

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4242 / October 26, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16924

In the Matter of	:
	:
James N. Fry,	:
	:
Respondent.	:
	:

I.

The Securities and Exchange Commission (“Commission”) deems in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”) against James N. Fry (“Fry” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, and to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 203(f) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:

1. From January 2003 until August 2009, Fry operated and associated with an investment adviser, Arrowhead Capital Management, LLC (“Arrowhead LLC”), which, in turn, served as general partner of an investment adviser Arrowhead Capital Partners II, L.P. (“Arrowhead Partners”). Arrowhead Partners purported to purchase promissory notes (the “Notes”) from Petters Company, Inc. to finance inventory transactions brokered by Thomas J. Petters and Petters Company, Inc.

2. On September 30, 2015, a Judgment of Permanent Injunction and Other Relief, was entered against Fry, permanently enjoining him from future violations of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and Section 206(4) of the Advisers Act and Rule 206-4(8) thereunder in the civil action entitled *Securities and Exchange Commission v. James N. Fry, Michelle W. Palm, and Arrowhead Capital Management, LLC*, No. 0:11-cv-03303-RHK-JJK, in the United States District Court for the District of Minnesota.

3. The Commission’s complaint alleges that from 1998 through 2008, Arrowhead LLC directed money into a Ponzi scheme operated by Thomas J. Petters by selling interests in funds operated by Arrowhead LLC to investors. Petters promised investors that their money would be used to finance the purchase of vast amounts of consumer electronics by vendors who then re-sold the merchandise to such “Big Box” retailers as Wal-Mart and Costco. In reality, there were no inventory transactions and Petters’s business was merely a Ponzi scheme. The complaint further alleges that Fry knowingly and intentionally misrepresented (and aided and abetted Arrowhead Partners in misrepresenting) numerous material facts regarding the funds operated by Arrowhead LLC. Among other things, the complaint alleges that Fry (individually and through Arrowhead LLC):

- Falsely assured investors that the inventory financing transactions in which the funds invested were structured in such a way that after the retailers received their merchandise from vendors, they would send their payments for the merchandise directly into the funds’ collateral accounts to pay off the notes held by the funds. In reality, money for the repayment of notes held by the funds always came directly from Petters and never came from any retailers.
- Failed to disclose to investors and potential investors the facts that Petters was having difficulties making payments on certain of the notes held by the funds and that they engaged in a series of note extensions with Petters, beginning around February 2008, in order to hide that fact.
- Distributed pitch books to investors and potential investors that falsely represented that independent accountants were conducting quarterly examinations of the funds’ transaction procedures. In reality, no such examinations were conducted.

4. On June 12, 2013, Fry was convicted of five counts of securities fraud (in violation of 15 U.S.C. §§ 77q(a) and 77(x)); four counts of wire fraud (in violation of 18

U.S.C. §§ 1343 and 2); and three counts of making false statements (in violation of 18 U.S.C. § 1001(a)(2)), before the United States District Court for the District of Minnesota, in *United States v. James Nathan Fry*, Crim. No., 11-141-RHK-JJK. On October 11, 2013, a judgment in the criminal case was entered against Fry. He was sentenced to a prison term of 210 months followed by three years of supervised release. On October 18, 2013, an amended order of forfeiture and personal judgment in the criminal case was entered against Fry in the amount of \$41,119,998.

5. The counts of the third superseding indictment in the criminal case as to which Fry was found guilty alleged, *inter alia*, that Fry knowingly defrauded and obtained money from investors by means of untrue statements of material fact and omissions of material facts; that Fry used the means and instrumentalities of interstate commerce, including without limitation wire communications, in furtherance of the alleged fraud; and that Fry knowingly made false statements under oath to the U.S. Securities and Exchange Commission.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in the Offer submitted by Fry.

Accordingly, it is hereby ORDERED:

Pursuant to Section 203(f) of the Advisers Act, that Respondent James N. Fry be, and hereby is, barred from association with any broker, dealer, investment adviser, municipal securities dealer, or transfer agent.

Any reapplication for association by the Respondent 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 for 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.

By the Commission.

Brent J. Fields
Secretary