted, Senior Examiner Becker determined that Firm balance sheets were not being prepared in compliance with the generally accepted accounting principles ("GAAP"), which necessitates utilizing the accrual accounting method.

23. When Senior Examiner Becker asked during the Phone Interview why Firm balance sheets were being prepared and maintained on a cash basis, Stanley stated he was not aware that conforming to GAAP's rules necessitates utilizing the accrual accounting method.

Firm Net Worth and Failure to Notify

24. Respondent SAL maintained a negative firm net worth on at least two occasions:

    a. Respondent Stanley admitted to Senior Examiner Becker via email on December 11, 2015, that the Firm's net worth was negative on or about September 23, 2015. He stated that the duration of the Firm's negative net worth lasted about one week.

    b. Respondent Stanley admitted to Senior Examiner Becker via email on January 13, 2016, that the Firm's net worth was negative on or about December 28, 2015 through January 5, 2016.

25. When Senior Examiner Becker asked during the Phone Interview why the Firm was permitted to maintain a negative net worth, Stanley stated he was not aware of the requirement that the Firm must maintain a positive net worth at all times.

26. Neither the Administrator, defined by K.A.R. 81-1-1(b) as the Commissioner, nor KSC Staff was not notified by Stanley or SAL by the close of business on the following business days that the Firm insolvencies had occurred.

27. When Senior Examiner Becker asked why he did not notify the Administrator of the Firm's insolvency that occurred on or about September 23, 2015, Stanley stated that the negative balance was temporary and the Firm was only operating on a $100 deficit.

28. When Becker asked Stanley during the Phone Interview why he did not report the Firm's periods of negative net worth, he stated that he was unaware of his obligation to report said violations.

Written Advisory Agreements

29. During the examination process, Senior Examiner Becker requested that Stanley produce a copy of all of SAL's client advisory agreements. Stanley was unable to produce an investment advisory agreement between the Firm and one of SAL's current clients.

Written Supervisory Procedures

30. Within the Request Letter, Senior Examiner Becker requested that Stanley provide a copy of the Firm's written supervisory procedures. In response, Stanley submitted a copy of the Firm's Supervisory Policies and Procedures Manual ("Policies and Procedures").

31. Senior Examiner Becker reviewed the Firm's Policies and Procedures and determined that they are not reasonably designed to assist the firm in detecting and preventing violations of and achieving compliance with the KUSA, Kansas Administrative Regulations ("KAR"), and other applicable laws, regulations, and rules of self-regulatory organizations.

32. For example, the Policies and Procedures, which were last updated on December 31, 2011, state the following, *inter alia*:

a. It names the Firm's primary regulator as the Securities and Exchange Commission ("SEC") when its primary regulator is the Commissioner.

b. It states that the Firm has filed certain documents, such as its Form ADV, with the SEC when said documentation (1) is filed with an organization other than the SEC or (2) isn't filed with the SEC when the firm in question is state-registered.

c. It references various SEC rules that the Firm purports to follow, such as Rule 206(4)-7(b), which the Firm does not follow.

d. It references SEC rules instead of the securities statutes and regulations of the State of Kansas. For example, the Policies and Procedures state that the Firm will maintain a "copy of Stanley Advisor's compliance policies and procedures formulated pursuant to Rule 206(4)-7(a) or at any time within the past five years were in effect." The Policies and Procedures should reference Kansas securities statutes and regulations, in this case K.A.R. 81-14-10(a)(2), since the Commissioner is the Firm's primary regulatory authority.

33. Failure to maintain reasonably designed Firm supervisory procedures is a repeat violation of the previous KSC examination conducted on or about November 9, 2011 (KSC File No. 2012-5946).

Annual Review

34. Within the Request Letter, Senior Examiner Becker requested that Stanley provide the Firm's two most recent internal annual reviews.

35. In response to the Request Letter, Stanley submitted a letter to Senior Examiner Becker on May 20, 2015. With regard to the request for the Firm's annual reviews, the response letter stated "N/A".

36. Stanley failed to produce any other evidence during the examination process to prove that the Firm had conducted an annual review consistent with K.A.R. 81-14-10(a)(1).

37. When Senior Examiner Becker asked during the Phone Interview why the Firm was not performing annual reviews, Stanley stated that he was unaware of this requirement.

Amendments to Form ADV

38. A Kansas Secretary of State Business Entity Search conducted on April 29, 2015, revealed that the status of the Firm's Articles of Organization was "Forfeited-Failed to Timely File A/R". The forfeiture was effective on July 15, 2014, due to the Firm's failure to file an annual report on time.

    a. The Firm did not promptly update and file its Form ADV with the Investment Adviser Registration Depository ("IARD") to reflect this material change in its business formation status.

    b. When Senior Examiner Becker asked why this occurred, Stanley stated that he forgot to file the Firm's Annual Report.

39. At the time of the onsite examination, which occurred on or about August 27, 2015, the Firm's Form ADV stated that the Firm was located at Stanley's prior residence: the Glenwood Street Location.

    a. Stanley did not reside or conduct business from the Glenwood Street Location at the time of the onsite examination.

b. Stanley stated that he had rented the Glenwood Street Location to an occupant in May of 2015 and had lived and conducted business at the Oak Street Location since that time.

c. The Firm did not promptly update and file its Form ADV with the IARD to reflect this material change in the Firm's business location.

d. When Senior Examiner Becker asked during the Phone Interview why this occurred, Stanley stated he was not aware that it was necessary to amend the Firm's Form ADV to reflect said change. He additionally stated that he was looking for a job in Chicago from May to September of 2015 and didn't think it would take long to make that transition.

e. Stanley stated to Senior Examiner Becker that he has since moved back in to his original residence located at the Glenwood Street Location.

f. Failure to file an accurate Form ADV is a repeat violation of the previous KSC examination conducted on or about November 9, 2011 (KSC File No. 2012-5946).

40. The Firm failed to file a Form ADV Part 2B with the IARD on behalf of Stanley. When Senior Examiner Becker asked why this occurred, Stanley stated that he was not aware of the Form ADV Part 2B requirement.

Amendments to Form U4

41. The Firm did not promptly file an amendment to Stanley's Form U4 with the Central Registration Depository ("CRD") to reflect the following material changes:

a. The Firm's new business address at the Oak Street Location. This change occurred in May of 2015 and was discovered by Senior Examiner Becker in August of 2015.

b. Stanley's new residential address at the Oak Street Location. This change occurred in May of 2015 and was discovered by Senior Examiner Becker in August of 2015.

42. When Senior Examiner Becker asked why this happened, Stanley stated he was unaware that the Firm must amend his Form U4 for the stated reasons.

43. Failure to promptly file amendments to Stanley's Form U4 is a repeat violation of the previous KSC examination conducted on or about November 9, 2011 (KSC File No. 2012-5946).

II. CONCLUSIONS OF LAW

44. The Commissioner has jurisdiction over Respondents and this matter.

45. Pursuant to K.S.A. 17-12a604(a), the Commissioner may issue an order directing the Respondents to cease and desist from engaging in an act, practice, or course of business constituting a violation of the KUSA and KAR.

46. According to K.S.A. 17-12a412(d)(13), a person may be disciplined if the person has engaged in dishonest or unethical practices in the securities, commodities, investment, franchise, banking, finance, or insurance business within the previous 10 years.

47. Pursuant to K.S.A. 17-12a412(d)(9), a person may be disciplined if the person has failed to reasonably supervise an IAR if the IAR was subject to the person's supervision and committed a violation of the KUSA within the previous ten years.

48. According to K.S.A. 17-12a412(c), discipline for violations of K.S.A. 17-12a412(d)(9) and K.S.A. 17-12a412(d)(13) may include: (1) a censure; (2) a bar or suspension from association with an IA registered in this state; (3) a civil penalty of up to $25,000 for each violation; (4) an order requiring the registrant to pay restitution for any loss or disgorge any profits arising from a violation, including, in the Administrator's discretion, the

assessment of interest from the date of the violation at the rate provided for interest on judgments by K.S.A. 16-204, and amendments thereto; (5) an order charging the registrant with the actual cost of an investigation or proceeding; or (6) an order requiring the registrant to cease and desist from any action that constitutes a ground for discipline, or to take other action necessary or appropriate to comply with the KUSA.

49. According to K.S.A. 17-12a412(h), Respondent Stanley is subject to discipline to the same extent as Respondent SAL for the aforementioned violations of K.S.A. 17-12a412(d)(9) due to the fact that Stanley controlled the firm within which he was, and still is, the sole IAR, control person, employee, and owner.

I. Failure to Observe High Standards of Commercial Honor and Just and Equitable Principles of Trade

50. In violation of K.A.R. 81-14-5(c), Respondents SAL and Stanley failed to observe high standards of commercial honor and just and equitable principles of trade in the conduct of the Firm's business and failed to act primarily for the benefit of the firm's clients when Respondents:

a. Deducted investment advisory fees on a premature basis from more than one client on more than one occasion; and

b. Incorrectly calculated the agreed-upon investment advisory fees that were deducted prematurely.

II. Failure to Reasonably Supervise an Investment Adviser Representative

51. In violation of K.S.A. 17-12a412(d)(9), Respondent SAL failed to reasonably supervise its sole IAR, Stanley, due to the following:

a. In violation of K.A.R. 81-14-5(c), Respondent SAL permitted Stanley to prematurely deduct investment advisory fees from more than one client on more than one occasion. Respondent SAL also permitted Stanley to calculate said premature fees incorrectly.

b. In violation of K.A.R. 81-14-9(c)(1), Respondent SAL permitted Stanley to prepare and maintain Firm balance sheets on a quarterly basis, rather than on a monthly basis.

c. In violation of K.A.R. 81-14-4(b)(6), Respondent SAL permitted Stanley to prepare and maintain Firm balance sheets on a cash basis, rather than complying with GAAP which necessitates utilizing the accrual accounting method.

d. In violation of K.A.R. 81-14-9(d)(1), Respondent SAL permitted Stanley to fail to maintain a positive Firm net worth at all times.

e. In violation of K.A.R. 81-14-9(d)(2), Respondent SAL permitted Stanley to fail to contact the Administrator, by the close of business on the next business day following each insolvency period.

f. In violation of K.A.R. 81-14-4(b)(10), Respondent SAL permitted Stanley to fail to maintain written advisory agreements with all Firm clients.

g. In violation of K.A.R. 81-14-10(a)(2), Respondent SAL permitted Stanley to fail to maintain reasonably designed Firm supervisory procedures to assist the Firm in detecting and preventing violations of and achieving compliance with the KUSA, KAR, and other applicable laws, regulations, and rules of self-regulatory organizations.

h. In violation of K.A.R. 81-14-10(a)(1), Respondent SAL permitted Stanley to fail to conduct a review, at least annually, of the businesses in which the Firm engages, that was reasonably designed to assist in detecting violations of and achieving compliance with the KUSA, KAR, and other applicable laws and regulations.

i. In violation of K.A.R. 81-14-1(b)(1)(A) and K.A.R. 81-14-1(b)(3)(A), Respondent SAL permitted Stanley to fail to promptly update and file with the IARD:

   i. The Firm's Form ADV to reflect the material change in its business formation status when its Articles of Organization was forfeited.

   ii. The Firm's Form ADV to reflect the material change in the Firm's business location.

   iii. A Form ADV Part 2B on his own behalf.

j. In violation of K.A.R. 81-14-1(c)(3), Respondent SAL permitted Stanley to fail to promptly update and file his own Form U4 with the CRD due to:

   a. The forfeiture of the Firm's Articles of Organization.

   b. The material change in the firm's business location.

   c. The material change in Stanley's residential address.

Based on the above, KSC Staff alleges that a Final Order to Cease and Desist and an Order Imposing Administrative Sanctions should be granted against Respondents SAL and Stanley due to the Respondents' failure to (1) observe high standards of commercial honor and just and equitable principles of trade in the conduct of the Firm's business and act primarily for the benefit of the firm's clients, and (2) reasonably supervise an IAR, which led to the following failures: (a) to observe high standards of commercial honor and just and equitable principles of trade in the conduct of the Firm's business and act primarily for the benefit of the Firm's clients; (b) to prepare and maintain Firm balance sheets on a monthly basis; (c) to prepare and maintain Firm balance sheets utilizing the accrual accounting method; (d) to maintain a positive Firm net worth at all times; (e) to contact the Administrator, by the close of business on the following business day of when each Firm insolvency occurred; (f) to maintain written advisory agreements with all Firm clients; (g) to maintain reasonably designed Firm supervisory procedures to assist the Firm in detecting and preventing violations of and achieving compliance with the KUSA, KAR, and other applicable laws, regulations, and rules of self-regulatory organizations; (h) to conduct a review, at least annually, of the businesses in which the Firm engages, that is reasonably designed to assist in detecting violations of and achieving compliance with the KUSA, KAR, and other applicable laws and regulations; (i) to promptly update and file the Firm's Form ADV; and (j) to promptly update and file Stanley's Form U4.

<u>III. ORDER</u>

NOW, WHEREFORE, it is hereby Ordered that Respondents Stanley and SAL are prohibited from violating or materially aiding in any violations of K.A.R. 81-14-5(c) by deducting investment advisory fees on a premature basis and incorrectly calculating investment advisory fees.

TAKE NOTICE that the Commissioner, pursuant to K.S.A. 17-12a604(a), shall file a Final Order requiring the Respondents to cease and desist from any action that constitutes a ground for discipline, including K.A.R. 81-14-5(c).

TAKE NOTICE that the Commissioner, pursuant to K.S.A. 17-12a604(b), shall impose against the Respondents, in a Final Order, a civil penalty of up to $25,000 for each violation of K.A.R. 81-14-5(c), not to exceed $1,000,000 unless Respondents request a hearing within 30 days after service of this Order.

IT IS SO ORDERED BY THE COMMISSIONER.

Entered at Topeka, Kansas, this 22nd day of September, 2016,

[redacted]

Joshua A. Ney
Kansas Securities Commissioner

CERTIFICATE OF SERVICE

On this 22 day of Sept., 2016, I was provided a copy of the aforementioned process on behalf of the Office of the Securities Commissioner. I promptly sent notice of the process to the address below, being the address set forth in the recipient's consent to service of process or last known address. The process was sent via first class and certified mail, receipt requested to:

Stanley Advisors, LLC
7800 Glenwood Street
Overland Park, KS 66204

Adam A. Stanley
[redacted]

[redacted]
Nickie Oathout