**BEFORE THE SECURITIES COMMISSIONER OF THE STATE OF KANSAS**

FILED
JUN 11 2019
Kansas
Securities Commissioner

In the Matter of:

Lawrence E. Hagedorn (CRD No. 1794077),

Respondent.

Docket No. 19E058
KSC No. 2018-6480

/

Pursuant to K.S.A. 17-12a604

## DEFAULT FINAL ORDER

This matter comes for consideration by the Securities Commissioner of Kansas ("Commissioner") upon the *Application for Order* ("*Application*"), filed herein by the Staff of the Office of the Kansas Securities Commissioner ("KSC Staff") on January 29, 2019.

## Summary of Proceedings

In the *Application*, KSC Staff requested the Commissioner to issue an order under K.S.A. 17-12a604 barring Respondent from association with a broker-dealer or investment adviser registered in Kansas under the Kansas Uniform Securities Act ("KUSA"), to impose a $50,000 civil penalty against Respondent, and to order Respondent to pay restitution to two individuals.

Based on the *Application*, the Commissioner issued a *Notice of Intent to Issue Order* ("*NOI*") on February 27, 2019. The *NOI* notified Respondent that if the allegations set forth in the *Application* are found to be true, through either administrative adjudication, failure of Respondent to make a timely request for hearing, or default by Respondent, the

Commissioner intended to enter an order against the Respondent, which may include one or more of the sanctions or remedies enumerated under K.S.A. 17-12a604(b).

The *NOI* further notified Respondent that if Respondent wished to contest the allegations in the *Application* or offer evidence and argument to mitigate them or the sanctions or remedies to be imposed, then Respondent must file a request for hearing, in the manner and form prescribed by K.A.R. 81-11-3 and K.A.R 81-11-5, within thirty-three (33) days of the date of mailing on the *Certificate of Service* accompanying the *NOI*. The *NOI* also notified Respondent that, if a request for hearing is not timely filed, the Commissioner may issue a final order, including the sanctions and remedies described above, without further proceedings.

A *Certificate of Service* filed by the Administrative Clerk indicates that a copy of the *NOI* was sent to Respondent on February 27, 2019, by certified mail, return receipt requested, and by first-class mail, postage prepaid. The copy sent by certified mail was returned unclaimed. The copy sent by first-class mail has not been returned. Copies of the *Application*, *NOI*, and *Certificate of Service* were also sent to Respondent and an attorney representing Respondent in another matter by electronic mail on April 10, 2019. To date, Respondent has not filed a request for hearing.

Having reviewed the *Application* and the file, the Commissioner finds and orders as follows:

## Findings of Fact

1. Respondent Lawrence E. Hagedorn, CRD #1794077 ("Respondent" or "Hagedorn") is an individual with a last-known address of [redacted]

2. The O.N. Equity Sales Company ("ONESCO"), CRD #2936, is a broker-dealer with its principal place of business located at 10300 Alliance Road, Blue Ash, OH 45242. ONESCO has been registered as a broker-dealer under the KUSA since February 3, 1986.

3. ON Investment Management Co. ("ONIMCO"), CRD #105662, is a federal covered investment adviser with its principal place of business located at 10300 Alliance Road, Suite 350, Blue Ash, OH 45242. ONIMCO has been authorized to transact business in Kansas as a federal covered investment adviser since February 28, 2001, pursuant to the notice filing procedure under K.S.A. 17-12a405(c).

4. ONESCO and ONIMCO are both affiliates or subsidiaries of Ohio National Financial Services ("ONFS").

5. From July 2, 2007 to September 20, 2017, Hagedorn was registered under the KUSA as an agent employed by or associated with ONESCO, and as an investment adviser representative employed by or associated with ONIMCO.

6. Until September 20, 2017, Hagedorn was also an insurance agent employed by or associated with ONFS.

7. On September 20, 2017, ONESCO filed a uniform termination notice for securities industry registration ("Form U-5") with the Central Registration Depository ("CRD"), providing notice that Hagedorn's employment or association with ONESCO and ONIMCO had been terminated effective September 20, 2017. ONESCO's Form U-5 stated that Hagedorn was terminated because he admitted to borrowing money from customers in violation of firm policy.

8. Pursuant to K.S.A. 17-12a402(c) and 17-12a404(c), Hagedorn's registrations as an agent and as an investment adviser representative under the KUSA became ineffective by operation of law on September 20, 2017, upon ONESCO's filing of the Form U-5 described above.

9. Pursuant to K.S.A. 40-4913, on September 21, 2017, ONFS notified the Kansas Insurance Department that it had terminated Hagedorn as an insurance agent employed by or associated with ONFS.

10. An investigation conducted by KSC Staff revealed that Hagedorn borrowed money from numerous customers, including customers through ONESCO, ONIMCO, and ONFS, during a period ranging from approximately September 2007 until December 2015.

[redacted]

11. [redacted]) is an individual residing in Wichita, Kansas.

12. Between May 16, 2012 and June 30, 2014, [redacted] made 11 loans to Hagedorn totaling $71,500. At the times of these loans, as further described below, [redacted]

was a customer of Hagedorn's in Hagedorn's capacity as an agent employed by or associated with ONESCO. When Hagedorn requested these loans, Hagedorn stated he was going to use the funds to expand his financial services business.

13. At Hagedorn's request, [redacted] loaned Hagedorn the following amounts on or about the following dates:

a. May 16, 2012: $18,000;

b. July 30, 2012: $6,000;

c. August 24, 2012: $6,000;

d. November 14, 2012: $6,000;

e. December 14, 2012: $6,000;

f. February 11, 2013: $6,000;

g. November 5, 2013: $3,000;

h. December 12, 2013: $6,000;

i. December 30, 2013: $2,500;

j. February 17, 2014: $6,000; and

k. June 30, 2014: $6,000.

14. At the time [redacted] loaned Hagedorn $18,000 on or about May 16, 2012, Hagedorn delivered a promissory note to [redacted] in which Hagedorn promised to pay [redacted] $18,000 with 6% interest by November 15, 2012.

15. For some of the loans [redacted] made to Hagedorn subsequent to May 16, 2012, Hagedorn made notations on the promissory note described in Paragraph 15 memorializing the dates and amounts of the loans and signed the notations. For

other such subsequent loans, [redacted] made notations on the promissory note memorializing the dates and amounts of the loans.

16. Hagedorn has not paid back any of the monies loaned by [redacted]

17. [redacted] is an individual residing in Valley Center, Kansas.

18. [redacted] made loans to Hagedorn on March 25, 2014, and on February 19, 2015, totaling $37,000. At the times of these loans, as further described below, [redacted] was a customer of Hagedorn's in Hagedorn's capacity as an agent employed by or associated with ONESCO.

19. On March 25, 2014, [redacted] loaned Hagedorn $28,000. In exchange, Hagedorn delivered a promissory note to [redacted] in which Hagedorn promised to pay [redacted] $28,000 with 6% interest by July 25, 2014. When Hagedorn requested this loan, Hagedorn stated he need the funds to catch up on bills and expenses.

20. On February 19, 2015, [redacted] loaned Hagedorn an additional $9,000. When Hagedorn requested this loan, Hagedorn stated he needed the funds to pay taxes. At the time of this loan, Hagedorn signed a notation written on the promissory note described in Paragraph 20 memorializing the date and amount of this loan.

21. The funds from the [redacted] loan of $9,000 on February 19, 2015, were deposited into Hagedorn's Personal Checking Account on February 19, 2015. Prior to this deposit, the balance of Hagedorn's Personal Checking Account was $18.59.

Between February 19, 2015, and March 6, 2015, Hagedorn cashed four checks written to himself totaling $7,770. During the same time period, Hagedorn made four ATM cash withdrawals totaling $580, and other personal expenditures totaling $639.32. No expenditures from Hagedorn's Personal Checking Account during this time period were made for the payment of taxes, and no deposits were made into the account other than the funds from the [redacted] On March 6, 2015, Hagedorn's Personal Checking Account had a balance of $29.27.

22. As partial repayments of the loans from [redacted] Hagedorn has made two payments to [redacted] totaling $6,000. Hagedorn paid [redacted] $5,000 on October 9, 2015, and $1,000 on July 12, 2017.

*Use of Proceeds*

23. With the exception of the $6,000 loan by [redacted] on June 30, 2014, the funds from all the loans by [redacted] and [redacted], as described above, were deposited into Hagedorn's personal checking account at Bank of America, account ending [redacted] ("Hagedorn's Personal Checking Account"). Of the $6,000 loaned by [redacted] on June 30, 2014, $3,000 was deposited into Hagedorn's Personal Checking Account.

24. Between the loans [redacted] and [redacted] made to Hagedorn, the first such loan was made by [redacted] on May 16, 2012, in the amount of $18,000. At the time the funds from this loan were deposited in Hagedorn's Personal Checking Account, the account had a balance of $0.00.

25. Between the loans [redacted] and [redacted] made to Hagedorn, the last such loan was made by [redacted] on February 19, 2015, in the amount of $9,000. At the time the funds from this loan were deposited in Hagedorn's Personal Checking Account, the account had a balance of $18.59, and by March 6, 2015, the account had a balance of $29.27.

26. The following summarizes the activity in Hagedorn's Personal Checking Account between May 16, 2012, and March 6, 2015:

a. There were deposits totaling $147,230, of which $68,500 were from loans made by [redacted], $65,000 were from loans made by [redacted], and $13,730 were from an unknown source;

b. Hagedorn cashed checks written to himself totaling $107,620;

c. Hagedorn made teller withdrawals totaling $12,000;

d. Hagedorn made ATM withdrawals totaling $4,720;

e. Hagedorn made personal expenditures using a debit card totaling $5,043.37; and

f. Hagedorn wrote a check to an unknown third party in the amount of $1,560.

g. There were no transactions related to the payment of taxes or the expansion of Hagedorn's financial services business.

*ONESCO Internal Investigation and Hagedorn's Termination*

27. On or around September 9, 2017, Hagedorn's supervisor at ONESCO, [redacted] learned that Hagedorn had borrowed money from a non-customer and had failed to repay the loan. [redacted] reported this information to ONESCO on September 11, 2017.

28. On September 13, 2017, [redacted] and an ONESCO registered principal, [redacted] met with Hagedorn and Hagedorn admitted that he had accepted loans from numerous individuals including ONESCO securities customers.

29. On September 20, 2017, ONFS, ONESCO, and ONIMCO terminated Hagedorn's employment by or association with those firms because Hagedorn admitted to borrowing money from customers in violation of firm policy.

30. On December 8, 2017, in response to a request for information by KSC Staff, Hagedorn sent a letter to KSC Staff in which Hagedorn acknowledged borrowing money from [redacted] and [redacted]

31. The sanctions and remedies ordered herein are in the public interest and are necessary to protect Kansas investors.

## Conclusions of Law

32. The Commissioner has jurisdiction over Respondent and this matter.

33. Hagedorn violated K.A.R. 81-3-6(e)(22) by borrowing money from customers.

34. Pursuant to K.S.A. 17-12a604(b), based on Hagedorn's violation of K.A.R. 81-3-6(e)(22), the Commissioner may enter an order containing one or more of the following sanctions or remedies:

a. a civil penalty up to $25,000 for each violation, with the total penalty not to exceed $1 million;

b. a bar or suspension from association with a broker-dealer or investment adviser registered in Kansas;

c. an order requiring Hagedorn to pay restitution for any loss or to disgorge any profits arising from the violation, which may include interest from the date of the violation; and

d. an order charging Hagedorn with the actual costs of the investigation or proceeding.

IT IS THEREFORE ORDERED by the Commissioner that: (1) Respondent is hereby barred from association with any broker-dealer or investment adviser registered in Kansas; (2) Respondent is assessed a civil penalty of $50,000; and (3) Respondent is ordered to pay restitution to [redacted] in the amount of $71,500, and to [redacted] in the amount of $31,000, including interest from the date of each loan as described above in Paragraphs 13, 19, and 20, at the rate provided for interest on judgments by K.S.A. 16-204, and amendments thereto.

**ISSUED BY THE COMMISSIONER.**

Entered at Topeka, Kansas, this 28th day of May, 2019.

[redacted]

Jeffrey S. Wagaman
Kansas Securities Commissioner

**NOTICES**

(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 order 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 Kansas Securities Commissioner is Jack Clayton Johnson, Chief Regulatory Counsel, at 109 SW 9th Street, Suite 600, Topeka, Kansas 66612.