





7. At all times relevant to this Complaint, Vaughn was DFG's President and sole owner. Vaughn controls DFG, which she runs out of her home in Lake Forest, Illinois. DFG operates only through Vaughn and DFG's Chief Compliance Officer.

8. In March 2002, Vaughn and DFG created a private hedge fund, Directors Performance Fund, L.L.C. DFG is the managing member and investment adviser to the Fund. At all times relevant to the Complaint, Vaughn represented to investors that she was responsible for selecting and overseeing the Fund's investments.

9. For its management services, DFG was paid a monthly management fee of 1/6 of 1% of the Fund's net asset value, and a quarterly allocation of 20% of the "net new profits" earned by the Fund in that quarter. Some of those management fees and profit allocations were, in turn, paid from DFG to Vaughn for her investment advisory services to the Fund.

#### **The Offering Memorandum**

10. In marketing the Fund, Vaughn and DFG provided prospective investors with a copy of the Fund's Offering Memorandum (the "Memorandum").

11. Vaughn and DFG helped draft the Memorandum and approved its contents before distributing the Memorandum to investors.

12. From April 2003 through May 2005, Vaughn and DFG distributed the Memorandum to over 100 prospective investors. In that time period, several individuals invested in the Fund based, at least in part, on the representations in the Memorandum.

13. The Memorandum emphasized that investors should rely on its contents in making their investment decisions, telling prospective investors "[y]ou must rely solely on the information set forth herein and your own independent analysis of the investment."

14. The Memorandum explained that the Fund's overall investment objective was to "maximize total return . . . in a manner consistent with liquidity and conservation of capital."

15. At all times relevant to this Complaint, the Memorandum represented that the Fund earned its returns by applying a trading strategy called the "Beta Strategy," that "combines proprietary trading systems and active investment management."

16. At all times relevant to this Complaint, the Memorandum represented that "the Beta Strategy's investment methodology has produced consistent and impressive results over the past several years."

17. From April 2003 to May 2005, the Memorandum disclosed that the Fund's Beta Strategy "generally involves purchasing, directly from issuers, dealers and institutional bond desks, government and other high-quality debt of various maturities, determined to present minimal credit risk." The Beta Strategy section defined "high quality debt securities" as securities either "rated in one of the two highest rating categories by Standard and Poor's . . . , Moody's Investors Service, Inc. . . . or any other Nationally Recognized Statistical Rating Organization" or "considered to be of comparable quality as determined by [DFG]."

18. The Memorandum further disclosed that, to implement the Beta Strategy, "the Fund will contractually engage the services of 1 or 2 experienced traders . . . [with] proven expertise and consistent success" in using the Beta Strategy's methods.

19. In addition to stating the Fund's trading strategy, the Offering Memorandum listed the permitted investments for the Fund, including:

- "Obligations issued or guaranteed by the U.S. and foreign governments," such as U.S. Treasury bills;



24. At the time they distributed the Memorandum to investors, Vaughn and DFG knew, or recklessly disregarded, that Vaughn was not conducting or overseeing any trading activity and that the Fund had not contracted, and had no plans to contract, with any other individuals to conduct trades pursuant to the Beta Strategy on the Fund's behalf.

25. At the time they distributed the Memorandum, Vaughn and DFG knew, or recklessly disregarded, that the Memorandum contained material misrepresentations to investors regarding the Fund's trading strategy, permitted investments, and oversight of trading activity.

26. In addition to providing investors with the Offering Memorandum, DFG made oral representations to investors about the Fund. During several meetings with prospective investors from April 2003 through May 2005, DFG represented to investors that (a) the Fund earned its returns through the active trading of bonds, (b) Vaughn would conduct, or at least oversee, the bond trades, and (c) investors' principal would not be at risk and would remain in a "non-depletion account" at the Fund's bank. DFG informed investors that their principal could not be "depleted" or moved from that account until withdrawn by the investor. DFG knew, or recklessly disregarded that those oral representations were inaccurate and that, in making those statements, DFG had made material misrepresentations to investors regarding their investments.

#### **ATI's Fraudulent Trading Program**

27. On or before March 1, 2005, David Myatt approached Vaughn and DFG with an investment opportunity.









44. Akela's March 24, 2005 incorporation documents, signed by Vaughn, disclose that Vaughn and Myatt each owned 50% of Akela.

45. Vaughn and DFG appointed each of the promoters of the Trading Program to officer positions at Akela. Myatt was designated Akela's Vice President and Secretary. Warren was appointed Akela's Vice President and Account Administrator. Bino Giovanni Hogan, purportedly an associate of Warren's at ATI, was appointed Akela's Vice-President and "Account Administrator of European Operations."

46. Vaughn and DFG gave Myatt and Warren authority to enter into contracts on behalf of Akela, to conduct trades using the Fund's assets, and to open accounts in Akela's name.

47. On April 5, 2005, Vaughn transferred \$20 million from the Fund's checking account to an account in Akela's name at another bank.

48. Vaughn did not enter into any agreements establishing any relationship between the Fund and Akela, or memorialize the Fund's interest in the assets transferred to Akela or the profits derived from the investment. Akela's incorporation documents do not mention the Fund.

49. Vaughn and DFG did not inform the Fund's investors of the facts in paragraphs 42-48 above. By failing to inform the Fund's investors of those facts, Vaughn and DFG knowingly, or recklessly, failed to disclose material facts to the Fund's investors regarding their investment.

50. By (a) transferring the Fund's assets to Akela, (b) sharing ownership in Akela with, and operational authority over Akela's affairs to, the Trading Program's promoters, and (c) failing to memorialize the Fund's interest in the \$20 million















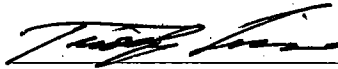






- D. Enter an Order permanently restraining and enjoining Vaughn from aiding and abetting any violations of Section 204 of the Advisers Act [15 U.S.C. § 80b-4] and Rule 204-2 thereunder [17 CFR § 275.204-2];
- E. Enter an Order, pursuant to Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)], Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], requiring Vaughn and DFG to pay a civil penalty;
- F. Enter an Order requiring Vaughn and DFG to disgorge any ill-gotten gains that they have received as a result of the acts complained of herein, plus prejudgment interest; and
- G. Grant such other and additional relief as this Court deems just and proper.

Respectfully submitted,



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