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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-02-305-03-FO01

ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND FINAL
ORDER SUSPENDING SECURITIES
SALESPERSON REGISTRATION AND
IMPOSING FINE

Case No. S-02-305

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

On January 2, 2003, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intention to Enter an Order Suspending Securities Salesperson Registration and Imposing Fines S-02-305-02-SC01, hereinafter referred to as the "Statement of Charges", against Respondent Gregory L. Hagen. On January 6, 2003, the Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing (hereinafter referred to as "Notice of Opportunity for Hearing") and an Application for Adjudicative Hearing (hereinafter referred to as "Application for Hearing"), was served via certified mail on Gregory L. Hagen. The Notice of Opportunity for Hearing advised Gregory L. Hagen that he had twenty days from the date he received the notice to file a written application for an adjudicative hearing on the Statement of Charges. The Statement of Charges further advised that if Respondent did not request a hearing, the Securities Administrator intended to adopt the Tentative Findings of Fact and Conclusions of Law set forth in the Statement of Charges as final, suspend Respondent's securities salesperson registration, and impose the fine sought.

ENTRY OF FINDINGS OF FACT AND CONCLUSIONS OF
LAW AND FINAL ORDER SUSPENDING SECURITIES
SALESPERSON REGISTRATION AND IMPOSING FINE

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DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 Gregory L. Hagen failed to request an adjudicative hearing within twenty days of his receipt of the
2 Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing provided
3 or otherwise.

4 The Securities Administrator therefore adopts as final the findings of fact and conclusions of law
5 as set forth in the Statement of Charges.

6 The Securities Administrator finds as follows:

7 **FINDINGS OF FACT**

8 **I. Respondents**

9 1. **GREGORY L. HAGEN** (“Hagen”) has been registered with the state of Washington as a
10 securities salesperson since April of 1994. Hagen has been employed by Public Securities, Inc. (“Public
11 Securities”) since March of 2002. Hagen was employed by Smith Barney, Inc. from April of 1994
12 through March of 1996, by Piper Jaffray, Inc., from March of 1996 through March of 1998, by KMS
13 Financial Services, Inc. (“KMS”) from March of 1998 through August of 1999, and by Commonwealth
14 Financial Network (“Commonwealth”) from September of 1999 through December of 2001. Hagen
15 resides in Spokane, Washington.

16 **II. Nature of the Conduct**

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

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

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

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

10 5. In July of 2000, Hagen told Mr. M. that the FDA approval for Aptosyn might not occur in July
11 and therefore it would be better to "roll over" his call position in Cell Pathways, Inc. by buying August
12 contracts. Hagen recommended that Mr. M. sell the July Cell Pathways, Inc. call option contracts and
13 purchase August Cell Pathways, Inc. call option contracts. Mr. M. agreed and Hagen purchased ten August
14 Cell Pathways, Inc. call option contracts on July 14, 2000. Hagen then misled Mr. M. by telling him that
15 the July Cell Pathway, Inc. option contracts had been sold at favorable prices as agreed upon. In fact, Hagen
16 had not sold the July Cell Pathways, Inc. option contracts and they expired worthless on July 25, 2000. As a
17 result, Mr. M. realized a short-term loss of \$10,236.32. Mr. M. agreed to let the August option contracts
18 expire on August 22, 2000, at which time he realized a short-term loss of \$1,727.75.

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

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

12 8. In September of 2001, upon an initial review of his December 2000 Commonwealth
13 account statement, Mr. M. realized that the check for \$8,250 had been drawn from his own account on
14 margin. On September 30, 2001, Mr. M.'s margin debit balance was \$6,728.30 and his total loss was
15 \$16,964.62. The total loss represented Mr. M.'s margin debit balance plus his realized loss when the
16 July option contracts expired. Mr. M. confronted Hagen and asked him to sign a promissory note to
17 resolve the dispute.

18 9. On January 4, 2002, Hagen executed a promissory note whereby Hagen promised to pay
19 Mr. M. \$8,800 with interest at ten percent per annum. In the event of a default, Hagen promised to pay
20 Mr. M. \$8,800 with interest at fifteen percent per annum. The principal amount due under the note
21 represented the \$8,250 check plus the approximate accrued margin interest in Hagen's account to date.

1 The promissory note was due on March 31, 2002. To date, Hagen has not fulfilled his obligation under
2 the promissory note.

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

4 **CONCLUSIONS OF LAW**

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

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

13 3. Hagen, as described above, in connection with the offer and sale of securities, made untrue
14 statements of material fact or omitted to state material facts necessary in order to make the statements
15 made, in light of the circumstances under which they were made, not misleading, in violation of RCW
16 21.20.010. Such practice is grounds for the suspension of his salesperson registration pursuant to RCW
17 21.20.110(1)(b).

18 **FINAL ORDER**

19 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY ORDERED that Gregory L.
20 Hagen's securities salesperson licenses shall be suspended for a period of 90 (ninety) days from the date
21 of entry of this Order.

1 IT IS FURTHER ORDERED that, pursuant to RCW 21.20.110, Gregory L. Hagen shall pay a fine
2 in the amount of \$5,000. Such payment shall be: (a) made by United States postal money order, certified
3 check, bank cashier's check or bank money order; (b) made payable to the Washington State Treasurer; (c)
4 delivered by certified mail to Deborah R. Bortner, Securities Administrator, Department of Financial
5 Institutions, PO Box 9033, Olympia, Washington 98507-9033; and (d) submitted with a cover letter that
6 identifies Gregory L. Hagen as a Respondent under these proceedings, and the Order and case number of
7 these proceedings.

8 **AUTHORITY AND PROCEDURE**

9 This Order is entered pursuant to the provisions of RCW 21.20.110 and is subject to the
10 provisions of RCW 21.20.120 and Chapter 34.05 RCW. Pursuant to RCW 21.20.110, a certified copy of
11 this order may be filed in Superior Court. If so filed, the clerk shall treat the order in the same manner as
12 a Superior Court judgment as to the fine, and the fine may be recorded, enforced, or satisfied in like
13 manner.

14 DATED this 9 day of April, 2003.

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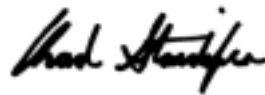
17 DEBORAH R. BORTNER
18 Securities Administrator

19 Approved by:

Presented by:

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21 Michael E. Stevenson
22 Chief of Enforcement

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24 Chad Standifer
25 Staff Attorney