

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION,**

Plaintiff,

v.

**KENNETH A. DACHMAN,
SCOTT A. WOLF, and
STONE LION MANAGEMENT, INC.,**

Defendants.

Civil Action No.

COMPLAINT

Plaintiff, the United States Securities and Exchange Commission (“Commission”) alleges as follows:

SUMMARY OF THE ACTION

1. The Commission brings this action based on a misappropriation scheme and securities offering fraud orchestrated by Kenneth A. Dachman (“Dachman”) in the names of three related entities that he controlled: Central Sleep Diagnostics, LLC (“Central Sleep”); Central Sleep Diagnostics of Florida, LLC (“Central Sleep Florida”) and Advanced Sleep Devices, LLC (“Advanced Sleep”). Between July 2008 and June 2010, Dachman raised at least \$4,162,108 from more than 60 investors located in at least 13 states for Central Sleep, Central Sleep Florida and Advanced Sleep. Among other things, Dachman told investors that their funds would be used to support and grow the businesses. However, instead of using their funds as he had represented, Dachman stole at least \$1,875,739 from investors, over 45% of the total funds raised. Dachman also made \$315,994 in Ponzi-type payments

to certain investors. In addition, Dachman lied to investors about his academic and business backgrounds by claiming that he received his undergraduate degree, master's degree and a Ph.D. from Northwestern University, when in reality he never completed college and only holds a Ph.D. from a correspondence school.

2. Dachman enlisted the help of Scott A. Wolf ("Wolf") a stock promoter who operated through his company, Stone Lion Management, Inc. ("Stone Lion") to facilitate the securities offerings for Central Sleep, Central Sleep Florida and Advanced Sleep. Wolf and Stone Lion acted as brokers and promoters for the three offerings. Among other things, Wolf and Stone Lion distributed offering materials and sent stock certificates to investors. Wolf and Stone Lion received sales commissions of 6% on the funds they raised from investors.

3. In connection with the securities offerings for Central Sleep, Central Sleep of Florida and Advanced Sleep, Dachman violated and aided and abetted violations of Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 ("Securities Act") and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder. By facilitating the securities offerings for Central Sleep, Central Sleep Florida and Advanced Sleep, Wolf and Stone Lion acted as unregistered brokers and violated Sections 5(a) and 5(c) of the Securities Act and Section 15(a)(1) of the Exchange Act.

JURISDICTION AND VENUE

4. The Court has jurisdiction over this action pursuant to Sections 20 and 22 of the Securities Act [15 U.S.C. §§ 77t and 77v] and Sections 21 and 27 of the Exchange Act [15 U.S.C. §§ 78u and 78aa]. Defendants Dachman, Wolf, and Stone Lion, directly or indirectly, have made use of the means or instrumentalities of interstate commerce and of

the mails, in connection with the acts, practices and courses of business alleged in this Complaint.

5. Venue is proper in this Court pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. §78aa] because some of the acts, practices and courses of business constituting the violations alleged in this Complaint occurred within the jurisdiction of the United States District Court for the Northern District of Illinois. In addition, Dachman resides within the Northern District of Illinois and, during the relevant time period, Central Sleep, Central Sleep Florida, Advanced Sleep resided and conducted business within the Northern District of Illinois.

DEFENDANTS

6. Kenneth A. Dachman is 54 years old and resides in Glencoe, Illinois. He founded and was the chairman of Central Sleep Diagnostics, Central Sleep Florida and Advanced Sleep, which he founded and controlled until the fall of 2010.

7. Scott A. Wolf is 51 years old and currently resides in Dubai, United Arab Emirates. He is the sole founder and proprietor of Stone Lion Management, Inc., a consulting company. Between July 2008 and June 2010, Wolf raised funds for Central Sleep, Central Sleep Florida and Advanced Sleep and was named by Dachman as the director of investor relations for Central Sleep and Advanced Sleep.

8. Stone Lion Management, Inc. is a Florida corporation based in Chicago, Illinois. Wolf is the president and sole shareholder of Stone Lion which purports to be in the business of helping start-up companies penetrate new markets by utilizing its network of clients.

OTHER RELEVANT ENTITIES

9. Central Sleep Diagnostics, LLC was an Illinois limited liability company based in Northbrook, Illinois which purportedly provided in-home diagnostic sleep studies to persons with sleep apnea and other sleep disorders. Dachman formed Central Sleep in June 2008. The Illinois Secretary of State issued an order dissolving its registration as an LLC in December 2010.

10. Central Sleep Diagnostics of Florida, LLC was an Illinois liability company that purportedly was an expansion of Central Sleep into the State of Florida. Dachman formed Central Sleep Florida in July 2008. The Illinois Secretary of State issued an order dissolving its registration as an LLC in January 2010.

11. Advanced Sleep Devices, LLC is an inactive Illinois limited liability company that shared office space with Central Sleep in Northbrook, Illinois. Dachman formed Advanced Sleep in July 2009, purportedly to sell medical devices to treat sleep disorders. The Illinois Secretary of State issued an order dissolving its registration as an LLC in January 2012.

FACTS

Dachman's Fraudulent Scheme And Misleading Statements

12. Dachman formed Central Sleep in June 2008 purportedly as a provider of diagnostic sleep studies for people with sleep apnea and other sleep-related medical conditions. Dachman proclaimed himself the chairman of Central Sleep and controlled all aspects of the company's business operations, including making personnel and finance decisions.

13. As Central Sleep's chairman, Dachman gave himself an annual salary of \$300,000 and hired his wife and friends of his family as employees.

14. Shortly after he formed Central Sleep, Dachman hired Wolf and Stone Lion to help raise funds through a stock offering on Central Sleep's behalf. Dachman offered to pay Wolf and Stone Lion with units of Central Sleep's stock and a 6% commission on all of the funds they raised. Dachman also offered to name Wolf as the new director of investor relations for Central Sleep.

15. Wolf and Stone Lion were the primary conduit through which investors could purchase securities for Central Sleep, Central Sleep Florida and Advanced Sleep. At all times, Wolf and Stone Lion were not registered with the Commission as brokers.

16. In July 2008, Wolf began soliciting friends and others to invest in Central Sleep. Many of these investors were unsophisticated and did not qualify as accredited investors based on their net worth or income. Investors typically paid between \$1 and \$4 per unit of Central Sleep stock.

17. Wolf and Stone Lion prepared initial drafts of offering materials for the Central Sleep stock offering, including the executive summary and subscription agreement. Wolf and Stone Lion also distributed the offering materials and stock certificates to investors.

18. Dachman provided Wolf with information to include in Central Sleep's offering materials, including information about Central Sleep's finances and Dachman's business and academic background. Dachman also reviewed, edited and approved the offering materials for Central Sleep before Wolf and Stone Lion sent them to investors.

19. Central Sleep's executive summary, which was the main instrument used to market and sell units of Central Sleep's stock to investors, made a number of misrepresentations about the company's finances and Dachman's background. Among other things, the executive summary misstated:

- a. that as of 2008, Central Sleep had \$1 million in insurance and Medicare receivables. In reality, Central Sleep only had \$18,175 in total revenues during 2008 and had \$0 in insurance and Medicare receivables.
- b. that it would use investor funds for three purposes: (1) to purchase diagnostic equipment; (2) as working capital to allow Central Sleep to continue operations while waiting for reimbursement from insurance companies; and (3) to retire debt on Central Sleep's books. In reality, Dachman misappropriated over 45% of the funds invested in Central Sleep and two related companies, and Central Sleep carried no debt on its books during 2008.
- c. that Dachman received his undergraduate degree, master's degree and Ph.D. from Northwestern University in Evanston, Illinois. In reality, Dachman never completed college, or earned a master's degree. His only Ph.D. came from Union Institute & University, a correspondence school.
- d. that Dachman previously had founded a chain of sports medicine and rehabilitation clinics in Illinois and Michigan. In reality, Dachman did not found or operate a chain of sports medicine and rehabilitation clinics.

20. In addition to the misrepresentations in the executive summary, Dachman also made oral misrepresentations and misleading statements to several investors. Among other things, Dachman told investors that their money would be used to hire staff, expand

Central Sleep's operations and fund future purchases of diagnostic equipment. In addition, he told investors that Central Sleep was a likely acquisition target. Dachman also repeated his claims that he received his Ph.D. from Northwestern University and that he had founded a chain of Midwestern sports-medicine rehabilitation clinics. All of these statements were false and misleading.

21. Dachman also told one investor by telephone that he would "allow" her to use her credit card to buy units of Central Sleep stock through a debt and equity agreement that would pay her 26% in interest per year. Dachman stopped paying this investor in April 2010 after making only four interest payments. The investor, however, continues to pay off the credit card debt she incurred to buy units of Central Sleep stock.

22. Dachman made additional oral misrepresentations and misleading statements to investors about Central Sleep in conference calls on December 7, 2009 and March 5, 2010, during which he requested that investors make additional investments based on Central Sleep's success.

23. During the December 7, 2009 call, Dachman told investors, among other things, that Central Sleep had experienced a "spectacular beginning" but needed additional investor funds to purchase equipment. Dachman failed to tell investors that he had misappropriated funds invested in the business for his and his family's personal uses.

24. During the second call on March 5, 2010, Dachman told investors to "try your best to come up with as much money as you can" and suggested that each investor send in at least \$25,000 because Central Sleep needed an infusion of cash to collect on its more than \$1 million in account receivables. In reality, Central Sleep had far less than \$1

million in account receivables and Dachman again failed to tell investors that he had misappropriated funds invested in the businesses for his and his family's personal uses.

25. Starting in December 2008, Dachman hired Wolf and Stone Lion to raise funds from investors in stock offerings on behalf of two purportedly related entities founded and controlled by Dachman: Central Sleep Florida and Advanced Sleep. Dachman once again offered to pay Wolf and Stone Lion a 6% commission on all of the funds they raised. Dachman also offered to name Wolf as the new director of investor relations for Advanced Sleep.

26. Similar to the Central Sleep offering, Wolf and Stone Lion prepared initial drafts of offering materials for the Central Sleep Florida and Advanced Sleep offerings, including executive summaries. Wolf and Stone Lion also distributed the offering materials to investors.

27. Dachman once again provided Wolf with information to include in the executive summaries for Central Sleep Florida and Advanced Sleep and also reviewed and edited them. The information that Dachman provided for the executive summaries included false and misleading statements about Dachman's background including that Dachman had completed his dissertation at Northwestern University and that he had established a chain of high-tech sports medicine and rehabilitation centers in Illinois and Michigan. Neither of these statements was true.

28. Between July 2008 and June 2010, more than 60 investors located in 13 states and 12 foreign countries invested over \$3,594,709 in Central Sleep, based, at least in part, on Dachman's misrepresentations.

29. Between December 2008 and April 2010, certain of the Central Sleep investors invested \$567,399 in Central Sleep Florida and Advanced Sleep,

30. Dachman paid Wolf and Stone Lion \$335,216 in sales commissions in connection with the securities offerings for Central Sleep, Central Sleep Florida and Advanced Sleep.

The Defendants' Failure To Register The Offering For Central Sleep

31. At no point in time was a registration statement filed with the Commission in connection with the securities offering for Central Sleep.

32. Dachman, Wolf and Stone Lion sold \$3.5 million of Central Sleep stock to investors over a two-year period, including raising \$1.2 million from investors during the first five months of 2008.

33. During the course of the securities offering for Central Sleep, Dachman, Wolf and Stone Lion failed to provide any of the investors with disclosure documents similar to those used in registered offerings, such as audited financial statements.

34. Dachman, Wolf and Stone Lion also sold units of Central Sleep stock to investors without inquiring or obtaining information as to whether they qualified as accredited investors.

Dachman's Uses of Investor Funds

35. Between July 2008 and June 2010, Dachman, Wolf and Stone Lion raised at least \$4,162,108 through the sale of Central Sleep, Central Sleep Florida and Advanced Sleep securities to more than 60 investors.

36. Instead of using investor funds as represented in the offering materials, Dachman misappropriated and diverted at least \$1,875,739 of the money raised from

investors, over 45% of the total funds raised. Dachman's thefts of investor funds started on the very first day that investor funds were deposited into Central Sleep's bank account in July 2008.

37. Dachman used investor funds to pay numerous personal expenses, including paying at least \$397,000 to rent-to-own a 10,000 square foot home in Lake Forest, Illinois, paying at least \$153,000 for family vacations to Alaska, Europe and elsewhere, at least \$20,000 in gambling losses in Las Vegas, paying \$69,000 for a new Range Rover, diverting \$192,525 to a tattoo parlor that he co-owned with his son-in-law, and spending more than \$100,000 for books, collectibles and antiques.

38. Dachman also withdrew over \$201,000 of investor funds in cash, used \$229,508 for day trading, paid his and his wife's numerous credit cards with \$92,000 in credit card bills for him and his wife and spent at least \$50,911 in investor funds for restaurant bills and groceries.

39. Dachman used \$315,994 in investor funds to make Ponzi-type payments to certain investors who had purchased convertible promissory notes as part of the securities offerings.

COUNT ONE

Against Kenneth A. Dachman For Violations of Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)]

40. The Commission realleges and incorporates by reference paragraphs 1 through 39.

41. At all relevant times, Dachman, in his capacity as founder and chairman, controlled Central Sleep, Central Sleep Florida and Advanced Sleep and their bank accounts. Dachman reviewed, approved and had ultimate authority over the written content

contained in the offering documents for Central Sleep, Central Sleep Florida and Advanced Sleep prior to their issuance. Dachman also made oral misrepresentations and misleading statements directly to certain investors.

42. Dachman, in the offer or sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce and by the use of the mails, directly or indirectly, employed devices, schemes and artifices to defraud.

43. Dachman knowingly or recklessly engaged in the fraudulent conduct described above.

44. By engaging in the conduct described above, Dachman has violated, and unless restrained and enjoined, will continue to violate, Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT TWO

Against Kenneth A. Dachman For Violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)]

45. The Commission realleges and incorporates by reference paragraphs 1 through 39.

46. Dachman, in the offer or sale of securities, by use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly obtained money or property by means of untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities.

47. By engaging in the conduct described above, Dachman has violated, and unless restrained and enjoined, will continue to violate, Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

COUNT THREE

***Against Kenneth A. Dachman For
Violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)]
and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]***

48. The Commission realleges and incorporates by reference paragraphs 1 through 39.

49. Dachman, in his capacity as founder and chairman, controlled Central Sleep, Central Sleep Florida and Advanced Sleep and their bank accounts. Dachman reviewed, approved and had ultimate authority over the written content contained in the offering documents for Central Sleep, Central Sleep Florida and Advanced Sleep prior to their issuance. Dachman also made oral misrepresentations and misleading statements directly to certain investors.

50. Dachman, in connection with the purchase or sale of securities, by the use of the means or instrumentalities of interstate commerce or of the mails, directly or indirectly: (a) used or employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud and deceit upon other persons.

51. Dachman knowingly or recklessly engaged in the fraudulent conduct described above.

52. By engaging in the conduct described above, Dachman has violated, and unless restrained and enjoined, will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

COUNT FOUR

***Against Kenneth A. Dachman For
Aiding and Abetting of Violations of Section 10(b) of the Exchange Act
[15 U.S.C. § 78 j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]***

53. The Commission realleges and incorporates by reference paragraphs 1 through 39.

54. At all relevant times, Dachman was the founder and chairman of Central Sleep, Central Sleep Florida and Advanced Sleep.

55. By engaging in the conduct described above, Central Sleep, Central Sleep Florida and Advanced Sleep knowingly or recklessly engaged in fraudulent conduct and violated Section 10(b) of the Exchange Act [15 U.S.C. § 78 j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

56. Dachman knowingly or recklessly provided substantial assistance to Central Sleep, Central Sleep Florida and Advanced Sleep in their violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78 j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

57. Pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Dachman aided and abetted Central Sleep's, Central Sleep Florida's and Advanced Sleep's violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78 j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

COUNT FIVE

***Against Kenneth A. Dachman For
Control Person Liability In Connection With Central Sleep's, Central Sleep
Florida's and Advanced Sleep's Violations of Section 10(b) of the Exchange
Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]***

58. The Commission realleges and incorporates by reference paragraphs 1 through 39.

59. As described above, Central Sleep, Central Sleep Florida and Advanced Sleep violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

60. At all relevant times, Dachman, as founder and chairman, controlled Central Sleep, Central Sleep Florida and Advanced Sleep and their bank accounts. Dachman also controlled the securities offerings on behalf of Central Sleep, Central Sleep Florida and Advanced Sleep, including the writing and content of offering documents for each of the companies. As such, Dachman is liable for Central Sleep's, Central Sleep Florida's and Advanced Sleep's violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5] as a control person under § 20(a) of the Exchange Act [15 U.S.C. § 78t(a)].

COUNT SIX

***Against Kenneth A. Dachman, Scott A. Wolf and Stone Lion
Management, Inc. For Violations of Sections 5(a) and 5(c) of the Securities Act
[15 U.S.C. §§ 77e(a) and 77e(c)]***

61. The Commission realleges and incorporates by reference paragraphs 1 through 39.

62. The units of Central Sleep stock and convertible promissory notes that Dachman, Wolf and Stone Lion offered to sell and sold to the investing public were

“securities” as defined by Section 2(a)(1) of the Securities Act [15 U.S.C. § 77b(a)(1)] and Section 3(a)(10) of the Exchange Act [15 U.S.C. § 78c(a)(10)].

63. No registration statement was filed or in effect with the Commission and no exemption from registration existed with respect to the Central Sleep securities and transactions described in this Complaint.

64. As described above, Dachman, Wolf and Stone Lion have, directly or indirectly:

- a. made use of the means or instruments of transportation or communication in interstate commerce or of the mails to sell, through the use or medium of any prospectus or otherwise, securities as to which no registration statement was in effect;
- b. for the purpose of sale or delivery after sale, carried or caused to be carried through the mails or in interstate commerce, by means or instruments of transportation, securities as to which no registration statement was in effect; or
- c. made use of means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell, through the use or medium of a prospectus or otherwise, securities as to which no registration statement has been filed.

65. By engaging in the conduct described above, Dachman, Wolf and Stone Lion have violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77(e)(a) and 77(e)(c)].

COUNT SEVEN

***Against Scott A. Wolf and Stone Lion Management, Inc. For
Violations of Section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)]***

66. The Commission realleges and incorporates by reference paragraphs 1 through 39.

67. Wolf and Stone Lion, while acting as brokers or dealers, effectuated transactions in, or induced or attempted to induce the purchase or sale of, securities while they were not registered with the Commission as brokers or dealers.

68. By engaging in the conduct described above, Wolf and Stone Lion have violated Section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Permanently enjoin Defendant Dachman from, directly or indirectly, violating or aiding and abetting violations of Sections 5(a), 5(c), 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), 77q(a)(1), 77q(a)(2) and 77q(a)(3)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];

II.

Permanently enjoin Defendants Wolf and Stone Lion from, directly or indirectly, violating Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)] and Section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)];

III.

Order Defendants Dachman and Wolf to disgorge all ill-gotten gains they received as a result of the violations alleged in this Complaint, plus prejudgment interest;

IV.

Order Defendants Dachman and Wolf to pay civil penalties pursuant to Section 20 of the Securities Act [15 U.S.C. § 77t] and Section 21 of the Exchange Act [15 U.S.C. § 78u];

V.

Impose a bar on Defendants Dachman and Wolf from participating in any offering of penny stock pursuant to Section 20(g) of the Securities Act [15 U.S.C. § 77t(g)] and Section 21(d)(6) of the Exchange Act [15 U.S.C. § 78u(d)(6)];

VI.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable applications or motions for additional relief within the Court's jurisdiction;

VII.

Grant such other and further relief as the Court deems necessary and appropriate.

JURY DEMAND

Pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, Plaintiff demands that this case be tried to a jury on all issues so triable.

Respectfully Submitted,

**UNITED STATES SECURITIES AND
EXCHANGE COMMISSION**

/s/ Richard G. Stoltz

John E. Birkenheier, Illinois Bar No. 6270993
Anne C. McKinley, Illinois Bar No. 6270252
Richard G. Stoltz, Illinois Bar No. 6287486
Attorneys for Plaintiff
U.S. Securities and Exchange Commission
Chicago Regional Office
175 West Jackson Blvd., Suite 900
Chicago, Illinois 60604
(312) 353-7390
(312) 353-7398 (facsimile)
BirkenheierJ@sec.gov
McKinleyA@sec.gov
StoltzR@sec.gov

Dated: February 6, 2012