

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**  
**August 1, 2005**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-11999**

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<b>In the Matter of</b>	:	<b>ORDER INSTITUTING ADMINISTRATIVE</b>
	:	<b>PROCEEDINGS PURSUANT TO SECTION</b>
<b>NATHAN A. CHAPMAN, JR.,</b>	:	<b>15(b) OF THE SECURITIES EXCHANGE</b>
	:	<b>ACT OF 1934 AND SECTION 203(f) OF THE</b>
<b>Respondent.</b>	:	<b>INVESTMENT ADVISERS ACT OF 1940</b>
	:	<b>AND NOTICE OF HEARING</b>
	:	

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**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”) against Nathan A. Chapman, Jr. (“Respondent” or “Chapman”).

**II.**

After an investigation, the Division of Enforcement (“Division”) alleges that:

**A.     RESPONDENT**

1.       From approximately 1987 through November 2004, Respondent was the President and Chairman of the Board of The Chapman Company (“TCC”), a broker-dealer registered with the Commission since 1987. He is currently the President, Director, and control person of Chapman Capital Management (“CCM”), an investment adviser registered with the Commission since 1988. During the time in which he engaged in the conduct underlying the indictment described below, Respondent was also a registered representative and registered securities principal associated with TCC. He voluntarily resigned from TCC in November 2004, at which time his registration was terminated. Chapman, 47 years old, is a resident of Columbia, Maryland.

2.       On June 26, 2003, the Commission filed a complaint in United States District Court against Chapman, eChapman, Inc. (“ECMN”), TCC, CCM and others. The Commission alleged a

fraudulent scheme by Chapman in connection with the June 2000 Initial Public Offering (“IPO”) of, and subsequent secondary market trading in, the common stock of ECMN, the parent company of TCC and CCM. In an effort to salvage the collapsing IPO, Chapman used TCC and CCM to make unauthorized ECMN IPO purchases for customer accounts, backdate trades, and place almost one-third of the IPO shares in the account of a CCM advisory client, the DEM-MET Trust (“the Trust”). *SEC v. Chapman, et al.*, Civil Action No. WDQ-03-1877 (D. Md.); Lit. Rel. No. 18203 (June 26, 2003). That litigation is currently pending.

## **B      RESPONDENT’S CRIMINAL CONVICTION.**

3.      On June 26, 2003, the U.S. Attorney’s Office for the District of Maryland announced the filing of a 36-count indictment of Chapman. *U.S. v. Chapman*, Crim. No. WDQ-03-0301 (D. Md.). The factual basis for these charges included the unauthorized placement by Chapman, through TCC, of 175,000 shares in the Trust’s account at CCM several days after the IPO at the IPO price of \$13 per share rather than the market price of \$7 per share, resulting in an immediate loss of approximately \$1 million. The indictment also alleged that ECMN and TCC, through Chapman, executed this transaction and that Chapman knew that ECMN stock was an unacceptable investment for the Trust. This conduct was charged in the indictment as wire fraud, mail fraud, and investment advisory fraud under Sections 206(1), (2) and (3) of the Advisers Act.

4.      On August 12, 2004, a jury convicted Chapman of 23 felony offenses, including the charges described in Paragraph 3 above. Specifically as to the investment advisory fraud, the jury found that Chapman had “engaged in transactions, practices, and courses of business which operated as a fraud and deceit upon” an investment advisory client, and that he “caused TCC to act as a principal for its own account and knowingly purchase and sell ECMN securities for a client without disclosing to the client in writing before the completion of the transaction the capacity in which it was acting, and obtaining the consent to the transaction.” As to the relevant mail and wire fraud charges, the jury specifically found that Chapman “knowingly and willfully executed, or attempted to execute, a scheme or artifice to obtain money or property by means of false or fraudulent pretenses, representations or promises reasonably calculated to deceive persons of average prudence, or by material omissions or failure to speak when there is a duty to do so.”

5.      On November 1, 2004, Chapman was sentenced to 90 months incarceration and ordered to pay \$5 million in restitution.

6.      Chapman’s criminal conviction arose out of his conduct of the business of a broker-dealer, TCC, and an investment adviser, CCM, both of which he controlled, and involved the purchase or sale of securities.

### III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative proceedings be, and hereby are, instituted to determine:

- A. Whether the allegations set forth in Section II. are true, and in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;
- B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b)(6) of the Exchange Act; and
- C. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 203(f) of the Advisers Act.

### IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III. hereof shall be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 200 of the Commission's Rules of Practice, 17 C.F.R. § 201.200.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This ORDER shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 210 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice, 17 C.F.R. § 201.360(a)(2).

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision upon this matter, except as a witness or counsel in

proceedings held pursuant to notice. Since this proceeding is not "rule-making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed to be subject to the provisions of Section 553 delaying the effective date of any final Commission action.

For the Commission, by its Secretary, pursuant to delegated authority.

Jonathan G. Katz  
Secretary