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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
Whether there has been a violation
of the Securities Act of Washington by:

GREGORY L. HAGEN,

Respondent.

S-02-305-02-SC01

STATEMENT OF CHARGES AND NOTICE
OF INTENT TO ENTER AN ORDER
SUSPENDING SECURITIES
SALESPERSON REGISTRATION AND
IMPOSING FINES

Case No. S-02-305

THE STATE OF WASHINGTON TO: Gregory L. Hagen, CRD #2483125

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent, Gregory L. Hagen, has engaged in dishonest and unethical practices in the securities business while employed as a registered securities salesperson for Commonwealth Financial Network, and that those practices justify the entry of an order against Respondent Hagen suspending his securities salesperson registration and imposing fines pursuant to RCW 21.20.110(1)(b) and (g). The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I. Respondents

1. **GREGORY L. HAGEN** ("Hagen") has been registered with the state of Washington as a securities salesperson since April of 1994. Hagen has been employed by Public Securities, Inc. ("Public Securities") since March of 2002. Hagen was employed by Smith Barney, Inc. from April of 1994

1 through March of 1996, by Piper Jaffray, Inc., from March of 1996 through March of 1998, by KMS
2 Financial Services, Inc. (“KMS”) from March of 1998 through August of 1999, and by Commonwealth
3 Financial Network (“Commonwealth”) from September of 1999 through December of 2001. Hagen
4 resides in Spokane, Washington.

5 **II. Nature of the Conduct**

6 2. Mr. M.¹, a Washington resident, had been a client of Hagen’s since 1998 while Hagen was
7 employed by KMS. Mr. M. transferred his investment accounts from KMS to Commonwealth when
8 Hagen began working for Commonwealth.

9 3. In March of 2000, Hagen told Mr. M. that Cell Pathways, Inc. would be getting final approval
10 from the FDA for a cancer treatment drug called Aptosyn. Hagen recommended that Mr. M. buy call option
11 contracts on the stock. Upon Hagen’s recommendation, Mr. M. purchased five April Cell Pathways, Inc.
12 call option contracts on March 2, 2000, ten April Cell Pathways, Inc call option contracts on March 20,
13 2000, eight July Cell Pathways, Inc. call option contracts on April 3, 2000, and seven July Cell Pathways,
14 Inc. call option contracts on April 5, 2000.

15 4. Upon Hagen’s recommendation, Mr. M. sold all fifteen of the April Cell Pathways, Inc.
16 call option contracts on April 6, 2000, realizing a short-term loss of \$8,183.96. Mr. M. continued to hold
17 his July Cell Pathway, Inc. call option contracts.

18 5. In July of 2000, Hagen told Mr. M. that the FDA approval for Aptosyn might not occur in July
19 and therefore it would be better to “roll over” his call position in Cell Pathways, Inc. by buying August
20 contracts. Hagen recommended that Mr. M. sell the July Cell Pathways, Inc. call option contracts and
21

22 ¹ The person’s full name is omitted for the purposes of privacy protection.

1 purchase August Cell Pathways, Inc. call option contracts. Mr. M. agreed and Hagen purchased ten August
2 Cell Pathways, Inc. call option contracts on July 14, 2000. Hagen then misled Mr. M. by telling him that
3 the July Cell Pathway, Inc. option contracts had been sold at favorable prices as agreed upon. In fact, Hagen
4 had not sold the July Cell Pathways, Inc. option contracts and they expired worthless on July 25, 2000. As a
5 result, Mr. M. realized a short-term loss of \$10,236.32. Mr. M. agreed to let the August option contracts
6 expire on August 22, 2000, at which time he realized a short-term loss of \$1,727.75.

7 6. Upon an initial review of his July 2000 Commonwealth account statement in October of 2000,
8 Mr. M. discovered that Hagen had not sold the July Cell Pathways, Inc. option contracts as Hagen had
9 represented, but had let them expire worthless. Mr. M. asked Hagen for an explanation. Hagen told Mr. M.
10 that there had been a mistake made by the trading desk in finalizing the trade. Hagen told Mr. M. that he
11 would be compensated by Commonwealth's errors and omissions insurance for the mistake.

12 7. In December of 2000, Hagen told Mr. M. that the mistake made in not processing the trade
13 to sell Mr. M.'s July Cell Pathway, Inc. option contracts had resulted in a loss of approximately \$8,250.
14 Hagen was not able to provide Mr. M. with an exact day on which the trade should have occurred.
15 Nonetheless, Hagen represented that \$8,250 was the approximate compensatory amount based on an
16 estimate of when the trade should have occurred. Mr. M. requested that Commonwealth send him a
17 check for that amount and Hagen agreed to process this request. Commonwealth issued a check to Mr.
18 M. on December 8, 2000 for \$8,250. Hagen misled Mr. M. by telling him that Commonwealth had
19 compensated him for his loss. In fact, Hagen had executed an unauthorized margin loan from Mr. M.'s
20 account and represented that Mr. M.'s loan proceeds were compensation from Commonwealth.

21 8. In September of 2001, upon an initial review of his December 2000 Commonwealth
22 account statement, Mr. M. realized that the check for \$8,250 had been drawn from his own account on

1 margin. On September 30, 2001, Mr. M.'s margin debit balance was \$6,728.30 and his total loss was
2 \$16,964.62. The total loss represented Mr. M.'s margin debit balance plus his realized loss when the
3 July option contracts expired. Mr. M. confronted Hagen and asked him to sign a promissory note to
4 resolve the dispute.

5 9. On January 4, 2002, Hagen executed a promissory note whereby Hagen promised to pay
6 Mr. M. \$8,800 with interest at ten percent per annum. In the event of a default, Hagen promised to pay
7 Mr. M. \$8,800 with interest at fifteen percent per annum. The principal amount due under the note
8 represented the \$8,250 check plus the approximate accrued margin interest in Hagen's account to date.
9 The promissory note was due on March 31, 2002. To date, Hagen has not fulfilled his obligation under
10 the promissory note.

11 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

12 CONCLUSIONS OF LAW

13 1. Hagen, as described above, engaged in one or more dishonest or unethical practices in the
14 securities business, as defined by WAC 460-22B-090(1), by engaging in the practice of borrowing
15 money from a customer. Such practice is grounds for the suspension of his salesperson registration
16 pursuant to RCW 21.20.110(1)(g).

17 2. Hagen, as described above, engaged in one or more dishonest or unethical practices in the
18 securities business, as defined by WAC 460-22B-090(8), by executing a transaction on behalf of
19 customer without authorization to do so. Such practice is grounds for the suspension of his salesperson
20 registration pursuant to RCW 21.20.110(1)(g).

21 3. Hagen, as described above, in connection with the offer and sale of securities, made untrue
22 statements of material fact or omitted to state material facts necessary in order to make the statements

1 made, in light of the circumstances under which they were made, not misleading, in violation of RCW
2 21.20.010. Such practice is grounds for the suspension of his salesperson registration pursuant to RCW
3 21.20.110(1)(b).

4 **NOTICE OF INTENT TO SUSPEND REGISTRATION**

5 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and
6 Conclusions of Law, the Securities Administrator intends to order that the securities salesperson
7 registration of the Respondent be suspended for ninety days.

8 **NOTICE OF INTENT TO IMPOSE FINES**

9 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and
10 Conclusions of Law, the Securities Administrator intends to order that Respondent shall be liable for and
11 pay a fine of \$5,000.

12 **AUTHORITY AND PROCEDURE**

13 This Order is entered pursuant to the provisions of RCW 21.20.110 and is subject to the
14 provisions of RCW 21.20.120 and Chapter 34.05 RCW. The Respondent may make a written request for
15 a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
16 HEARING accompanying this Order.

17 If the Respondent does not request a hearing, the Securities Administrator intends to adopt the
18 foregoing Tentative Findings of Fact and Conclusions of Law as final, impose the fines and enter an
19 order suspending the Respondent's securities salesperson registration and imposing the fines sought.

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DATED this 2nd day of January 2003.



DEBORAH R. BORTNER
Securities Administrator

Approved by:

Presented by:

Michael E. Stevenson
Chief of Enforcement

Chad Standifer
Staff Attorney