

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 8563 / April 6, 2005

SECURITIES EXCHANGE ACT OF 1934
Release No. 51480 / April 6, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-11515

In the Matter of
CHARLES W. CROUSE, JR.
Respondent.

**ORDER MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER PURSUANT
TO SECTION 8A OF THE SECURITIES ACT
OF 1933 AND SECTIONS 15(b) AND 21C OF
THE SECURITIES EXCHANGE ACT OF
1934.**

I.

In connection with the public administrative proceedings previously instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”)¹, Respondent Charles W. Crouse (“Respondent” or “Crouse”) has submitted an Offer of Settlement (“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 in 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 entry of this Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”) pursuant to Section 8A of the Securities Act and Sections 15(b) and 21C of the Securities Exchange Act as set forth below.

¹ The Order Instituting Proceedings in this matter was issued on June 8, 2004.

II.

On the basis of this Order and Respondent's Offer, the Commission finds² that:

Respondent

1. Crouse, 46, resides in Marietta, Georgia. He has been a registered representative since May 1992. During the time period of the events discussed herein, Crouse was a registered representative at a broker-dealer, Fidelity National Capital Investors (the "Broker-Dealer"). He holds Series 7 and 63 securities licenses. Crouse left the Broker-Dealer in March 2001 and is currently associated with another broker-dealer.

2. In December 1997, a customer ("Customer") opened a brokerage account ("the Account") at the Broker-Dealer. His registered representative at the Broker-Dealer was Crouse.

The Ponzi Scheme

3. From at least June 1998 through September 1999, Customer obtained funds from investors by representing that he would use their funds to buy and sell securities through an account at the Broker-Dealer in his name and under his management. During much of this period, Customer operated a Ponzi scheme in which he deposited approximately \$6.3 million of investor funds into the Account. Customer's investment strategy primarily consisted of day-trading or short-term trading of options and equities in the Account using a momentum computer program.

4. Most of Customer's investors signed management agreements provided by the customer allowing him to have "full and complete discretion to invest, trade and make transactions associated with the Account." While the terms of the investments varied from investor to investor, in most cases, the customer promised guaranteed returns of up to fifty percent (50%) in ninety days or less. In some instances, Customer provided investors with oral and/or written agreements rolling over the original investment and purported profit. These rollover agreements often indicated a higher value of their investments than actually existed.

5. Contrary to his representations to investors, Customer lost money from his trading. For the thirteen-month period from December 2, 1997 through December 31, 1998, the customer lost \$225,660 in the Account.

6. Customer's trading, and his trading losses, increased substantially in 1999. For the nine-month period from January 1, 1999 through September 30, 1999, net losses in the Account

² The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding

amounted to \$634,453. With the exceptions of January and March, the Account lost money every month in 1999.

7. Customer's trading program was a Ponzi scheme in that payments to investors were funded from deposits into the Account that came from new investors. Customer was dependent on money from new investors to keep his scheme operating.

Crouse's Assistance In Furtherance of Customer's Ponzi Scheme

8. Crouse knew, among other things, of the Account's high activity level and substantial losses. He also knew or was reckless in not knowing that almost all the money deposited into the Account was coming from checks written by other people to Customer because, as a matter of office procedure, he received copies of all checks deposited into the customer Account. Crouse also knew that Customer was managing the accounts of other Broker-Dealer customers with whom power of attorney documents had been executed, and that he had lost large amounts of money in some of those accounts as well. Additionally, Crouse received letters from two of his other customer accounts at the Broker-Dealer in June 1999 telling him to transfer money into the Account; one letter stated "He [Customer] will manage this money from his account." Taken together these facts showed a scheme by Customer to defraud investors, which Crouse facilitated by recklessly permitting Customer to trade with funds provided by others.

9. Crouse substantially assisted Customer in furtherance of his Ponzi scheme by executing virtually all trades in the Accounts.

10. From June through September of 1999, Crouse received commissions for his work with the Customer Account totaling \$54,121.

11. As a result of the conduct described above, Crouse willfully aided and abetted and caused Customer's violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

Civil Penalties

12. Respondent has submitted a sworn Statement of Financial Condition dated August 27, 2004 and revised September 3, 2004, and other evidence and has asserted his inability to pay a civil penalty.

Undertakings

Respondent shall provide to the Commission, within thirty (30) days after the end of the twelve (12) month suspension period described above, an affidavit that he has complied fully with the sanctions described in Section III below.

III.

In view of the foregoing, the Commission deems it appropriate, in the public interest to impose the sanctions agreed to in Respondent Crouse's Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Crouse shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

B. Respondent be, and hereby is, suspended from association with any broker or dealer for a period of 12 months, effective on the second Monday following the entry of this Order.

C. Respondent shall pay disgorgement in the amount of \$54,121 and prejudgment interest in the amount of \$20,824.71, for a total of \$74,945.71. Crouse shall pay the amount of \$17,000, required by the Offer to have been deposited in escrow with his attorney, within seven (7) days of the entry of this Order. The remaining amount of \$57,945.71 shall be paid in 31 equal monthly installments of \$1,869.22 due on the first of each month after the Offer has been accepted by the Commission. Such payments shall be: (A) made by United States postal money order, certified check, bank cashier's check, or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Alexandria, Stop 0-3, VA 22312; and (D) submitted under cover letter that identifies Crouse as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Michael J. O'Leary, Senior Trial Counsel, Securities and Exchange Commission, Atlanta District Office, 3475 Lenox Road, N.E., Suite 1000, Atlanta, GA 30326-1232.

D. Respondent shall comply with the undertaking enumerated above.

Respondent agrees that if the full amount of any payment described above is not made within ten (10) days following the date the payment is required by this Order, the entire amount of disgorgement and prejudgment interest, minus payments made, if any, is due and payable immediately without further application.

E. Due to the Respondent's financial condition, as set forth in his Statement of Financial Condition dated August 27, 2004 and revised September 3, 2004, a civil money penalty will not be imposed by the Commission.

F. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of a penalty should not be ordered; (3) contest the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Jonathan G. Katz
Secretary