

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 3420 / June 19, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14833

In the Matter of	:	ORDER MAKING FINDINGS
	:	AND IMPOSING SANCTION
LOCUST OFFSHORE	:	BY DEFAULT
MANAGEMENT, LLC	:	

The Securities and Exchange Commission (Commission) instituted this proceeding with an Order Instituting Administrative Proceedings (OIP) on April 3, 2012, pursuant to Section 203(e) of the Investment Advisers Act of 1940 (Advisers Act). Locust Offshore Management, LLC (Locust), was served with the OIP on April 6, 2012, in accordance with Rule 141(a)(2)(ii) of the Commission's Rules of Practice. To date, Locust has not filed an Answer, which was due within twenty days after service of the OIP. See OIP at 3; 17 C.F.R. § 201.220(b).

On May 2, 2012, Locust was ordered to show cause by May 18, 2012, why it should not be barred from acting as an investment adviser. Because Locust has not filed an Answer or otherwise defended the proceeding, it is in default, and the following allegations of the OIP are deemed to be true. See 17 C.F.R. §§ 201.155(a)(2), .220(f).

FINDINGS OF FACT

Locust is an investment advisory firm incorporated in Delaware, with a primary place of business in Cambridge, Massachusetts. OIP, p. 1. It was purportedly the sole manager of Locust Offshore Fund, Ltd. (Locust Offshore Fund), a non-existent pooled investment fund. Id., p. 2. From at least June until October 2011, Andrey C. Hicks (Hicks) served as Locust's principal, partner, managing director, and chief executive officer. Id., p. 1. Locust is not registered with the Commission. Id.

From at least June until October 2011, Locust engaged in a fraudulent scheme to solicit potential investors in Locust Offshore Fund by making, through Hicks, numerous material misrepresentations regarding: (1) the educational and professional background of Hicks, (2) the existence of Locust Offshore Fund as a legitimate company incorporated in the British Virgin Islands, and (3) the existence of a purported auditor, prime broker, and custodian for Locust Offshore Fund. Id., p. 2. By making these representations and creating other indicia of legitimacy, including an offering memorandum and a website publishing year-to-date returns and other false information for the fictional Locust Offshore Fund, Locust and Hicks obtained at least

\$1.7 million from ten investors. Id. Substantially all of these funds were transferred to Hicks's personal bank accounts, and at least a portion of them were misappropriated for his personal expenses. Id.

On March 20, 2012, the United States District Court for the District of Massachusetts entered a final judgment against Locust by default, permanently enjoining it from future violations of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5 thereunder, and Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder in SEC v. Hicks, No. 1:11-CV-11888-RGS. The district court also ordered Locust to pay \$2,481,004 in disgorgement, \$31,054.39 in prejudgment interest,¹ and a civil penalty of \$2,512,058.39. See 17 C.F.R. § 201.323.

CONCLUSIONS OF LAW

Section 203(e) of the Advisers Act instructs the Commission to sanction any investment adviser if the Commission finds that the sanction is in the public interest and the investment adviser is enjoined from engaging in or continuing any conduct or practice specified in Section 203(e)(4) of the Advisers Act. Locust is permanently enjoined from engaging in or continuing certain conduct or practice in connection with acting as an investment adviser, and in connection with the purchase or sale of securities, within the meaning of Section 203(e)(4) of the Advisers Act. Accordingly, a sanction shall be imposed on Locust if it is in the public interest. See, e.g., Vladislav Steven Zubkis, Exchange Act Release No. 52876 (Dec. 2, 2005), 86 SEC Docket 2618, 2627, request for clarification denied, Exchange Act Release No. 53651 (Apr. 13, 2006), 87 SEC Docket 2584 (barring an unregistered, associated person of an unregistered broker-dealer from association with a broker or dealer).

SANCTION

An investment adviser bar is in the public interest, in accordance with the sanction considerations set forth in Steadman v. SEC, 603 F.2d 1126, 1140 (5th Cir. 1979), aff'd on other grounds, 450 U.S. 91 (1981). See Christopher A. Lowry, Advisers Act Release No. 2052 (Aug. 30, 2002), 55 S.E.C. 1133, 1141. Locust's conduct was egregious, recurrent, and involved a high degree of scienter. Over the course of several months, it violated the antifraud provisions of the federal securities laws by perpetuating a pervasive scheme to misappropriate funds from numerous investors through the use of material misrepresentations. The egregiousness of Locust's conduct is further demonstrated by the district court's order that it disgorge approximately \$2.5 million in illegally-obtained profits and pay a civil penalty of more than \$2.5 million. By its default in both proceedings, Locust has failed to offer assurances against future violations or recognize the wrongful nature of its conduct.

Furthermore, the Commission has noted that "the fact that a person has been enjoined from violating antifraud provisions 'has especially serious implications for the public interest.'" Michael T. Studer, Exchange Act Release No. 50411 (Sept. 20, 2004), 57 S.E.C. 890, 898,

¹ Locust and Hicks were found jointly and severally liable for these amounts of disgorgement and prejudgment interest.

reconsideration denied, Exchange Act Release No. 50600 (Oct. 28, 2004), aff'd, 148 F. App'x 58 (2d Cir. 2005) (unpublished) (quoting Marshall E. Melton, Advisers Act Release No. 2151 (July 25, 2003), 56 S.E.C. 695, 713). The Commission has also stated that “conduct that violates the antifraud provisions of the federal securities laws is especially serious and subject to the severest of sanctions under the securities laws.” Marshall E. Melton, 56 S.E.C. at 713. Accordingly, an investment adviser bar will be imposed on Locust.

ORDER

It is ORDERED, pursuant to Section 203(e) of the Investment Advisers Act of 1940, that Locust Offshore Management, LLC, is barred from acting as an investment adviser.

Cameron Elliot
Administrative Law Judge