

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: MICHAEL E. EGAN)
_____)

FILE NO.0200518

CONSENT ORDER OF DISMISSAL

TO THE RESPONDENT: Michael E. Egan
(CRD# 2406084)
1268 Camelot Drive
Lemont, Illinois 60439

c/o Waterstone Financial Group, Inc.
f/k/a Long Grove Trading Co.
500 Park Boulevard, Suite 800
Itasca, Illinois 60143-2645

c/o Rosemarie J. Guadnolo
Attorney at Law
Horvath & Lieber, P.C.
10 South LaSalle Street
14th Floor
Chicago, Illinois 60606

WHEREAS, Respondent Michael E. Egan on the 2nd day of April 2003, executed a certain Stipulation to Enter Consent Order of Dismissal ("Stipulation"), which hereby is incorporated by reference herein.

WHEREAS, by means of the Stipulation, the Respondent has admitted to the jurisdiction of the Secretary of State and service of the Notice of Hearing of the Secretary of State, Securities Department, dated July 17, 2002 in this proceeding (the "Notice") and the Respondent has consented to the entry of this Consent Order of Dismissal ("Consent Order").

WHEREAS, by means of the Stipulation, the Respondent acknowledged, while neither admitting nor denying the truth thereof, that the following allegations contained in the Notice of Hearing shall be adopted as the Secretary of State's Findings of Fact:

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1. That on May 7, 2002, Long Grove Trading Co., a registered dealer, filed a Form U-4 application for registration of the Respondent as a salesperson in the State of Illinois.
2. That on July 2, 2002, a Summary Order of Denial (the "Order") was issued by the Secretary of State denying this application. Pursuant to the terms of the Order, the Respondent requested a hearing on July 9, 2002.
3. On October 25, 2001, the New York Stock Exchange, Inc., entered Exchange Hearing Panel Decision 01-185 (the "Decision"). Without admitting or denying guilt, Respondent consented to a finding by the Hearing Panel that he:
 - i. Violated Exchange Rule 352 in that he offered and agreed to share in the losses of a customer account of his member firm employer.
 - ii. Engaged in conduct inconsistent with just and equitable principles of trade in that he: (a) effected an unauthorized transaction in a customer account of his member firm employer; and (b) solicited a customer to engage in free riding.
 - iii. Caused a violation of Exchange Rule 401 in that he solicited a customer of his member firm employer to trade on margin when he knew that the customer's account did not have an adequate margin reserve.
4. The Decision found that
 - a. By at least in or about the end of January 1999 or the beginning of February 1999 ("the relevant period"), Egan offered and agreed to share in the losses of a customer account on numerous occasions, effected an unauthorized transaction in a customer account of his member firm employer; and solicited a customer to engage in free-riding as set forth below.

Offering and Agreeing to Share in Losses

- b. On or about March 1998, Mr. GC opened a margin account through Egan at the Firm.
- c. Between March 1998 and February 1999, Egan effected numerous trades on margin for Mr. GC's account. During this period, Mr.

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GC's account realized losses of approximately \$53,000, as the result of the declining value of securities in the account.

- d. By the end of February 1999, the account balance had fallen below zero, to approximately negative \$6,000.
- e. During the relevant period, on several occasions, Egan offered and agreed to share in the losses to Mr. GC's account.
- f. For example, during a telephone conversation during the relevant period, just before Mr. GC's account balance became a negative one, Mr. GC expressed his desire to sell certain shares which were declining in value, so that his account would not go into the negative. In response, Egan offered and agreed to share in Mr. GC's losses. Egan stated: "Between you and me, if you want, hang onto this and anything that goes into the negative I'll write off against me, okay? You know, so they won't come after you for it, I'll take it. If it goes into the negative, I'll take it against my business set, you know what I'm saying? You know, so that way, you're protected on that."
- g. During a subsequent telephone conversation during the relevant period, Egan informed Mr. GC that his account balance had indeed dropped into the negative. At that time, Egan again offered and agreed to cover Mr. GC's losses. Egan stated, "I'll cover that, alright? So you won't have to do that [cover the losses yourself]." Egan also stated: "You can't tell him [Egan's manager] that I'll cover your debt... They would fire me for doing that, but you know I would rather do that and get straight, and see if we can get something going." During the course of this conversation, Egan repeated his offer to share in Mr. GC's losses in total approximately 20 times.
- h. Specifically, during the telephone conversation referenced in Paragraph 11 above, Egan offered not only to cover Mr. GC's negative account balance, but also to put an additional \$10,000 into Mr. GC's account.
- i. During this telephone conversation, Egan stated that he would want the money back eventually if there were profits in the account; however, if there were continued losses, Egan stated that they would be Egan's losses. Egan suggested that they meet "next

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Thursday" so that Egan could give Mr. GC money from Egan's wife.

Unauthorized Trade

- j. The losses to Mr. GC's account included losses of approximately \$25,000, which resulted from the decline in the price of 8,500 shares of XYZ, a non-listed security.
- k. These losses were realized in or about January 1999, when the shares were liquidated by the Firm as the result of a margin call in Mr. GC's account.
- l. In or about January 1999, after the forced liquidation, Egan repurchased 8,500 XYZ shares for Mr. GC's account for approximately \$21,000, without Mr. GC's knowledge or authorization.

Soliciting a Customer to Engage in "Free Riding"

- m. During the relevant period, prior to the date when Mr. GC's account balance went into the negative, Egan informed Mr. GC during a telephone conversation that the prices of the stocks in his account had declined in value, and that the net equity of his account was down to approximately \$3,000.
 - n. During the conversation referenced in Paragraph 17 above, despite the fact that Mr. GC's account did not have sufficient margin remaining, Egan suggested that Mr. GC "free ride" or "day trade" in order to make some money.
5. The Hearing Panel, in accepting the Stipulation of Facts and Consent to Penalty, found Respondent guilty as set forth by unanimous vote and imposed the penalty consented to by Respondent of a censure, a three month bar from membership, allied membership, approved person status, and from employment or association in any capacity with any member or member organization, and a fine of \$15,000.
6. That Section 8.E (1)(j) of the Act provides, inter alia, that the registration of a salesperson may be denied if the Secretary of State finds that such salesperson has been suspended by any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or deceptive act or a practice in violation of any rule,

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regulation or standard duly promulgated by the self-regulatory organization.

7. That the NYSE is a self-regulatory organization as specified in Section 8.E (1)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged, without admitting or denying the averments, that the following shall be adopted as the Secretary of State's Conclusion of Law:

That by virtue of the foregoing the Respondent's registration as a salesperson in the State of Illinois is subject to denial pursuant to Section 8.E (1)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that:

1. For a period of one (1) year from the entry of this Consent Order he shall be placed under increased and heightened supervision as more fully detailed in the Affidavit attached to the Stipulation and made part thereof;
2. He shall pay the sum of Five Hundred dollars (\$500.00) to the Office of the Secretary of State, Investors Education Fund, as reimbursement to cover the cost of investigation of this matter. Said sum shall be payable by means of certified or cashier's check and made to the order of the Secretary of State, Investor's Education Fund, and shall be due within thirty (30) days from the entry of this Consent Order; and
3. He will re-take and pass the Series 63 examination as a condition to his application for registration as a salesperson being approved.

WHEREAS, the Secretary of State, by and through his duly authorized representative, has determined that the matter related to the aforesaid formal hearing may be dismissed without further proceedings.

NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED:

1. Michael E. Egan for a period of one (1) year from the entry of this Consent Order shall be placed under increased and heightened supervision as more fully detailed in the Affidavit attached to the Stipulation and was made part thereof.
2. Michael E. Egan shall pay the sum of Five Hundred dollars (\$500.00) to the Office of the Secretary of State, Investor's Education Fund as reimbursement to cover the cost of investigation of this matter. Said sum shall be payable by means of certified or cashier's check and made to the order of the Secretary of State,

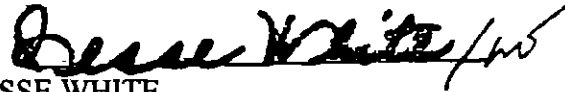
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Investor's Education Fund and shall be due within thirty (30) days from the entry of this Consent Order.

3. Michael E. Egan shall re-take and pass the Series 63 examination as a condition to his application for registration as a salesperson being approved.
4. The Summary Order of Denial entered on July 2, 2002 shall be and is hereby vacated.
5. The formal hearing scheduled on this matter is hereby dismissed without further proceedings.

ENTERED: This 3rd day of April, 2003.



JESSE WHITE
Secretary of State
State of Illinois

NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.1 of the Illinois Securities Law of 1953 [815 ILCS 5] (the Act). Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony.