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## Texas State Securities Board

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Austin, Texas 78701-2407  
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DAVID A. APPLEBY  
MEMBER

ALAN WALDROP  
MEMBER

IN THE MATTER OF  
THE AGENT AND INVESTMENT  
ADVISER REPRESENTATIVE  
REGISTRATIONS OF  
JOHN EDWARD SPRAGUE

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Order No. IC13 – SUS – 02

TO: John Edward Sprague (CRD No. 1003936)  
B.B. Graham & Company, Inc.  
4800 Bee Cave Drive  
Austin, TX 78746

### CONSENT DISCIPLINARY ORDER

Be it remembered that John Edward Sprague ("Respondent") appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and, in lieu of an administrative hearing, consented to the entry of this order ("Order") and Undertaking and the Findings of Fact and Conclusions of Law contained herein.

### FINDINGS OF FACT

1. Respondent has waived (a) Respondent's right to notice and hearing in this matter; (b) Respondent's right to appear and present evidence in this matter; (c) Respondent's right to appeal this Order; and (d) all other procedural rights granted to the Respondent by The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-43 (West 2010 and Supp. 2012)("Texas Securities Act"), and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001.001 to 2001.902 (West 2008 & Supp. 2012)("Administrative Procedure Act").
2. On or about April 9, 2010, Respondent registered with the Securities Commissioner as an investment adviser representative of B.B. Graham & Company, Inc. ("B.B. Graham"). This registration is currently effective.
3. On or about April 21, 2010, Respondent registered with the Securities Commissioner as an agent of B.B. Graham. This registration is currently effective.

#### **I. The ADG Notes**

4. From in or about November 2006 through in or about September 2007, while registered as an agent and investment adviser representative of First MidAmerica Investment Corporation ("First MidAmerica"), Respondent engaged in sales of

promissory notes issued by Alliance Development Group ("ADG")<sup>1</sup>, a real estate developer specializing in "build to suit" projects for national restaurant chains.

5. The initial ADG Notes sold by Respondent in 2006 were one (1) year in duration and purported to offer a 25% return to investors, generated by the financing of four (4) different restaurant construction projects, with each project earning an 8.33% return.
6. The money earned from the completion of each project was to be reinvested into the subsequent project. This process would continue until the fourth project was completed, at which time the money earned from the fourth project would account for the 25% return promised on the note.
7. However, no money was set aside for the benefit of the investor until the fourth project was completed; thus, no return was actually generated for the investor until the completion of that fourth and final project.
8. Beginning in the summer of 2007, the ADG Notes sold by Respondent were only nine (9) months in duration; however, the same process remained in place, with the promised return of 18% generated by the completion of and reinvestment in three (3) successive projects.
9. At the time of this Order, many of the ADG Notes purchased by clients through Respondent are in default and the clients have not received past due interest payments or a return of their principal.
10. The ADG Notes had been approved by First MidAmerica for sale by its representatives, including Respondent.

## **II. Respondent Failed to Understand the Investment**

11. In 2006 and 2007, Respondent sold the ADG Notes to multiple clients with moderate or conservative growth investment objectives. Despite the promise of a 25% return, Respondent did not attribute a heightened amount of risk to the ADG Notes.
12. Respondent never reviewed any financials of ADG before determining that the ADG Notes were non-aggressive investments.
13. Respondent did not understand that the ADG Notes were subordinated promissory notes and that in the event of default, rights of the holders of the ADG Notes would be inferior to all other ADG senior debt.

## **III. Respondent Made Unsuitable Recommendations**

14. A client (the "Client") engaged Respondent to provide investment advisory services for multiple accounts, including a revocable trust (the "Trust").

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<sup>1</sup> The promissory notes issued by ADG will be referred to throughout the document as the "ADG Notes."

15. The Client indicated that the Trust was to provide income for the Client for life but that the corpus of the Trust was to be preserved for the benefit of others. The account opening documents for the Trust indicated the Trust's investment objectives to be balanced, conservative growth.
16. When Respondent first approached the Client about the ADG Notes in November 2006, Respondent recommended that the Client invest \$150,000 of the approximately \$1,200,000 investable assets of the Trust in a one (1) year ADG Note.
17. In February 2007, prior to the maturation of the initial one (1) year \$150,000 ADG Note, Respondent recommended that the Trust invest \$700,000 in an additional one (1) year ADG Note promising a 25% return.
18. In total, Respondent recommended that the Client invest \$850,000 of approximately \$1,200,000 of the Trust's assets, or about 73%, in ADG Notes.

#### CONCLUSIONS OF LAW

1. The ADG Notes constitute "securities" as the term is defined by Section 4.A of the Texas Securities Act.
2. Respondent did not have a reasonable basis to believe that the ADG Notes were suitable recommendations to any client because Respondent did not understand significant terms of the ADG Notes. Respondent's recommendations without such reasonable basis constitute inequitable practices in the sale of securities.
3. Respondent lacked a reasonable basis to believe that it was a suitable recommendation for the Client to invest 73% of the Trust's assets in ADG Notes. Respondent's recommendation to the Client constitutes an inequitable practice in the sale of securities.
4. Pursuant to Section 14.A(3) of the Texas Securities Act, the aforementioned inequitable practices in the sale of securities are bases for the suspension of Respondent's registrations with the Securities Commissioner.

#### UNDERTAKING

1. Respondent undertakes and agrees to not engage in any activity or transaction that has not been approved by Respondent's current firm so long as Respondent is registered with the Securities Commissioner.
2. Respondent further undertakes and agrees to not engage in the sale or offer for sale of any alternative investment or recommend the purchase of any alternative investment in connection with the rendering of services as an investment advisor representative, regardless of whether such alternative investment has been approved by the compliance department of Respondent's current firm, so long as Respondent remains registered with the Securities Commissioner.

3. Respondent further acknowledges and agrees that, for the purposes of this Undertaking, "alternative investment" shall include hedge funds, managed future funds, commodity pool funds, managed currency products, private equity, promissory notes, structured products and derivatives, and limited partnerships.
4. Respondent further undertakes and agrees that Respondent will not exercise discretionary authority over any brokerage or investment advisory account for a period of one (1) year from the date Respondent's suspension with the Securities Commissioner has concluded.
5. (A) Respondent further undertakes and agrees that, for a period of one (1) year from the date of this Order, Respondent will deliver to the Director of the Inspections & Compliance Division of the Texas State Securities Board (the "Director") any written or oral complaints and regulatory actions within which Respondent's name appears or in which Respondent is otherwise involved. Respondent further undertakes and agrees that each relevant complaint and regulatory action will be delivered to the Director within ten (10) business days of when Respondent receives such complaint or initiation of such regulatory action.  
  
(B) Respondent further undertakes and agrees that, for a period of one (1) year from the date of this Order, Respondent will deliver to the Director signed statements responding to the issues raised in any written or oral complaints and regulatory actions within which Respondent's name appears or in which Respondent is otherwise involved. Respondent further undertakes and agrees that each signed statement will be delivered to the Director within forty (40) days of when Respondent receives a relevant complaint or relevant regulatory action.

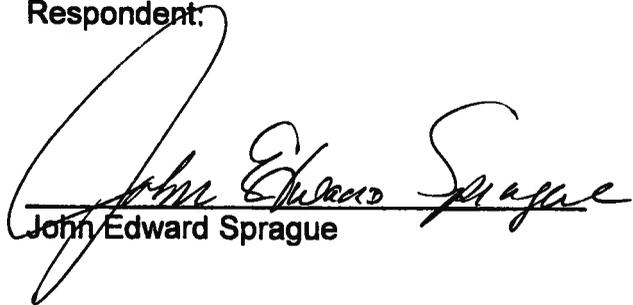
#### ORDER

It is therefore ORDERED that the agent and investment adviser representative registrations of John Edward Sprague are hereby SUSPENDED for a period of ninety (90) days from the date this Order is signed by the Securities Commissioner.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 25<sup>th</sup> day of February, 2013.

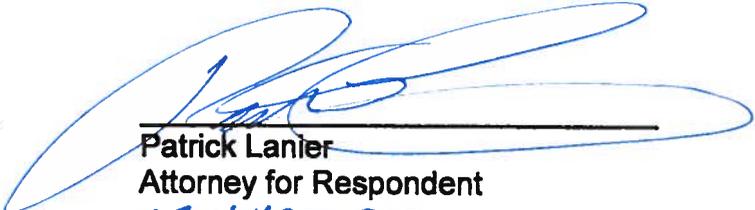
  
JOHN MORGAN  
Securities Commissioner

Respondent:

  
\_\_\_\_\_  
John Edward Sprague

Approved as to Form:

  
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Ronak V. Patel  
Deputy Securities Commissioner

  
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Patrick Lanier  
Attorney for Respondent  
SB #11933500  
P.O. Box 13524  
Austin, TX 78711

  
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Clinton T. Edgar  
Attorney  
Inspections and Compliance Division

**ACKNOWLEDGMENT**

On the 6<sup>th</sup> day of February, 2013, John Edward Sprague ("Respondent") personally appeared before me, executed the foregoing Order, and acknowledged that:

1. Respondent has read the foregoing Order;
2. Respondent has been fully advised of his rights under the Texas Securities Act and the Administrative Procedure Act;
3. Respondent knowingly and voluntarily consents to the entry of the foregoing Order, in lieu of an administrative hearing, and the Findings of Fact and Conclusions of Law contained therein; and,
4. Respondent, by consenting to the entry of the foregoing Order, in lieu of an administrative hearing, has knowingly and voluntarily waived his rights as set forth therein.



[affix notary seal here]

A handwritten signature in black ink, appearing to read "Carol E. Sheffield".

Notary Public in and for  
the State of Texas

My commission expires on: Dec. 08, 2015