

**UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION**

U.S. COMMODITY FUTURES TRADING
COMMISSION,

Plaintiff,

v.

LARRY BENNY GROOVER

Defendant,

and

JOANNE GROOVER

Relief Defendant.

FILED UNDER SEAL

CASE NO.:

**COMPLAINT FOR INJUNCTIVE RELIEF, CIVIL MONETARY
PENALTIES, AND OTHER EQUITABLE RELIEF**

Plaintiff U.S. Commodity Futures Trading Commission (“Commission” and “Plaintiff”) alleges as follows:

I. SUMMARY

1. From June 18, 2008 to at least February 4, 2010 (“the Relevant Period”), Defendant Larry Benny Groover (“Groover”) orchestrated and operated a Ponzi scheme.

2. As part of this scheme, Groover solicited members of the general public for the purported purpose of trading leveraged or margined off-exchange foreign currency contracts (“forex”). As a result of his solicitations, Groover obtained and pooled approximately \$1.4 million from 22 individuals during the Relevant Period for the purpose of trading forex.

3. Instead of using these funds to trade forex, Groover misappropriated a large portion either for his own personal use or to repay previous customers more than that to which they were

entitled. In fact, Groover transferred only approximately \$647,500 of the \$1.4 million he received to forex trading accounts, misappropriating the vast majority of the remaining funds.

4. Groover also provided false statements to at least one customer, purporting to show forex trading profits when, in reality, Groover had lost nearly all that customer's money trading forex.

5. By virtue of this conduct and the further conduct described herein, Defendant has engaged, is engaging, or is about to engage in acts and practices in violation of the Commodity Exchange Act ("the Act"), 7 U.S.C. §§ 1 *et seq.* (2006), as amended by the Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, Title XIII (subtitled "CFTC Reauthorization Act of 2008" ("CRA")), §§ 13101-13204, 122 Stat. 1651 (enacted June 18, 2008), and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), Pub. L. No. 111-203, Title VII (the Wall Street Transparency and Accountability Act of 2010), §§ 701-774, 124 Stat. 1376 (enacted July 21, 2010).

6. Accordingly, pursuant to Sections 2(c)(2) and 6c of the Act, as amended, to be codified at 7 U.S.C. §§ 2(c)(2) and 13a-1, the Commission brings this action to enjoin Groover's unlawful acts and practices and to compel his compliance with the Act and to further enjoin Groover from engaging in certain commodity or forex-related activity.

7. In addition, the Commission seeks civil monetary penalties and remedial ancillary relief, including, but not limited to, trading and registration bans, restitution, disgorgement, rescission, pre- and post-judgment interest, and such other relief as the Court may deem necessary and appropriate.

8. Unless restrained and enjoined by this Court, Groover likely will continue to engage in the acts and practices alleged in this Complaint and similar acts and practices, as more fully described below.

9. In addition, as a result of the fraud committed by Groover, relief Defendant Joanne Groover (“Mrs. Groover”) received ill-gotten gains to which she does not have a legitimate claim and, therefore, must repay these funds.

II. JURISDICTION AND VENUE

10. Section 6c(a) of the Act, 7 U.S.C. § 13a-1(a) (2006), authorizes the Commission to bring an action against any person, including an action for injunctive relief, whenever it shall appear to the Commission that such person has engaged, is engaging, or is about to engage in any act or practice constituting a violation of any provision of the Act or any rule, regulation or order thereunder.

11. The Commission has jurisdiction over the conduct and transactions at issue in this case pursuant to Sections 2(c)(2) and 6c of the Act, as amended, to be codified at 7 U.S.C. §§ 2(c)(2) and 13a-1.

12. Venue properly lies with the Court pursuant to Section 6c(e) of the Act, as amended, because Groover transacted business in this District and certain transactions, acts, practices, and courses of business alleged in this Complaint occurred, are occurring, and/or are about to occur within this District.

III. PARTIES

13. Plaintiff **U.S. Commodity Futures Trading Commission** is an independent federal regulatory agency that is charged by Congress with the administration and enforcement of the Act, as amended, to be codified at 7 U.S.C. §§ 1 *et seq.* and the Commission’s Regulations (Regulations) promulgated thereunder, 17 C.F.R. §§ 1.1 *et seq.* (2010). The Commission

maintains its principal office at Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581.

14. Defendant **Larry Benny Groover** is an individual residing in Gunter, Texas (Grayson County). Groover has never been registered with the Commission in any capacity.

15. Relief Defendant **Joanne Groover** is Groover's wife and also resides in Gunter, Texas. Mrs. Groover has never been registered with the Commission in any capacity. Mrs. Groover is a joint account holder in the bank account in which customer funds were deposited. In addition, Mrs. Groover owns certain forex trading accounts in which customers' funds were deposited for forex trading.

IV. FACTS

Groover's U.S. Securities and Exchange Commission ("SEC") and Criminal History

16. In October 1986, the U.S. Securities and Exchange Commission ("SEC") filed a civil action against Groover in the United States District Court for the District of Columbia.

17. In its Complaint, the SEC alleged that Groover (and others) offered and sold unregistered securities through misrepresentations and omissions.

18. Subsequently, Groover consented to a final judgment, which permanently enjoined him from violating the registration provisions of the Securities Act of 1933, the anti-fraud provisions of the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940. Groover was also ordered to make contributions to a fund for the benefit of customers.

19. In April 1987, the SEC issued an order instituting administrative proceedings, making findings and barring Groover from associating with a broker, dealer or investment adviser for five years.

20. In 1989, Groover was indicted by a grand jury for conspiracy, securities fraud, mail fraud and concealment by trick, scheme and device and aiding and abetting.

21. In 1991, Groover was convicted in the United States District Court for the District of Utah of conspiracy, securities fraud, false statements, and mail fraud in the matter United States v. Larry B. Groover, Criminal Action File No. 89-CR-0231S. The presiding judge sentenced Groover to two years of imprisonment and five years of probation and ordered Groover to pay his victims \$16,000 in restitution.

22. By July 1997, Groover had paid less than \$4,000 under the restitution order and had his probation revoked, resulting in his incarceration.

Groover's Forex Trading Accounts

23. Mrs. Groover opened at least four forex trading accounts ("the forex trading accounts") at futures commission merchant (FCM) FX Solutions and/or its foreign affiliates between May 4, 2005 and present.

24. Although the forex trading accounts were opened by Mrs. Groover, Groover controlled the forex trading accounts and the trading therein.

25. Upon information and belief, Groover needed Mrs. Groover's name to open the forex trading accounts because the forex FCMs asked all new account applicants whether they had ever been a party to an investigation, complaint or settlement with the National Futures Association (NFA), Commission, SEC or other regulatory or criminal agencies.

26. Upon information and belief, Groover, as a defendant to both an SEC administrative proceeding and an SEC civil action for fraud, knew that he would have to answer that question in the affirmative.

27. When Mrs. Groover opened her first forex trading account with FX Solutions in May 2005, she listed her e-mail address as larrygroover@juno.com. On subsequent account

applications, that e-mail address is either listed as a primary address for Mrs. Groover or a secondary address for her.

28. Later that month, Groover corresponded by e-mail with someone at FX Solutions about problems with Mrs. Groover's account, noting several times that he made good and bad trades in the account and signing the e-mail "Larry."

29. In addition, Groover's customers were told that Groover (not Mrs. Groover) was trading forex for them.

Groover's Forex Solicitation and Misappropriation

30. From May 4, 2005 to February 4, 2010, approximately \$3,100,000 was deposited into the forex trading accounts. During that period, the forex trading accounts suffered trading losses and/or fees of approximately \$2,100,000, while Mrs. Groover withdrew the remaining approximately \$1,000,000.

31. During the Relevant Period, Groover solicited and received approximately \$1.4 million from at least 22 different individuals/entities in amounts ranging from \$2,000 to \$200,000 to trade forex.

32. Groover co-mingled these funds in a Wells Fargo bank account with his and Mrs. Groover's personal funds, including approximately \$33,000 in benefits received from the Social Security Administration.

33. During the Relevant Period, Groover transferred only approximately \$647,500 of the approximately \$1.4 million he received from customers to the forex trading accounts.

34. During the Relevant Period, the forex trading accounts suffered losses of approximately \$600,000. The money that was not lost was either transferred to Groover's Wells Fargo account or remained in an offshore forex trading account.

35. During the Relevant Period, Groover misappropriated the funds not deposited into the forex accounts by, among other things, making payments to past customers with new customer funds, making payments for personal expenses (such as health and medical care, dining, cable television, auto repair, gasoline, groceries and insurance), purchasing software and trade publications and making payments directly to himself or to Mrs. Groover.

36. During the Relevant Period, Groover did not disclose to his prospective customers or existing customers that a significant portion of their funds would not be used for forex trading.

Groover's Scheme Accelerated in August 2009

37. As Groover's scheme advanced, he continued to solicit and receive money for forex trading, but nearly ceased trading forex.

38. From August 18, 2009 to February 4, 2010, Groover received approximately \$722,000 from 14 different individuals for the purposes of trading forex.

39. However, from August 18, 2009 to February 4, 2010, Groover transferred only approximately \$109,000 of the \$722,000 from customers to offshore forex FCMs.

40. Instead, Groover misappropriated the remaining approximately \$613,000 in customer funds, primarily in order to repay previous customers.

41. Returns provided to Groover customers did not come from profits Groover made trading forex. Rather, returns provided to Groover customers came from either existing Groover customers' original investments or money invested by subsequent Groover customers. Groover, thus, operates a Ponzi scheme, misappropriating customer funds.

The RJW Enterprises, LLC Forex Account

42. In August, 2007, Ronald J. Washington ("Washington") was introduced to Groover.

43. Washington decided to invest \$250,000 in an account with Groover directing forex trading.

44. In order to do so, Washington formed an entity called RJW Enterprises, LLC (“RJW”).

45. On September 4, 2007, Washington wrote a check to RJW for \$250,000. \$230,000 of the \$250,000 was deposited into a forex trading account in RJW’s name at FX Solutions.

46. On August 21, 2008, Groover faxed to Washington an account statement indicating that, as a result of his forex trading, RJW’s funds had grown 5% monthly since September 2007. The account statement indicated that the balance in RJW’s account was \$393,378.09.

47. This account statement was completely false. In reality, in less than a month’s time, Groover lost nearly the full balance of the RJW account trading forex. From September 19, 2007 to October 15, 2007, the RJW account at FX Solutions incurred \$211,505 in trading losses and \$17,226 in fees.

48. Some or all of Groover’s customers were not “eligible contract participants” as that term is defined in the Act. *See* Section 1a of the Act, as amended, to be codified at 7 U.S.C. § 1a (an “eligible contract participant,” as relevant here, is an individual with total assets in excess of (i) \$10 million, or (ii) \$5 million and who enters the transaction “to manage the risk associated with an asset owned or liability incurred, or reasonably likely to be owned or incurred, by the individual”).

49. The forex transactions conducted by Groover at FCMs on behalf of Groover’s customers were entered into on a leveraged or margined basis. Groover was required to provide only a percentage of the value of the foreign currency contracts that he purchased.

50. The forex transactions conducted by Groover at FCMs neither resulted in delivery within two days nor created an enforceable obligation to deliver between a seller and a buyer that had the ability to deliver and accept delivery, respectively, in connection with their lines of business; rather, these forex contracts remained open from day to day and ultimately were offset without anyone making or taking delivery of actual currency (or facing an obligation to do so).

51. Neither Groover nor the FCMs that were the counterparties to the forex transactions were financial institutions, registered broker dealers, insurance companies, bank holding companies, or investment bank holding companies, or the associated persons of such entities.

52. By virtue of his actions, Groover has engaged, is engaging, or is about to engage in acts and practices that violate Section 4b(a)(2)(A)-(C) of the Act, as amended by the CRA, to be codified at 7 U.S.C. § 6b(a)(2)(A)-(C).

Mrs. Groover is a Proper Relief Defendant

53. Pursuant to federal common law, Mrs. Groover is a relief defendant because she has received ill-gotten funds from Groover's fraudulent conduct to which she is not legitimately entitled, and, therefore, must disgorge all ill-gotten gains regardless of whether she actually violated the anti-fraud provisions of the Act, as amended by the CRA.

V. VIOLATIONS OF THE COMMODITY EXCHANGE ACT

**Violations of Section 4b(a)(2)(A)-(C) of the Act,
as amended by the CRA,
to be codified at 7 U.S.C. § 6b(a)(2)(A)-(C)
(Fraud in Connection with Forex)**

54. The allegations set forth in paragraphs 1 through 53 are realleged and incorporated herein by reference.

55. Section 4b(a)(2)(A)-(C) of the Act, as amended by the CRA, to be codified at 7 U.S.C. § 6b(a)(2)(A)-(C), makes it unlawful

for any person, in or in connection with any order to make, or the making of, any contract of sale of any commodity for future delivery, or other agreement, contract, or transaction subject to paragraphs (1) and (2) of section 5a(g), that is made, or to be made, for or on behalf of, or with, any other person, other than on or subject to the rules of a designated contract market – (A) to cheat or defraud or attempt to cheat or defraud the other person; (B) willfully to make or cause to be made to the other person any false report or statement or willfully to enter or cause to be entered for the other person any false record; [or] (C) willfully to deceive or attempt to deceive the other person by any means whatsoever in regard to any order or contract or the disposition or execution of any order or contract, or in regard to any act of agency performed, with respect to any order or contact for or, in the case of paragraph (2), with the other person.

Section 4b(a)(2)(A)-(C) of the Act, as amended by the CRA, applies to Groover's forex transactions "as if" they were contracts of sale of a commodity for future delivery.

Section 2(c)(2)(C)(iv) of the Act, as amended by the CRA, to be codified at 7 U.S.C.

§ 2(c)(2)(C)(iv).

56. As set forth above, from at least June 18, 2008 to at least February 4, 2010, in or in connection with forex contracts, Groover made, or caused to be made, for or on behalf of other persons, Groover cheated or defrauded or attempted to cheat or defraud customers or prospective customers; willfully made or caused to be made false reports or statements to another person; willfully deceived or attempted to deceive customers or prospective customers by, among other things, knowingly (i) misappropriating customer funds that purportedly were to be used to trade forex; and (ii) making, causing to be made, and distributing reports and statements to Groover customers that contained false account values, false returns on investment, and other misinformation, all in violation of Section 4b(a)(2)(A) and (C) of the Act, as amended by the CRA, to be codified at 7 U.S.C. § 6b(a)(2)(A) and (C).

57. As set forth above, from at least June 18, 2008 through the present, in or in connection with forex contracts, Groover knowingly made, caused to be made, and distributed reports and statements to at least one Groover customer that contained false account values, false

returns on investment, and other misinformation, in violation of Section 4b(a)(2)(B) of the Act, as amended by the CRA, to be codified at 7 U.S.C. § 6b(a)(2)(B).

58. Groover engaged in the acts and practices described above knowingly or with reckless disregard for the truth.

59. Mrs. Groover is a relief defendant. During the Relevant Period, Mrs. Groover received ill-gotten gains as a result of the fraud committed by Groover to which she does not have a legitimate claim and, therefore, must repay those ill-gotten gains.

60. Each material misrepresentation, act of making or causing to be made a false report or statement, or omission of material fact, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Section 4b(a)(2)(A)-(C) of the Act, as amended by the CRA, to be codified at 7 U.S.C. § 6b(a)(2)(A)-(C).

VI. RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court, as authorized by Section 6c of the Act, 7 U.S.C. § 13a-1, and pursuant to its own equitable powers, enter:

- A. An order finding that Groover violated Section 4b(a)(2)(A)-(C) of the Act, as amended by the CRA, to be codified at 7 U.S.C. § 6b(a)(2)(A)-(C).
- B. An order of permanent injunction prohibiting Groover, and any other person or entity associated with him, from engaging in conduct violative of Section 4b(a)(2)(A)-(C) of the Act, as amended by the CRA and the Dodd-Frank Act, to be codified at 7 U.S.C. § 6b(a)(2)(A)-(C).
- C. An order of permanent injunction prohibiting Groover and any of his agents, servants, employees, assigns, attorneys, and persons in active concert or participation with him, including any successor thereof, from, directly or indirectly,

- 1) Trading on or subject to the rules of any registered entity (as that term is defined in Section 1a of the Act, 7 U.S.C. § 1a);
- 2) Entering into any transactions involving futures, options, commodity options (as that term is defined in Regulation 32.1(b)(1)), 17 C.F.R. § 32.1(b)(1) (2010), (commodity options), and/or foreign currency (as described in Section 2(c)(2)(B) and 2(c)(2)(C)(i) of the Act, as amended by the by the CRA, to be codified at 7 U.S.C. § 2(c)(2)(B) and 2(c)(2)(C)(i)) (forex contracts) for his own personal account or for any account in which he has a direct or indirect interest;
- 3) Having any futures, options, commodity options, and/or forex contracts traded on his behalf;
- 4) Controlling or directing the trading for or on behalf of any other person or entity, whether by power of attorney or otherwise, in any account involving futures, options, commodity options, and/or forex contracts;
- 5) Soliciting, receiving or accepting any funds from any person for the purpose of purchasing or selling any futures, options, commodity options, and/or forex contracts;
- 6) Applying for registration or claiming exemption from registration with the Commission in any capacity, and engaging in any activity requiring such registration or exemption from registration with the Commission except as provided for in Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9) (2010); and
- 7) Acting as a principal (as that term is defined in Regulation 3.1(a)), agent or any other officer or employee of any person registered, exempted from

registration or required to be registered with the Commission except as provided for in Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9) (2010).

D. Enter an order requiring Groover, as well as any successors to him, to disgorge to any officer appointed or directed by the Court all benefits received including, but not limited to, salaries, commissions, loans, fees, revenues and trading profits derived, directly or indirectly, from acts or practices that constitute violations of the Act, as amended by the CRA, as described herein, including pre-judgment interest;

E. Enter an order directing Groover and any successors thereof, to rescind, pursuant to such procedures as the Court may order, all contracts and agreements, whether implied or express, entered into between him and any of the customers whose funds were received by him as a result of the acts and practices which constituted violations of the Act, as amended by the CRA, as described herein;

F. Enter an order requiring Groover to make full restitution to every person or entity whose funds he received or caused another person or entity to receive, from the acts or practices that constitute violations of the Act, as amended by the CRA, as described herein, and pre- and post-judgment interest thereon from the date of such violations;

G. Enter an order requiring Groover to pay civil monetary penalties under the Act, to be assessed by the Court, in amounts of not more than the higher of: (1) triple the monetary gain to Groover for each violation of the Act, as amended by the CRA; or (2) a penalty of \$130,000 for each violation committed between October 23, 2004 and October 22, 2008; and \$140,000 for each violation committed on or after October 23, 2008;

H. Enter an order requiring Groover to pay costs and fees as permitted by 28 U.S.C. §§ 1920 and 2412(a)(2) (2006);

I. Enter an order requiring Mrs. Groover to disgorge any ill gotten gains in her possession and control; and

J. Enter an Order providing such other and further relief as this Court may deem necessary and appropriate under the circumstances.

Dated this 8th day of February, 2011

Respectfully submitted,

PLAINTIFF COMMODITY FUTURES
TRADING COMMISSION

/s/ Jennifer J. Chapin_____

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