

NEW YORK STOCK EXCHANGE, INC.

EXCHANGE HEARING PANEL DECISION 02-230

November 20, 2002

WILLIAM C. STROUP

FORMER REGISTERED REPRESENTATIVE

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**Misappropriated customer funds, issued and endorsed checks drawn on customer accounts without their authorization, made misstatements to a customer regarding checks issued from the customer's account, made misstatements to the firm regarding endorsements on checks issued from a customer's account, violated Exchange Rule 477 in that he failed to comply with requests by the Exchange for testimony and information – Consent to censure and permanent bar.**

**Appearances:**

For the Division of Enforcement  
Joy A. Weber, Esq.  
Sharon Tilove-Navatta, Esq.

For the Respondent  
Howard Rosenberg, Esq.

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An Exchange Hearing Panel met to consider a Stipulation of Facts and Consent to Penalty entered into between the Exchange's Division of Enforcement and William C. Stroup, a former registered representative with Olde Discount Corporation (the "Firm"). Without admitting or denying guilt Mr. Stroup consented to a finding by the Hearing Panel that he:

- I. Engaged in conduct inconsistent with just and equitable principles of trade in that he:
  - A. Misappropriated funds belonging to customers of his member organization employer.
  - B. Issued an endorsed checks drawn on customer accounts without the authorization of the customers.
  - C. Made misstatements to a customer of his member organization employer regarding checks issued from the customer's account.
  - D. Made misstatements to his member organization employer regarding endorsements on checks issued from a customer's account.

- II. Violated Exchange Rule 477 in that he failed to comply with written requests by the Exchange that he provide testimony and information concerning matters which occurred prior to the termination of his employment with a member organization.

For the sole purpose of settling this disciplinary proceeding, the Division of Enforcement and Mr. Stroup stipulate to certain facts, the substance of which follows:

### **Background and Jurisdiction**

1. Stroup was born on June 21, 1968. Stroup entered the securities industry in May 1994, working as a stockbroker trainer with the Firm, now known as H&R Block Financial Advisors, Inc., a member firm.
2. In August 1994, Stroup became Series 7 qualified and worked as a registered representative at the Firm.
3. Stroup passed the Series 8 Exam in 1997 and in 1998 became the assistant branch manager of the Firm's Chicago branch office. Stroup remained in that position until his termination from the Firm in March 2001.
4. Stroup is not currently employed in the securities industry.
5. Enforcement received a Form RE-3 dated March 19, 2001 filed by the Firm reporting customer allegations of misappropriation and forgery of the customer's signature. The Exchange thereafter received a Form U-5 dated April 12, 2001 reporting that Stroup had been terminated from the Firm on March 20, 2001 for misappropriation of funds and forgery.
6. By letters dated December 10, 2001 and January 7, 2002, which Stroup received, the Exchange notified Stroup that it was formally investigating allegations that he may have misappropriated customer funds at the Firm.

### **Summary of Violative Conduct**

7. During the period June 1999 through March 2001, Stroup caused the issuance of 29 checks totaling \$140,815 from five customer accounts and endorsed these checks in the customers' names, without the customers' knowledge or authorization. Stroup negotiated the checks for his personal benefit at his own bank. Stroup also caused an unauthorized transfer of \$14,975 from one of the customer's accounts to another. Through the unauthorized withdrawals, Stroup misappropriated at least \$122,975. In connection with these activities, Stroup falsified check receipts and documentation purportedly authorizing the funds transfer, and made statements that were not true to his customer and the Firm, as set forth below:

## Misappropriation and Forgery

### K Account

8. K opened an account with Stroup at the Firm in December 1996.
9. Between January 30, 2001 and March 1, 2001, three checks totaling \$15,000 in amounts ranging from \$3,000 to \$6,000 were issued in Ms. K's name from her account, for "pick-up" by Ms. K. Stroup caused these checks to be issued by entering payout request information in the Firm's computer system and printing the checks from the computer system at the designated printer in his branch office at the Firm.
10. Ms. K's name on the Firm's receipt for each check was signed by Stroup.
11. Each check was made payable to Ms. K but endorsed by Stroup.
12. Ms. K did not authorize the \$15,000 in withdrawals by check from her account at the Firm.
13. Stroup had informed Ms. K that these withdrawals had been journalled erroneously to her IRA and that the Firm would correct the matter. These statements to the customer were not true.
14. On or about March 19, 2001, Stroup was questioned by the Firm about the foregoing checks and made statements indicating that Ms. K had negotiated the checks. Stroup's statements were not true.
15. In April 2001, the Firm paid Ms. K \$15,000 plus interest in reimbursement for the unauthorized withdrawals by Stroup.
16. In or about November 2001, Stroup executed a promissory note to the Firm agreeing to repay the Firm for the amount paid by the Firm to Ms. K. At this time, Stroup is current in his payments to the Firm under the terms of the promissory note.

### C Account

17. C opened an account with the Firm in April 1991. The account was later transferred to Stroup.
18. On or about January 3, 2001, a check in the amount of \$8,000 was issued in Mr. C's name from his account, for "pick-up" by Mr. C. Stroup caused the check to be issued by entering payout request information in the Firm's computer system and printing the check from the computer system at the designated printer in his branch office at the Firm.
19. Mr. C's name on the Firm's receipt for the check was signed by Stroup.

20. The check was made payable to Mr. C but endorsed by Stroup.
21. Mr. C did not authorize the \$8,000 withdrawal by check from his account at the Firm.
22. In April 2001, the Firm paid Mr. C \$8,000 plus interest in reimbursement for the unauthorized withdrawals by Stroup.
23. In or about November 2001, Stroup executed a promissory note to the Firm agreeing to repay the Firm for the amount paid by the Firm to Mr. C. At this time, Stroup is current in his payments to the Firm under the terms of the promissory note.

### **H Account**

24. H opened an account with the Firm in 1993. The account was later transferred to Stroup.
25. Between November 2, 1999 and March 14, 2001, 13 checks totaling \$85,000 in amounts ranging from \$4,000 to \$7,000 were issued in Ms. H's name from her account, for "pick-up" by Ms. H. Stroup caused the checks to be issued by entering payout request information in the Firm's computer system and printing the checks from the computer system at the designated printer in his branch office at the Firm.
26. Ms. H's name on the Firm's receipt for the check was signed by Stroup.
27. Each of the checks was made payable to Ms. H but endorsed by Stroup.
28. Ms. H did not authorize the \$85,000 in withdrawals by check from her account at the Firm.
29. On or about February 3, 2000, a transfer of funds in the amount of \$14,975 was made by Stroup from Ms. H's account. The funds were transferred into the account of another customer of Stroup's at the Firm, S. Ms. H and Ms. S are not related to each other.
30. Ms. H did not authorize the \$14,975 withdrawal by a funds transfer from her account at the Firm.
31. In July 2001, the Firm offered to pay Ms. H \$99,975 in reimbursement for Stroup's unauthorized withdrawals by check and funds transfer. Ms. H did not accept the offer and filed an arbitration claim against Stroup and the Firm that is now pending before the National Association of Securities Dealers.
32. In or about November 2001, Stroup executed a promissory note to the Firm agreeing to repay the Firm in the amount offered by the Firm to Ms. H as reimbursement for the foregoing unauthorized withdrawals. At this time, Stroup is current in his payments to the Firm under the terms of the promissory note.

**L Account**

33. R and RL opened a joint account with Stroup at the Firm in August 1997. The Ls are related to Stroup as third-cousins.
34. Between March 27, 2000 and February 7, 2001, two checks totaling \$8,000 in the amounts of \$5,000 and \$3,000 were issued in the Ls' names from their account, for "pick-up" by the Ls. Stroup caused the checks to be issued by entering payout request information in the Firm's computer system and printing the checks from the computer system at the designated printer in his branch office at the Firm.
35. The Ls' names on the Firm's receipts for the checks were signed by Stroup.
36. Each of the checks was made payable to the Ls but endorsed by Stroup.
37. The Ls authorized Stroup to withdraw funds from their account at the Firm but did not authorize Stroup to endorse their names on checks drawn on their account or sign receipts for the checks at the Firm's branch office.

**S Account**

38. S opened an account with Stroup at the Firm in September 1994. Ms. S is related to Stroup as his aunt.
39. Between June 1999 and April 2000, ten checks totaling \$24,815 in amounts ranging from \$500 to \$6,000 were issued in Ms. S's name from her account, for "pick-up" by Ms. S.
40. Stroup caused five of the checks issued from Ms. S's account between June 1999 and September 1999 to be issued by entering payout request information in the Firm's computer system and typing the checks at his branch office for signature by two authorized signers. Stroup was authorized to, and did, sign three of these checks. Stroup obtained a second authorized signature on the three checks he signed and caused two other checks issued between June 1999 and September 1999 to be signed by other authorized signers at the branch.
41. Stroup caused five of the checks issued from Ms. S's account between October 1999 and April 2000 to be issued by entering payout request information in the Firm's computer system and printing the checks from the computer system at the designated printer in his branch office at the Firm.
42. Ms. S's name on the Firm's receipts for the checks was signed by Stroup.
43. Each of the checks was made payable to Ms. S but endorsed by Stroup.

44. Ms. S authorized Stroup to withdraw funds from her account at the Firm but did not authorize Stroup to endorse her name on checks drawn on her account or sign receipts for the checks at the Firm's branch office.

**Failure to Cooperate**

45. Stroup failed to cooperate with the Exchange investigation into the matters detailed in paragraphs 7 through 44 as set forth below:
46. By certified letters dated December 10, 2001 and January 7, 2002, which Stroup received, the Exchange requested that Stroup provide a detailed explanation of the withdrawals from the K, C, H, L, and S accounts.
47. By certified letter dated January 17, 2002, the Exchange requested that Stroup provide testimony in this matter.
48. To date, Stroup has failed to comply with the Exchange's requests for information and testimony in this matter.

**DECISION**

The Hearing Panel, in accepting the Stipulation of Facts and Consent to Penalty, found Mr. Stroup guilty as set forth above by unanimous vote.

**PENALTY**

In view of the above findings, the Hearing Panel, by unanimous vote, imposed the penalty consented to by Mr. Stroup of a censure and a permanent bar from membership, allied membership, approved person status, and from employment or association in any capacity with any Exchange member or member organization.

For the Hearing Panel

Vincent F. Murphy  
Hearing Officer