

**BEFORE THE SECURITIES COMMISSIONER  
OF THE STATE OF KANSAS**



In the Matter of:

Titan Securities (CRD #131392)

Docket No. 21 E 110

KSC No. 19-6554

Respondent.

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Pursuant to K.S.A. 17-12a412

**CONSENT ORDER**

1. The Staff of the Office of the Kansas Securities Commissioner ("KSC Staff") allege that Titan Securities ("Titan") engaged in conduct constituting violations of the Kansas Uniform Securities Act, K.S.A. 17-12a101 *et seq.* ("the KUSA"), and that Titan is subject to administrative sanctions and remedies under K.S.A. 17-12a412.
2. Titan and KSC Staff desire to settle the matters raised by KSC Staff relating to Titan's alleged violations.

**CONSENT TO JURISDICTION**

3. Titan and KSC Staff stipulate and agree that, under the KUSA, the Securities Commissioner of Kansas ("the Commissioner") has jurisdiction over Titan and this matter.
4. Titan and KSC Staff stipulate and agree that the Commissioner has authority to enter this Order under K.S.A. 17-12a412.

WAIVER AND EXCEPTION

5. Titan waives its right to a hearing with respect to these matters.
6. Titan waives any rights that it may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order.

CONSENT TO THE COMMISSIONER'S ORDER

7. Titan and KSC Staff agree to the issuance of this Order without further proceedings in this matter, and agree to be fully bound by the terms and conditions specified herein.
8. Without admitting or denying the allegations made by the KSC Staff as reflected in the Findings of Fact and Conclusions of Law set forth below, Titan agrees to the issuance of this Order on the basis of such Findings of Fact and Conclusions of Law solely and only for the purposes of this proceeding and any proceeding that may be brought to enforce the terms of this specific Order.
9. Titan agrees not to take any action nor to make or permit to be made any public statement creating the impression that this Order is without a factual basis. Nothing in this Order affects Titan's testimonial obligations or right to take legal or factual positions in defense or prosecution of litigation or other legal proceedings in which the Commissioner is not a party.

FINDINGS OF FACT

10. Titan, CRD #131392, is a broker-dealer with a last-known address of 16775 Addison Road, Suite 202, Addison, Texas, 75001. Titan has been registered as a

broker-dealer under the KUSA since February 3, 2011. At all times relevant to this action, the CEO of Titan was Brad Brooks (“Brooks”).

11. The Financial Industry Regulatory Authority, Inc. (“FINRA”) is a self-regulatory organization as that term is used in K.S.A. 17-12a102(29).
12. From approximately March 2017 to approximately January 2020 Trisha Prince (“Prince”) was the chief compliance officer of Titan.
13. Since approximately February 3, 2011, Rodger D. Sprouse (“Sprouse”), CRD #5483578, has been registered as an agent of Titan under the KUSA.

#### *FIP Investments*

14. From approximately April 2017 through May 2018, Sprouse acted as an agent of Future Income Payments, LLC, (“FIP”) in effecting the sale of Purchase Agreements for a product commonly referred to as “Structured Cash Flows” to 18 clients, of which 16 were clients of Titan, for which Sprouse received commissions from FIP. Titan did not receive any commissions or other remuneration in connection with Sprouse’s sale of FIP’s Structured Cash Flows.
15. FIP is a Nevada limited liability company. Since at least 2011 through April 2018, FIP’s owner and president, Scott A. Kohn (“Kohn”), used the company to perpetrate a nationwide Ponzi scheme. When FIP ceased doing business in April 2018, FIP owed approximately \$300 million to over 2,600 investors nationwide.
16. FIP was in the business of making lump sum payments or loans to individuals entitled to monetary disbursements from pensions, lotteries, annuity payments and

other future income streams. In exchange for receiving these lump sum payments or loans, the recipients assigned all or a portion of their monetary disbursements from their future income streams to FIP. Individuals who assigned their future income streams to FIP in exchange for lump sum payments or loans were referred to as “original sellers.”

17. To raise funds for the lump sum payments or loans, FIP entered into Purchase Agreements with investors whereby FIP sold its interests in the future income streams to investors as what was commonly referred to as “Structured Cash Flows.”
18. Under the Purchase Agreements, FIP agreed to establish and maintain accounts to receive future income stream payments from the original sellers for distribution to investors. FIP further agreed to maintain a “shortfall account” and a “reserve account” to protect investors in the event original sellers defaulted on their obligation to remit their future income streams to FIP.
19. FIP generally promised to pay investors an annual interest rate of 6.5 to 8 percent under the Purchase Agreements, with monthly payments to be paid to investors over a term of five to ten years.
20. FIP used independent sales agents to solicit purchases of the Purchase Agreements, which agents were paid commissions for each sale.
21. During the scheme, Kohn used new investor funds to pay fictitious returns or profits to existing investors. Further, Kohn used some remaining investor funds to pay commissions to agents who sold the Purchase Agreements to investors.

22. On March 12, 2019, FIP and Kohn were indicted by a federal grand jury in the District of South Carolina. On April 19, 2019, the United States District Court for the District of South Carolina appointed a receiver to manage the assets and liabilities of FIP and Kohn. The FIP receivership is currently asserting legal and equitable claims against agents to recover commissions paid for the sale of FIP Structured Cash Flows.

*Titan's Failure to Supervise Sprouse*

23. Sprouse initially became aware of FIP through several conversations with a FIP agent, who gave Sprouse information about FIP and introduced Sprouse to other FIP agents. Prior to recommending FIP Purchase Agreements to his clients, Sprouse researched FIP on the internet, visited FIP's website, contacted individuals involved with FIP, and spoke with FIP's home office. Based on this research, Sprouse believed FIP's Purchase Agreements were not securities.
24. According to Sprouse, he contacted Brooks in late 2016 to discuss his desire to sell FIP Purchase Agreements. Sprouse acknowledged to KSC Staff that if the FIP Purchase Agreements were securities, he would have needed Titan's permission to sell them. Sprouse claimed to KSC Staff that Brooks requested more information and that he provided Brooks with FIP's website, FIP marketing materials, the names of FIP employees, U.S. Department of Labor inquiry letters about FIP's business, and a comparison of FIP's product to another product which Sprouse was then selling. Sprouse also claimed to KSC Staff that Brooks asked if Sprouse

had talked to other FIP agents and FIP's home office, to which Sprouse answered that he had.

25. In a statement to KSC Staff, Brooks denied talking to Sprouse about FIP prior to April 2018 and denied receiving the information Sprouse claimed he provided.
26. Prior to April 19, 2017 Sprouse had submitted outside business activity forms ("OBAs") to Titan which listed the name of the outside business activity as "Sprouse Financial Group."
27. On April 19, 2017, Sprouse submitted a new OBA to Titan ("April 2017 OBA"). In addition to listing "Sprouse Financial Group" as the name of the outside business activity, this OBA listed the sale of "Inforce payment stream, future income payments, structured cash flow" in the description of the outside business activity for which Sprouse sought Titan's approval. Additionally, in the field for "Position, title, or relationship with Outside Business activity," Sprouse wrote "sale of structured cash flow." The OBA did not name FIP as the name of the issuer of the Structured Cash Flows to be sold by Sprouse.
28. Prior to April 19, 2017, the phrase "future income payments" was not listed on any of Sprouse's OBA forms with Titan.
29. Sprouse's April 2017 OBA was approved by Titan on April 20, 2017. This approval included a hand-written notation by Prince, which stated, "U4 states info on 2017 OBA. No amendment necessary."

30. Neither Brooks nor Prince conducted further inquiry into the sale of “future income payments” prior to Titan’s approval of Sprouse’s OBA dated April 19, 2017.
31. As of April 19, 2017, Sprouse’s Form U4 did not disclose any dealings with FIP and Titan did not amend Sprouse’s Form U4 after it approved the April 2017 OBA.
32. Prince stated to KSC staff that she misinterpreted the April 2017 OBA as a request to use the d/b/a Sprouse Financial Group which had been previously approved. According to Prince, this is why Titan did not inquire into the sale of “future income payments” before approving the April 2017 OBA and why Titan did not amend Sprouse’s Form U4.
33. From approximately April 2017 through March 2018, Sprouse sold FIP Purchase Agreements to eighteen clients, sixteen of whom were also clients of Titan. Under these Purchase Agreements, Sprouse’s clients invested a total of \$1,150,839.15. Sprouse received commissions from FIP of approximately 5 percent, totaling \$72,791.96, of which \$62,425.00 was received for his role in effectuating the sale of the Purchase Agreements to Titan’s clients. Titan received no compensation from Sprouse’s sales of the Purchase Agreements.
34. Commencing in approximately April 2018, some of Sprouse’s clients who had purchased Purchase Agreements from FIP informed Sprouse that they were not receiving payments from FIP as promised. In late April 2018, Sprouse notified Brooks of the issue his clients were having with FIP.



35. After receiving the above-described notification from Sprouse, Titan conducted an investigation into FIP. Titan's investigation consisted of internet research about FIP and contacting an in-house attorney for a direct purchaser of structured settlements and annuity payments similar to the product sold by FIP. This attorney opined that the direct purchase of structured settlements and annuity payments as conducted by her company was not a security; however, FIP's Purchase Agreements were not specifically discussed with this attorney. Brooks also received an email from Sprouse containing an email chain between Sprouse and Kohn on May 1, 2018, wherein Kohn asserted that FIP investments were not securities.
36. Titan did not ask its own legal counsel whether Purchase Agreements involved the sale of securities, nor did Titan consult state or federal securities regulators.
37. On May 9, 2018, after Titan's inquiry into FIP, Prince added FIP to Sprouse's Form U4. On May 10, 2018, Prince removed FIP from Sprouse's Form U4. On December 17, 2018, Prince again added FIP to Sprouse's Form U4. As of September 24, 2020, FIP is no longer listed on Sprouse's Form U4.
38. Sprouse and his assistant claimed to KSC Staff that in December 2018, after Titan's inquiry into FIP, Sprouse submitted a new OBA at the request of Prince, and listed FIP, LLC as the name of the outside business activity. Sprouse and his assistant also claim that Prince requested that the OBA be backdated to April 19, 2017. Prince denied making any such request for a new OBA, although she could



not explain what prompted her to update Sprouse's Form U4 on December 17, 2018.

39. FINRA Rule 3270, effective December 15, 2010, to September 20, 2015, was adopted into the KUSA by reference in K.A.R. 81-2-1(d). FINRA Rule 3270 states, in pertinent part, that upon prior written notice of outside business activity from a registered person, a member firm "must evaluate the proposed activity to determine whether the activity properly is characterized as an outside business activity or whether it should be treated as an outside securities activity subject to the requirements of NASD Rule 3040."
40. Section 4.2.1 of Titan's written supervisory procedures ("WSP's") effective July 15, 2015, through December 30, 2017, entitled "Outside Business Activities," provided that Titan "shall determine whether the activity properly is characterized as an outside business activity or whether it should be treated as an outside securities activity subject to the requirements of NASD Rule 3040."
41. Titan failed to act in accordance with FINRA Rule 3270 and its own WSP's when, upon receipt of Sprouse's April 2017 OBA, Brooks and Prince failed to inquire, evaluate, and determine whether the Purchase Agreements involved the sale of securities. Titan's inquiry into FIP did not occur until Sprouse had been selling Purchase Agreements for 12 months and only after Sprouse's clients began to express concern about problems with FIP.

### CONCLUSIONS OF LAW

42. The Commissioner has jurisdiction over Titan and this matter.
43. The Purchase Agreements described herein are securities as that term is defined in K.S.A. 17-12a102(28).
44. The Purchase Agreements are not federal covered securities, as that term is defined in K.S.A. 17-12a102(7), and are not exempt from registration under K.S.A. 17-12a201 through 17-12a203.
45. Sprouse violated K.S.A. 17-12a301 by offering and selling the Purchase Agreements.
46. In effecting the sale of the Purchase Agreements, Sprouse was an agent, as the term is defined in K.S.A. 17-12a102(2), of FIP.
47. FIP and Titan are not affiliated by direct or indirect common control, and Sprouse was not authorized to act as an agent for both FIP and Titan at the same time by rule or order issued under the KUSA.
48. Sprouse violated K.S.A. 17-12a402(e) by transacting business in this state as an agent for more than one broker-dealer and one issuer at a time.
49. Titan violated FINRA Rule 3270, as adopted into the KUSA by K.A.R. 81-2-1(d), by failing to inquire, evaluate, and determine whether the Purchase Agreements involved the sale of securities, which constitutes grounds for discipline against Titan under K.S.A. 17-12a412(d)(2).

50. Sprouse, as a registered agent affiliated with Titan, was an individual subject to Titan's supervision, and Sprouse committed violations of the KUSA within the previous 10 years, as described above.
51. Titan failed to reasonably supervise Sprouse, which constitutes grounds for discipline under K.S.A. 17-12a412(d)(9).
52. Titan violated FINRA Rule 3110(b)(1), as adopted into the KUSA by K.A.R. 81-2-1(d), by failing to enforce its written supervisory procedures, which constitutes grounds for discipline against Titan under K.S.A. 17-12a412(d)(2).
53. An order against Titan is in the public interest.

**ORDER**

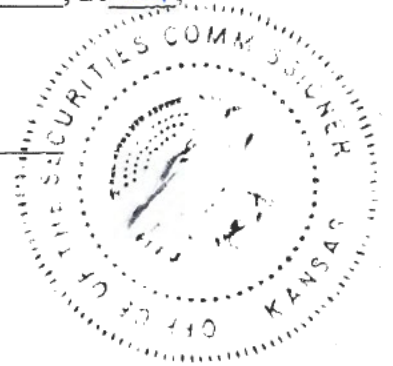
**IT IS THEREFORE ORDERED** that Titan shall pay a civil penalty in the amount of \$15,000. Payment shall be made payable to the "Office of the Kansas Securities Commissioner," and delivered to Jack Clayton Johnson, Assistant General Counsel, at 1300 SW Arrowhead Road, Topeka, KS 66604. Such payment shall be made within 30 days of the issuance of this Order. Upon receipt, such payment shall be deposited in the Investor Education and Protection Fund.

**IT IS SO ORDERED BY THE COMMISSIONER.**

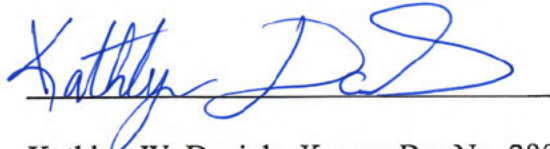
Entered at Topeka, Kansas, this 7<sup>th</sup> day of MAY, 2021.



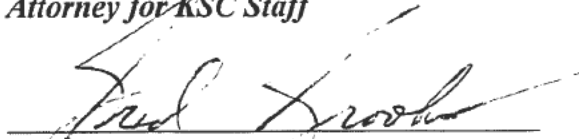
Daniel J. Klucas  
*Kansas Securities Commissioner*



CONSENTED TO BY:



Kathlyn W. Daniels, Kansas Bar No. 28090  
*Attorney for KSC Staff*

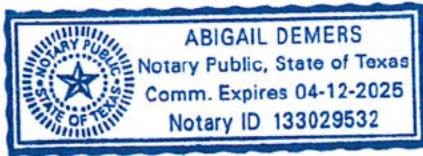


Brad C. Brooks, President of Titan Securities  
*On behalf of Respondent*

STATE OF Tx )  
 ) ss:  
COUNTY OF Collin )

This instrument was signed before me on this 10 day of May, 2021,  
by Brad C. Brooks.

(seal)



  
Notary Public

My appointment expires: 4/12/25

### **NOTICE**

- (1) A party to this action may petition the Commissioner for reconsideration within 15 days after service of a final order, following the procedures in K.S.A. 77-529. Under K.S.A. 77-528, a party may petition for a stay of effectiveness of this order until the time at which a petition for judicial review would no longer be timely.
  
- (2) This decision may be subject to judicial review. The agency officer to receive service of a petition for judicial review on behalf of the Office of the Securities Commissioner is Jack Clayton Johnson, Assistant General Counsel, at 1300 SW Arrowhead Road, Topeka, Kansas 66604.