

BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF KANSAS



In the Matter of:

Rodger D. Sprouse (CRD #5483578)

Docket No. 23 E 039
KSC No. 2019-6554

Respondent.

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

CONSENT ORDER

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

CONSENT TO JURISDICTION

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

WAIVER

5. Sprouse waives his right to a hearing with respect to these matters.
6. Sprouse waives any rights that he 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. Sprouse 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, Sprouse 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. Sprouse agrees to not 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 Sprouse'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. Sprouse, CRD #5483578, is an individual resident of Missouri. Sprouse is a licensed non-resident insurance agent in the State of Kansas. Since February 3,

2011, Sprouse has been registered under the KUSA as an agent of a broker-dealer, Titan Securities (“Titan”), CRD #131392.

11. From approximately April 2017 through May 2018, Sprouse sold Purchase Agreements issued by Future Income Payments, LLC, (“FIP”). The Purchase Agreements were for a product commonly referred to as “Structured Cash Flows.” Sprouse sold the FIP Purchase Agreements to 18 clients, for which Sprouse received commissions.
12. At the time of the sales, these Purchase Agreements were not registered as a security under the KUSA as required.

FIP Investments

13. 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.
14. 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.”

15. 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.”
16. 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.
17. 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.
18. FIP used independent sales agents to solicit purchases of the Purchase Agreements, which agents were paid commissions for each sale.
19. 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.
20. 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.

Sprouse and his Clients' Structured Cash Flows

21. 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 (a) researched FIP on the internet, (b) visited FIP's website, (c) contacted individuals involved with FIP, (d) spoke with FIP's home office, and (e) compared FIP's offering to those of similar providers selling non-securities investments.
22. On April 19, 2017, prior to recommending FIP Purchase Agreements to his clients, Sprouse submitted an outside business activity form ("OBA") to Titan, which listed the sale of "Inforce payment stream, future income payments, structured cast 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 issuer of the Structured Cash Flows to be sold by Sprouse. This OBA was approved by Titan on April 20, 2017.
23. In addition to the foregoing, during the KSC Staff's investigation of this matter Sprouse asserted that, prior to recommending FIP Purchase Agreements to his client, Sprouse: (a) discussed FIP with Titan management; (b) was told by Titan that the FIP Purchase Agreements were not securities; and (c) was approved by

Titan to sell FIP Purchase Agreements. During the investigation, Titan disputed these assertions, and the KSC Staff takes no position regarding their veracity.

24. Based on the foregoing, Sprouse believed FIP's Purchase Agreements were not securities.
25. From approximately April 2017 through March 2018, eighteen of Sprouse's clients signed Purchase Agreements with FIP, sixteen of which were clients of Titan. Under these Purchase Agreements, Sprouse's clients invested a total of \$1,510,839.15 with FIP. Sprouse received commissions from FIP of approximately 5 percent, totaling \$72,791.96, for his role in effectuating the sale of the Purchase Agreements to his clients.
26. On October 7, 2019, Sprouse and Titan entered into a settlement agreement with one of Sprouse's clients to resolve all claims against Sprouse and Titan for their conduct relating to FIP. As part of the settlement, Sprouse and Titan agreed to pay a total of \$158,000 to the client, Sprouse paid 20% of the settlement amount, \$32,000.
27. On November 11, 2019, the FIP receivership entered into a *Release, Receipt and Settlement Agreement* with Sprouse to resolve all disputes between the FIP receivership and Sprouse regarding the Receiver's efforts to recover all profits and/or commissions received by Sprouse through the Ponzi scheme orchestrated by FIP. In exchange for the release of any and all claims the FIP receivership had against Sprouse, Sprouse agreed to pay \$49,000 to the FIP Receiver.

28. On April 10, 2020, Sprouse and Titan entered into settlement agreements with one of Sprouse's clients, to resolve all claims arising from her FIP investment. As part of the settlement Titan and Sprouse agreed to pay a total settlement amount of \$43,000 to the client, Sprouse paid 50% of the settlement amount, \$21,500.
29. Based on the foregoing, Sprouse has paid more than \$100,000 to clients and the FIP receivership to resolve claims related to FIP, which is approximately fifty percent more than the total commissions he received from FIP.
30. Sprouse cooperated with the KSC in connection with their investigation into FIP.

CONCLUSIONS OF LAW

31. The Commissioner has jurisdiction over Sprouse and this matter.
32. The Purchase Agreements described herein are securities as that term is defined in K.S.A. 17-12a102(28).
33. 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.
34. Sprouse violated K.S.A. 17-12a301 by offering and selling the Purchase Agreements, which constitutes ground for discipline under K.S.A. 17-12a412(d)(2).
35. An order against Sprouse is in the public interest.

ORDER

IT IS THEREFORE ORDERED that Sprouse shall pay a civil penalty in the amount of \$7,500. 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 30 day of SEPTEMBER, 2022.



Daniel J. Klucas
Kansas Securities Commissioner



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.