

**ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF MARYLAND**

IN THE MATTER OF: *

J. J. Richardson, LLC, CRD # 140360 * Securities Docket No. 2016-1052

and *

John R. Siegel, CRD # 5132738 *

* * * * *

FINAL ORDER OF REVOCATION AND BAR

WHEREAS, the Securities Division of the Office of the Maryland Attorney General (the “Division”), pursuant to the authority granted in section 11-701 of the Maryland Securities Act, Corporations and Associations Article, Title 11, Annotated Code of Maryland (2014 Repl. Vol. and 2016 Supp) (the “Act”), undertook an investigation into the securities activities of J. J. Richardson, LLC (“JJR” or “Respondent JJR”) and John R. Siegel (“Siegel” or “Respondent Siegel”) (collectively, “Respondents”); and

WHEREAS, on the basis of that investigation the Maryland Securities Commissioner (the “Commissioner”), on May 26, 2017, issued an Order to Show Cause, which is incorporated by reference, requiring Respondents to show cause why their investment adviser and investment adviser representative registrations should not be revoked, and requiring Respondents to show cause why they should not be barred permanently from engaging in the securities and investment advisory business in Maryland and why a statutory penalty of up to \$5,000 per violation should not be entered against them; and

WHEREAS, the Order to Show Cause provided that the failure to file an answer, including a request for a hearing, within fifteen (15) days of service of the Order to Show Cause would result in the entry of a Final Order revoking Respondents registrations as an investment adviser and investment adviser representative in Maryland, barring Respondents from engaging in the securities or investment advisory business in Maryland for or on behalf of any others, or from acting as principal or consultant in any entity so engaged; and imposing on Respondents a monetary penalty of up to \$5,000 per violation of the Act, and

WHEREAS, Respondents have failed to file a timely answer to the Order to Show Cause or to make a written request for a hearing; and

WHEREAS, the Commissioner has determined that it is in the public interest to issue this Final Order of Revocation and Bar;

NOW THEREFORE, pursuant to sections 11-203(c)(2), 11-301(2) and (3), 11-302(a)(2), (a)(3), (c), and (f), 11-303, 11-411(c)(3) and (d), and 11-412(a)(2) and (a)(7), and 11-701 of the Act, THE COMMISSIONER FINDS AND ORDERS:

I. JURISDICTION

1. The Commissioner has jurisdiction in this proceeding pursuant to section 11-701.1 of the Act.

II. RESPONDENTS

2. At all times relevant to this matter, J. J. Richardson, LLC has maintained a place of business in Bethesda, MD. JJR was registered with the Division as an investment adviser from January 1, 2007 to December 31, 2016, at which time its registration expired.

3. At all times relevant to this matter, John R. Siegel has maintained a place of

business in Bethesda, MD. Siegel was registered with the Division as an investment adviser representative from January 3, 2007 to December 31, 2016, at which time his registration expired. Siegel was the sole owner and investment adviser representative of JJR.

III. STATEMENTS OF FACT

4. In or about April 2006, JJR and Siegel filed with the Division applications for registration as an investment adviser and investment adviser representative, respectively.

5. JJR's investment adviser registration and Siegel's investment adviser representative registration were made effective on January 1, 2007 and January 3, 2007, respectively.

6. As part of JJR's Form ADV application, Respondents disclosed that they would solicit investors to invest in the Richardson Fund A, LLC ("Fund"), a pooled investment vehicle whose assets would be managed by Respondents. JJR would serve as the managing member to the Fund.

Inappropriate transfer of Fund's assets to Entities owned or controlled by Siegel

7. According to its private placement memorandum ("PPM") and JJR's Form ADV, the managing member of the Fund sought to achieve investment results that exceeded the return of the S&P 500 by "allocating the Fund's assets among equities such as, but not limited to, securities listed on U.S. exchanges (including securities of non-U.S. companies listed on U.S. exchanges), securities traded over the counter, exchange-traded funds ("ETFs"), warrants and options on securities and indices of securities; bonds, including, but not limited to, commercial paper, municipal paper, municipal securities and U.S. government securities; and money market instruments. In the equity market, the Fund will invest primarily in large and mid-size companies that the Managing Member believes will offer above-average potential" ("Investment Objective

policy”).

8. However, based upon the Division’s review of audited financial statements for the Fund, the Division began investigating a series of transactions between the Fund and entities related to Respondents and learned that Respondents had breached or deviated from this policy, and other policies, set forth in the Fund’s PPM and JJR’s Form ADV.

9. In or about January 2010, Respondents amended JJR’s Form ADV Part II (now known as Form ADV Part 2A) to disclose that Siegel was working as a part-time consultant for Champions Field House, LLC (“Champions”), a Montgomery County based sports and recreational business owned and operated by his daughter.

10. In a letter filed with the Division in 2010, Siegel disclosed that he served as a “part-time consultant to Champions Field house . . . keep[ing] the books for the Fieldhouse, an initiative of [his] daughter.” Siegel also amended his Form ADV Part 2B brochure supplement to disclose his part-time employment with Champions.

11. Although never disclosed in the Fund’s PPM or in JJR’s Form ADV, during the Division’s recent investigation, the Division learned that Siegel held a 19% ownership interest in Champions.

12. Champions proved to be an unsuccessful business venture and closed its doors in 2013.

13. On May 3, 2013, prior to the closing of its doors and at a time that Champions was facing financial difficulties, however, Siegel transferred \$328,000 of the Fund’s assets to a bank account held in the name of Champions.

14. The transfer was not evidenced by a written instrument, such as a loan agreement,

promissory note or any other document memorializing the investment.

15. It is unclear why Siegel transferred the assets of the Fund and its investors to an entity that was fledgling and soon going out of business, as the transfer put the Fund's and investors' assets at risk of Champions' creditors.

16. Although on May 15, 2013 the monies were transferred back to the Fund, for those twelve intervening days Respondents misused and put at risk the assets of the Fund and its investors.

17. The transfer of the Fund's assets to an entity owned by Siegel and his daughter was a conflict of interest that was not disclosed to the Fund's investors or authorized by the Fund's PPM.

18. By misusing the funds, Siegel breached his fiduciary duty to the Fund and to its underlying investors.

19. In or about April 2013, Siegel's daughter formed Get Good Field House, LLC ("GGFH") to operate as an indoor sports facility. Some of the equipment used in the failed Champions was used in the new business.

20. In or about August 2013, despite the recent failure of the sports facility operated by Champions, Siegel invested \$300,000 of the Fund's assets in GGFH. According to Siegel, the funds were loaned to GGFH to "supplement the build out costs for Get Good Field House, a 35,000 s.f. sports facility in Laurel, Maryland."

21. The investment was evidenced by a balloon note signed by Siegel's daughter, as CEO for GGFH. In the note, GGFH agreed to pay 8% monthly interest payments to the Fund and agreed to repay the principal out of GGFH's "free cash flow after all appropriate expenses," but

did not state a repayment due date. The note was guaranteed by GGFH, with no collateral specified.

22. According to Siegel, at the time of the investment he did not have an ownership interest in GGFH. However, as “permitting and construction proceeded,” Siegel decided that it would be in the best interest of the Fund if he took an ownership interest in GGFH and oversaw the construction process and operation of the facility. Thus, in late 2013 Siegel took a 40% personal ownership interest in GGFH. That ownership interest was reflected in a 2014 Schedule K-1 showing a 40% ownership interest in GGFH held in the name of Siegel and his wife, as tenants by the entirety.

23. Respondents failed to amend JJR’s Form ADV or to otherwise disclose in writing to the Fund’s investors that Siegel had invested the Fund’s assets in a business operated by his daughter and subsequently taken a personal ownership interest in the business.

24. The investment in GGFH violated the Fund’s investment objective policy, however, Respondents failed to disclose the violation to investors and continued to include the same investment objective policy in Form ADV Part 2A brochures filed with the Division in March 2014 and March 2016.

25. Respondents represent that, through a series of Performance/Market Strategy updates sent to Fund investors, they notified investors of the existence of the note between the Fund and GGFH. As evidence, Respondents produced copies of Performance/Market Strategy updates dated October 2015, January 2016, April 2016, July 2016, and October 2016. However, four of the five updates simply referenced the existence of a note or debt position without identifying the borrower, the terms of the note, or the risks associated with the note. The fifth

update dated July 2016 only disclosed that the note was with GGFH. None of the updates disclosed the material conflicts of interest that existed in investing the Fund's assets in an entity owned and controlled by Siegel or his daughter.

26. Furthermore, the Performance/Market Strategy updates themselves were misleading. In each update, Respondents provided investors with the quarterly performance for the Fund, regularly comparing the Fund's performance with the return for the S&P 500. However, Respondents failed to have an independent valuation of the GGFH note and, thus, could not have known the true performance of the Fund. What Respondents did know is that GGFH was in arrears in making interest payments on the note for 2015, but Respondents failed to take that material fact into consideration in formulating the Fund's performance. Respondents further failed to tell investors that the GGFH note was not valued at fair market value, that GGFH was in arrears for 2015 interest payments, and that the performance returns were inaccurate.

27. Respondents transferred additional monies from the Fund to GGFH. On or about May 20, 2014, an additional \$100,000 of the Fund's assets were invested with GGFH. The transfer was evidenced by Amendment 1 to the August 28, 2013 note. Amendment 1 simply stated that "The value of the Note is increased by \$100,000 to \$400,000" and was signed by Siegel's daughter. On or about June 3, 2014 and August 12, 2016, investments of \$20,000 each were made pursuant to Amendments 2 and 3, respectively.

28. Although not memorialized with a note, in early 2016, Respondents invested an additional \$32,500 with GGFH, bringing the total invested with GGFH to \$472,500.¹

¹ On January 9, 2014, Siegel transferred another \$100,000 from the Fund to GGFH, however, those funds were returned to the Fund the next day. It is unclear why the funds were transferred as the transfer was not evidenced by a written instrument.

29. The diversification policy for the Fund was set forth in the Fund's PPM and JJR's Form ADV Part 2A brochure. According to the policy, "At least 75% of the Fund's assets will be invested as follows: no more than 5% (of the 75%) in any one issuer's securities; no more than 25% (of the 75%) allocated to any one sector . . . The fund's assets will not consist of more than 7.5% of the outstanding shares of stock of any one issuer."

30. By the Spring of 2014, if not earlier, Respondents had breached this diversification policy.

31. At the time of the initial investment, the \$300,000 investment in GGFH represented approximately 16% of the Fund's total assets of approximately \$1.9 million.

32. Between August 2013 and April 2014, the Fund received and honored investor redemptions totaling approximately \$1,058,000, significantly reducing the Fund's assets. By April 2014, the Fund's investment in GGFH represented more than a third of the Fund's assets.

33. Despite the violation of the Fund's diversification policy, as discussed above, Respondents invested an additional \$172,500 of the Fund's assets in GGFH.

34. By the end of 2014, the Fund's investment in GGFH represented approximately 75% of the Fund's total assets.

35. Respondents failed to disclose the violation of the Fund's investment policy in writing to the existing Fund investors or to the new investor who invested \$100,000 with the Fund in the Spring of 2016.

36. Respondents also failed to amend JJR's Form ADV Part 2A brochure to reflect the material change in its diversification policy. Although violated by April 2014, Respondents did not amend JJR's Form ADV Part 2A brochure in 2014 to disclose the violation of or non-

compliance with or otherwise amend the diversification policy. Respondents failed to file an amended Form ADV Part 2A brochure with the Division in 2015, as required by COMAR 02.02.05.11 and, thus, failed to notify investors or the Division of the change in its diversification policy. On or about March 31, 2016, Respondents filed a Form ADV Part 2A brochure with the Division, but the brochure continued to disclose the diversification policy that had long been violated.

37. According to Siegel, GGFH was mismanaged by his daughter and her husband who, in June 2016, pledged the cash flow of GGFH to a bank creditor.

38. That same month, Siegel formed a new entity, Get Good Field Haus, which subsequently changed its name to Savage Sportsplex. In September 2016, GGFH was evicted from its premises, and Get Good Field Haus took over the premises and continued to operate the sports facility.

39. In March 2017, Get Good Field Haus, now Savage Sportsplex, was evicted from its premises and closed its doors.

40. According to Siegel, at the time that GGFH and related entities Get Good Field Haus and Savage Sportsplex ceased to exist, there were eight investors remaining in the Fund. In the aggregate, those investors were owed \$472,500, the principal amount of the Fund's assets invested with GGFH, and the 8% interest promised by GGFH.

41. During the Spring of 2017, the Division entered into negotiations with Siegel to make restitution to the Fund's investors. The Division presented Siegel with a Consent Order under which he would agree to make payments to the Office of the Attorney General. The Office of the Attorney General would then make pro rata distributions to the Fund's underlying investors

based upon their capital balances.

42. The Commissioner and Division staff met with Siegel and emphasized to him the fairness and equity in treating all investors equally by distributing the funds in a pro rata manner.

43. During the negotiation process, Siegel represented to the Division that he was holding approximately \$231,000 in a bank account for the benefit of the Fund's investors.

44. In an email dated February 9, 2017, provided at the Division's request, Siegel represented that he would preserve and protect those funds and any other assets that he may receive for the benefit of the Fund.

45. Siegel understood that, upon execution of the proposed Consent Order, the cash assets and any other assets would be turned over to the Division for pro rata distribution to the investors.

46. Despite the representation and understanding, on May 4, 2017 the Division learned that Siegel had failed to honor the commitments by paying the majority of the cash assets to three of the remaining eight investors. Despite the Division's requests for equitable treatment of all investors, and despite his representations that he would preserve any assets in his possession, Siegel favored three investors over the other investors, thus causing further harm to the other investors.

47. Siegel once again breached the fiduciary duty that he owed to the Fund and to its underlying investors.

Failure to File or Timely File Financial Reports

48. As the managing member of the Fund, JJR had the ability to take possession of the

Fund's assets and, thus, Respondents had custody of the Fund's assets.

49. COMAR 02.02.05.04 requires Respondents to annually engage an independent CPA to verify on a surprise basis the assets over which Respondents had custody (the "examination") and, within thirty (30) days of the examination, file with the Commissioner a report describing the nature and extent of the examination ("surprise examination report"), but despite repeated requests from the Division, Respondents failed to timely file surprise examination reports for calendar years 2008 through 2014.

50. COMAR 02.02.05.17 requires Respondents to annually engage an independent CPA to audit the investment adviser's balance sheet and, within ninety (90) days of the adviser's fiscal year end, file the audit report with the Commissioner, but despite repeated requests from the Division, Respondents failed to timely file audit reports for calendar years 2008 through 2014.

51. On or about May 16, 2016, Respondents filed with the Division an audit report for calendar year 2014. In addition to being filed late, the 2014 audit report issued to Respondents was a qualified opinion because, despite the auditor's request, Respondents refused to obtain an independent valuation of the GGFH notes receivable held by the Fund. The notes receivable was listed on the Fund's financial statements at cost rather than at fair market value, as required by generally accepted accounting principles ("GAAP"). The qualified opinion is inconsistent with section 11-203(c)(2) of the Act and COMAR 02.02.05.17 which require financial statements to be prepared in accordance with GAAP.

52. Despite requests from the Division, Respondents have failed to file with the Division surprise examination reports for calendar years 2015 and 2016 and an audit report for calendar years 2015 and 2016.

Failure to Disclose Judgment/Lien or Bankruptcy Filings

53. Respondent Siegel was the subject of an unsatisfied judgment or lien and bankruptcy filings that were required to be disclosed on his Form U4 application and in Form ADV.

54. On or about August 1, 2016, Eagle Bank entered a judgment or lien against Siegel in the amount of \$350,000.

55. Item 14M of Form U4 required Respondent Siegel to amend his Form U4 to disclose the unsatisfied judgment or lien, but Respondent Siegel failed to do so.

56. Instruction 2D of Form ADV Part 1B required Respondents to amend JJR's Form ADV to disclose the unsatisfied judgment or lien, but Respondents failed to do so.

57. On or about August 12, 2016, Siegel filed a voluntary Chapter 13 bankruptcy petition with the Eastern District of Virginia bankruptcy court.

58. On or about October 12, 2016, Siegel filed a second voluntary Chapter 13 bankruptcy petition with the Eastern District of Virginia bankruptcy court.

59. Both bankruptcy petition filings were eventually voluntarily dismissed by Siegel.

60. Item 14K of Form U4 required Respondent Siegel to amend his Form U4 to disclose the filing of the bankruptcy petitions, but Respondent Siegel failed to do so.

61. Item 7B of Form ADV Part 2B required Respondents to amend Siegel's Form ADV Part 2B brochure supplement to disclose the filing of the bankruptcy petitions, but Respondents failed to do so.

IV. CONCLUSIONS OF LAW

The Commissioner concludes that:

62. Respondents violated sections 11-203(c)(2) and 11-302(f) of the Act by filing with the Division a financial statement that was not prepared in accordance with GAAP.

63. Respondents violated sections 11-301(2) and (3) of the Act by, among other things, investing the assets of the Fund and its underlying investors in an entity owned and/or controlled by Siegel and/or his daughter and failing to disclose this conflict of interest to investors, placing an investment purchased with Fund and investor assets in his and his wife's name, failing to disclose material facts to investors, including the risks associated with the investment in GGFH, and favoring some investors over others by distributing Fund assets to some, but not all, of the remaining Fund investors.

64. Respondents violated sections 11-302(a)(2) and (c) of the Act by, among other things, investing the assets of the Fund and its underlying investors in an entity owned and/or controlled by Siegel and/or his daughter and failing to disclose this conflict of interest to investors, placing an investment purchased with the Fund and investor assets in his and his wife's name, failing to disclose material facts to investors, including the risks associated with the investment in GGFH, providing clients with false and misleading Performance/Market Strategy updates, and favoring some investors over others by distributing Fund assets to some, but not all, of the remaining Fund investors.

65. Respondents violated section 11-302(a)(3) of the Act and COMAR 02.02.05.03B(6), B(11), and B(13) by, among other things, engaging in the unauthorized borrowing or misappropriation of Fund and investor assets, issuing Performance/Market Strategy updates containing false and misleading information, and favoring some investors over others by distributing Fund assets to some, but not all, of the remaining Fund investors.

66. Respondents violated section 11-302(f) of the Act and COMAR 02.02.05.04 by failing to timely file surprise examination reports for calendar years 2008 through 2014 and by failing to engage an independent CPA to perform a surprise examination of the Fund's assets and file the surprise examination report for calendar years 2015 and 2016.

67. Respondents violated section 11-303 of the Act by filing with the Division documents containing false and misleading statements.

68. Respondents violated section 11-411(c) of the Act and COMAR 02.02.05.17 by filing with the Division a balance sheet that was not prepared in accordance with GAAP.

69. Respondents violated section 11-411(d) of the Act by, among other things, failing to file with the Division an amendment to its Form ADV Part 2A for calendar year 2015, failing to amend JJR's Form ADV and Siegel's Form U4 to disclose Siegel's bankruptcy filings and judgment/lien, and failing to file with the Division amendments to JJR's Form ADV Part 2A brochure to reflect material changes to its diversification and investment objective policies.

70. Respondents willfully violated or willfully failed to comply with sections 11-203(c)(2), 11-301(2) and (3), 11-302(a)(2), (a)(3), (c), and (f), 11-303, 11-411(c)(3) and (d) of the Act, as detailed in this Order, and grounds exist under 11-412(a)(2) of the Act to revoke Respondents JJR and Siegel's investment adviser and investment adviser representative registrations, respectively.

71. Respondents have engaged in dishonest and unethical practices by, among other things, making false filings with the Commissioner, borrowing or misappropriating assets from the Fund and its investors, failing to disclose to clients the conflict of interest that existed with investing Fund and investor assets in entities owned and controlled by Siegel or his daughter, and

issuing false and misleading statements in the Performance/Market Strategy updates given to clients, and grounds exist under section 11-412(a)(7) of the Act to revoke Respondents JJR and Siegel's investment adviser and investment adviser representative registrations, respectively.

V. SANCTIONS

72. NOW, THEREFORE, IT IS HEREBY ORDERED that:

a. Respondent J. J. Richardson, LLC's registration as an investment adviser is revoked as of December 31, 2016.

b. Respondent John R. Siegel's registration as an investment adviser representative in Maryland is revoked as of December 31, 2016.

b. Respondents J.J. Richardson, LLC and John R. Siegel are permanently barred from engaging in the securities or investment advisory business in Maryland for or on behalf of any others, or from acting as principal or consultant in any entity so engaged.

c. Respondents J.J. Richardson, LLC and John R. Siegel, jointly and severally, are assessed a civil monetary penalty pursuant to section 11-702 of the Act in the amount of \$400,000 for the violations set forth in this Order. Payment shall be by certified check payable to the Office of the Attorney General. Said penalty shall be paid within one hundred eighty (180) days of the date of this Order. However, this penalty shall be reduced dollar for dollar by the amount of restitution made by Respondents to the remaining investors in the Fund within one hundred eighty (180) days of the date of this Order. Payment of restitution shall be by certified check payable to the Office of the Attorney General and then distributed by the Office of the Attorney General in a manner within its discretion. Payments made to the Division more than one hundred eighty (180) days from the date of this Order shall be allocated, within the Division's

discretion, to the payment of the civil monetary penalty or restitution. If the Division has to forward this matter to Central Collections of Maryland, the 17% collection fee assessed by Central Collections shall be in addition to, and not offset, the balance of the civil monetary penalty owed to the Division.

VI. JURISDICTION RETAINED

73. Jurisdiction shall be retained by the Commissioner for such further orders and directions as may be necessary or appropriate for the construction or enforcement of this Order.

VII. APPEAL RIGHTS

74. Each Respondent may appeal this Final Order of Denial and Bar to the appropriate Circuit Court of the State of Maryland within 30 days from the date this Order is mailed by the Securities Division.

SO ORDERED:

**Commissioner's Signature on
File w/Original Documents**

July 13, _____, 2017

Melanie Senter Lubin
Maryland Securities Commissioner

