

McNaughton was a youth assistant.

2. In selling these notes, McNaughton fraudulently guaranteed a return on the investment as well as the principal. McNaughton guaranteed extraordinary annual returns of 15% to 20% to investors and told investors that they would receive their returns in the form of monthly “interest payments.” McNaughton told investors that he would send their money to his wealthy childhood friend, Andrew K. Lech (“Lech”), a resident of Ontario, Canada, who, according to McNaughton, would use his expertise in options trading to generate the guaranteed returns.

3. McNaughton’s guarantee of returns was a fraud because beginning in March 2003, investors did not receive their monthly “interest payments.” McNaughton was reckless in guaranteeing investors’ returns and principal because he lacked the financial resources to fulfill the guarantee.

4. Further, McNaughton had no reasonable basis to believe that Lech would generate returns sufficient for McNaughton to make good on his guarantee because he had no details of what Lech did with investor funds or of Lech’s supposed securities trading.

5. As investors stopped receiving their payments beginning in March 2003, McNaughton resorted to raising additional investor funds and, contrary to the representations he made, never sent these funds to Lech. Instead, McNaughton used funds from the bank accounts into which he deposited these investors’ funds to continue paying other investors their monthly “interest.”

6. At the same time that investors stopped receiving their payments, McNaughton and Lech made efforts to perpetuate the Haven Equity scheme. Lech, with the assistance of McNaughton, offered his own notes (“Lech notes”) to Haven Equity investors. Lech told investors that the terms of the Lech notes were identical to the Haven Equity notes except that Lech would now make the guaranteed monthly “interest”

payments directly to investors. However, investors who executed Lech notes have never received their guaranteed returns.

7. Further, Lech knew that the \$13 million in investor funds that he received from McNaughton from 1999 to around March 2003 were raised from investors and that McNaughton told the investors that their funds were being invested by Lech in stock options. Instead of investing the funds, Lech transferred some of the investor funds back to McNaughton. Lech knew that McNaughton was, in turn, sending monthly payments back to investors, representing that these payments constituted “interest” generated by Lech’s investment of their principal. Lech also used some of the funds for his personal expenses.

8. Lech knew that since the funds solicited from investors were not being invested, it was impossible to realize the guaranteed returns.

9. Over the course of the entire scheme, Lech invested at most a fraction of the funds raised from investors. Instead of investing the funds as they represented to investors, Lech and McNaughton operated a Ponzi scheme by paying Haven Equity investors their monthly “return” with other investors’ funds and not with investment proceeds. Of the \$17 million raised from investors, a total of \$6.9 million was not returned to investors as either principal or “interest,” but was kept by McNaughton and Lech. Of the \$6.9 million in unreturned investor funds, McNaughton kept \$4.5 million and Lech kept \$2.4 million.

10. Accordingly, the Commission seeks (a) permanent injunctive relief enjoining Defendants from future violations of certain provisions of the federal securities laws, (b) disgorgement, plus prejudgment interest, (c) civil penalties and (d) such other ancillary and equitable relief as is sought herein and may be appropriate.

DEFENDANTS

11. Gary L. McNaughton, d/b/a The Haven Equity Company, is 48 years old and lives in Amherst, Ohio. McNaughton offered and sold securities in the form of notes he issued under the name of Haven Equity. Haven Equity did not have a business purpose; it is only the name McNaughton gave to his offering of securities. McNaughton was a member and youth assistant for the Church of the Open Door in Elyria, Ohio where many of the investors were also members.

12. Andrew K. Lech is 42 years old and last resided in Peterborough, Ontario, Canada. Lech also played a key role in the Haven Equity offering. During the relevant time period, McNaughton sent investor funds raised from the sale of Haven Equity investments to Lech, who, investors were told, invested their funds in stock options purportedly using his knowledge and experience as a successful securities trader. In reality, Lech merely sent investor funds back to McNaughton to pay purported returns to Haven Equity investors and also used investor funds to pay his personal expenses. In or about March 2003, in an attempt to continue the Haven Equity scheme, Lech began issuing his own securities and soliciting Haven Equity investors in the United States to invest with him directly. In April 2003, the Ontario Securities Commission (“OSC”) froze assets in certain Canadian accounts owned by Lech and one owned by McNaughton. Subsequent to the OSC’s investigation, a class action lawsuit was filed by aggrieved Canadian and United States investors in Ontario, Canada against Lech.

JURISDICTION

13. The Commission brings this action pursuant to the authority conferred on it by Section 20(b) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. § 77t(b)] and Sections 21(d) and (e) of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. §§ 78u(d) and 78u(e)].

14. The Court has jurisdiction over this action pursuant to Section 22(a) of the

Securities Act [15 U.S.C. § 77v(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u, 78aa] and 28 U.S.C. §1331. Venue is proper in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. §78aa].

15. The acts, transactions, practices, and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the Northern District of Ohio and elsewhere.

16. Defendants, directly and indirectly, have made use of the means or instrumentalities of interstate commerce, the means and instruments of transportation and communication in interstate commerce, or the mails, in connection with the acts, transactions, practices, and courses of business alleged herein.

FACTS

The Haven Equity Offering

17. From at least 1999 through the present, McNaughton raised at least \$17 million from at least 150 investors.

18. McNaughton raised funds from investors through the unregistered offer and sale of securities in the form of notes that he issued under the name Haven Equity (“Haven Equity notes”).

19. McNaughton offered and sold the Haven Equity notes primarily to Lorain County, Ohio residents. Many of the investors are members of the Church of the Open Door where McNaughton was a youth assistant.

20. McNaughton also offered and sold notes to residents of Florida.

21. In order to fund their investment, some investors refinanced their homes and withdrew substantial retirement savings.

22. Upon investing with Haven Equity, investors were provided with a one-page Haven Equity note. Investors received no other written information regarding their

investment. The Haven Equity notes do not state any risk associated with Haven Equity or financial information about McNaughton, Lech or Haven Equity.

23. After receiving investor funds, McNaughton pooled the funds in bank accounts that he controlled (“Haven Equity bank accounts”). McNaughton then sent funds from these accounts to Lech and in turn, Lech sent funds back to Haven Equity bank accounts.

24. Until about February of 2003, McNaughton used funds from the Haven Equity bank accounts that he received from Lech to make equal, monthly “interest payments” to investors.

25. McNaughton also used Haven Equity investor funds to pay for certain personal expenses such as luxury automobiles, boats, motor homes and credit card purchases. Lech, too, used Haven Equity investor funds to pay for his personal expenses.

26. None of the investors ever received a written statement reflecting the location of their money, the returns their investment purportedly earned or how these returns were generated.

27. Prior to investing, McNaughton did not ask investors to provide any personal financial or investment experience information.

28. No registration statement has been filed or is in effect with the Commission in connection with the securities offered or sold by McNaughton and Haven Equity.

McNaughton’s Representations about the Haven Equity Notes

29. McNaughton told investors that their Haven Equity investment would earn a guaranteed 15% annual interest rate. Investors who were church pastors were told they would earn a guaranteed 20% annual interest rate.

30. McNaughton also told investors that for a limited time Haven Equity was offering higher interest rates of 40% for six months. He also told one investor that he

would earn a guaranteed 10% return over three months on a \$50,000 investment.

31. Additionally, McNaughton told investors that their principal investment was guaranteed by Haven Equity.

32. McNaughton told investors that Lech would use their funds to purchase blue chip stocks and trade options on those stocks. McNaughton also told investors that Lech's trading of options would generate the return that McNaughton guaranteed. McNaughton told an investor that the return on his investment was guaranteed because whether the value of the stocks owned by Lech went up or down, Lech's options trading strategy would generate a return.

33. Of the \$17 million McNaughton raised from investors over the course of the entire scheme, McNaughton used \$4.5 million for personal expenses.

34. Furthermore, from 1999 to June 2003, McNaughton transferred to Lech nearly \$13 million of the \$17 million McNaughton raised from Haven Equity investors.

35. McNaughton told Lech that the funds he sent to Lech were raised from investors pursuant to the Haven Equity notes.

36. Lech told McNaughton that he invested the Haven Equity investors' funds in stock options.

37. McNaughton told Lech that he told Haven Equity investors their funds would be, and were being, invested by Lech in stock options to generate the "returns" that McNaughton guaranteed.

38. Nevertheless, instead of investing the \$13 million in Haven Equity investor funds, Lech diverted them into over 60 bank accounts that he controlled. Lech sent approximately \$11 million back to McNaughton to pay Haven Equity investors their purported monthly "interest".

39. Lech invested at most a fraction of the funds solicited from investors; therefore, it was impossible to realize the guaranteed returns.

40. Lech used the remaining \$2.4 million of the Haven Equity investors' funds for his own personal use.

41. McNaughton had no reasonable basis for guaranteeing investors a 15% to 20% annual return on their principal investment.

42. McNaughton lacked the resources to fulfill such guarantees, played no role in generating the purported returns payable to investors each month, and directed investor funds to foreign accounts controlled by Lech, a foreign citizen.

43. In fact, McNaughton relied solely on Lech's representations to him that Lech was going to invest the Haven Equity investors' funds in stock options.

44. Additionally, McNaughton had no reasonable basis to believe the representations Lech made to him.

45. McNaughton never received any documents confirming if and how investor funds were being invested.

46. Moreover, McNaughton never received any documents showing that Lech actually generated sufficient returns with which he could distribute the monthly interest payments he guaranteed to investors. McNaughton had the opportunity to review brokerage statements he saw on Lech's desk but he did not look at them.

47. Despite this lack of knowledge, McNaughton continued to raise funds from new investors by telling them that they would earn, in the form of monthly payments, a guaranteed 15% to 20% annual return.

48. In reality, Lech invested at most a fraction of the Haven Equity investor funds McNaughton sent to him.

The Purported "Unwinding" of Haven Equity

49. Shortly after the Commission launched an examination in January 2003 of an Ohio broker-dealer where two customers held Haven Equity notes in their retirement accounts, McNaughton informed investors that he was "unwinding" Haven Equity.

50. In the process of unwinding Haven Equity, McNaughton told investors that they had two choices: “transfer” their investment to Lech to be replaced by a note issued by Lech or wait four months for a complete refund of their principal from Haven Equity.

51. Shortly after telling some investors in February 2003 that he was “unwinding” Haven Equity, McNaughton raised at least \$265,000 from four new investors by selling them Haven Equity notes.

52. McNaughton offered and sold notes to these investors by representing to them, as he did to previous investors, that their principal investment would be sent to Lech and that Lech’s options trading strategy would generate the high rates of return that McNaughton guaranteed to them.

53. These investors sent their funds to McNaughton who deposited their funds into a Haven Equity bank account. However, contrary to his representations, McNaughton never sent these investors’ funds to Lech. Instead, McNaughton used funds from the bank accounts into which he deposited these investors’ funds to continue paying other investors their monthly “interest.”

Lech’s New Offering

54. In or about April 2003, McNaughton arranged and hosted a meeting of Haven Equity investors in Ohio attended by Lech. Lech personally offered Lech notes for sale to the Haven Equity investors.

55. The terms of the Lech notes were virtually identical to the original Haven Equity notes, except that Lech was the guarantor of the investors’ principal and interest.

56. Lech told investors that he would pay them the same amount of interest that they had been promised by McNaughton.

57. McNaughton assisted Lech in the offer of the Lech notes. McNaughton prepared the notes, signed the notes as a witness and distributed them to investors.

58. He also reassured investors that they would receive their “interest payments” from Lech if they “transferred” their investment to him.

59. Lech, however, never paid investors any principal or purported “interest” that he guaranteed under the Lech notes.

60. Lech had no reasonable basis to make these representations. He did not have the funds to fulfill the guarantee he made to investors because he never invested the funds and instead used investor funds for personal expenses.

61. No registration statement has been filed or is in effect with the Commission in connection with the offer or sale of securities by Lech.

Guaranteed Payments Stopped

62. Beginning in March 2003, investors stopped receiving their monthly “interest payments”.

63. McNaughton misrepresented to investors the reasons that the payments from Haven Equity stopped.

64. When McNaughton stopped making payments to Haven Equity investors in March 2003, he told them that the missed monthly payments were due to delays in transferring funds from Canada to the United States as a result of “new regulations” imposed after the September 11, 2001 terrorist attacks.

65. In addition, in the later part of April 2003, after investors learned that the Ontario Securities Commission (“OSC”) had ordered Lech to cease making securities transactions, McNaughton then told investors that their funds were safe because the OSC’s order against Lech to stop trading did not apply to Lech’s ongoing trading of stock options in the United States. Contrary to McNaughton’s representation, the OSC cease-trade order was not limited to options trading or trading in Canada, but ordered that Lech cease all securities trading.

66. After the initiation of the OSC and Commission investigations,

McNaughton told at least one investor that once he resolved the regulatory problems, he would “re-group” by offering notes that offered a lower interest rate.

67. Furthermore, neither Lech nor McNaughton repaid any investors who demanded that their principal be returned.

COUNT I

Violations of Sections 5(a) and (c) of the Securities Act of 1933 [15 U.S.C. § 77e(a) and (c)] (Against Defendants McNaughton and Lech)

68. Paragraphs 1 through 67 above are realleged and incorporated herein by reference.

69. By their conduct, McNaughton and Lech, directly and indirectly, and notwithstanding that there was no applicable exemption: (i) made use of any 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; (ii) for the purpose of sale or delivery after sale, carried or caused to be carried through the mails or in interstate commerce, by any means or instruments of transportation, securities as to which no registration statement was in effect; and (iii) made use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell, through the use or medium of any prospectus or otherwise, securities as to which no registration statement had been filed.

70. No valid registration statement was filed with the Commission in connection with McNaughton’s and Lech’s sales of, and offers to sell, Haven Equity notes and Lech notes.

71. By reason of the foregoing, McNaughton and Lech violated Sections 5(a)

and (c) of the Securities Act of 1933 [15 U.S.C. § 77e(a) and (c)].

COUNT II

Violations of Section 17(a)(1) of the Securities Act of 1933[15 U.S.C. § 77q(a)(1)] (Against Defendants McNaughton and Lech)

72. Paragraphs 1 through 67 above are realleged and incorporated herein by reference.

73. By their conduct, McNaughton and Lech, in the offer or sale of securities, by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly, has employed devices, schemes or artifices to defraud, as more fully described above.

74. McNaughton and Lech knew, or were reckless in not knowing, the facts and circumstances described in this Complaint.

75. By reason of the foregoing, McNaughton and Lech violated Section 17(a)(1) of the Securities Act of 1933 [15 U.S.C. § 77q(a)(1)].

COUNT III

Violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 [15 U.S.C. § 77q(a)(2) and § 77q(a)(3)]

(Against Defendants McNaughton and Lech)

76. Paragraphs 1 through 67 above are realleged and incorporated herein by reference.

77. By their conduct, McNaughton and Lech, in the offer or sale of securities, by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly, have obtained money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, or have engaged in any

transaction, practice or course of business which has operated as a fraud or deceit upon purchasers of securities.

78. By reason of the foregoing, McNaughton and Lech violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

COUNT IV

Violations of Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]

(Against Defendants McNaughton and Lech)

79. Paragraphs 1 through 67 above are realleged and incorporated herein by reference.

80. By their conduct, McNaughton and Lech, in connection with the purchase or sale of securities of Haven Equity notes and Lech notes, by the use of means or instrumentalities of interstate commerce or of the mails, directly or indirectly: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material fact and 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 or deceit upon purchasers or sellers of such securities.

81. McNaughton and Lech knew, or were reckless in not knowing, the facts and circumstances described in this Complaint.

82. By reason of the foregoing, McNaughton and Lech violated Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Issue findings of facts and conclusions of law that the Defendant Lech committed the violations charged and alleged herein.

II.

Issue an Order of Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently restraining and enjoining Defendant Lech, his officers, agents, servants, employees, attorneys, assigns and all person in active concert or participation with them who receive actual notice of the Order of Permanent Injunction, by personal service or otherwise, and each of them from, directly or indirectly, engaging in any transactions, acts, practices and courses of business described above, or in conduct of similar purport or object, in violation of Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 [15 U.S.C. §§77e(a), (c) and 77q(a)(1)] and Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

III.

Issue an Order requiring Defendant Lech to pay disgorgement of all ill-gotten gains that he received, plus prejudgment interest.

IV.

Issue an Order imposing appropriate civil penalties upon Defendant Lech pursuant to Section 20(d) of the Securities Act of 1933 [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Securities Exchange Act of 1934. [15 U.S.C. §78u(d)(3)].

V.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to carry out the terms of all orders and decrees that have been entered and that may be entered or to entertain any suitable

application or motion for additional relief within the jurisdiction of this Court.

VI.

Grant Orders for such further relief as the Court may deem appropriate.

Respectfully submitted,

/s/

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