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Department of Justice

U.S. Attorney's Office

Northern District of Georgia

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Former Hedge Fund Manager Sentenced for Defrauding Investors and Obstructing the SEC

ATLANTA – Stanley J. Kowalewski has been sentenced to 18 years in federal prison for defrauding the investors in his former hedge funds and obstructing the U.S. Securities and Exchange Commission's (SEC) investigation into his activities.

"Investors trusted Kowalewski to invest their money as promised," said U.S. Attorney John A. Horn. "Instead, he stole their hard-earned savings and repeatedly lied to them and the SEC about his investments and self-dealing. Incredibly, while on bond awaiting trial in the case, Kowalewski continued to defraud investors based on false promises relating to a new investment business that turned out to be just another scam."

"While sentencing Mr. Kowalewski to federal prison does not make his many investor turned victims fiscally whole again, denying him his freedom and the opportunity to enjoy their money does have value. It is unfortunate, however, that, in the aftermath of the high profile Madoff case and others like it, we are still plagued with large scale investment fraud schemes such as this. The FBI will continue to work with its many partners, to include the SEC, in identifying, investigating, and presenting for prosecution those individuals that would engage in greed based criminal schemes that defraud so many people," said J. Britt Johnson, Special Agent in Charge, FBI Atlanta Field Office.

"This criminal action demonstrates the U.S. Department of Labor's resolve to vigorously enforce the law to ensure that those who defraud employee benefit plans are brought to justice. This case also exemplifies our commitment to protect employee benefits in coordination with fellow federal agencies," said Isabel Colon, Regional Director of the Employee Benefits Security Administration's Atlanta Regional Office.

According to U.S. Attorney Horn, the charges and other information presented in court: Kowalewski was the sole owner and Chief Executive Officer of SJK Investment Management, LLC, in Greensboro, North Carolina. Beginning in 2009, Kowalewski solicited investment money from pension funds, school endowments, hospitals, non-profit foundations, and other investors which he placed in two SJK "hedge fund of funds," an onshore fund and an offshore fund called the Absolute Return Funds. Almost immediately after receiving the first investor money, Kowalewski began diverting the proceeds to pay for personal and business overhead expenses.

In December 2009, Kowalewski formed a new SJK fund called the Special Opportunities Fund, which he did not disclose to investors. He diverted over \$16 million from the Absolute Return Funds to the Special Opportunities Fund without disclosing the transfers to investors. After he secretly transferred the funds, Kowalewski diverted millions from the Special Opportunities Fund to himself through various self-dealing transactions, including having the Special Opportunities Fund buy three homes that Kowalewski owned and in which his family, his parents, and his brother-in-law's family lived. Kowalewski also bought a multi-million-dollar beach house in Pawleys Island, South Carolina, and directed that the Special Opportunities Fund pay him \$4 million as a fee to which he was not entitled. Kowalewski created and altered documents in an effort to make these transactions appear legitimate.

Also as part of the scheme, Kowalewski overvalued the assets held by the Special Opportunities Fund and used those fraudulent valuations to calculate the returns for investors in the Absolute Return Funds. As a result, the monthly statements distributed to SJK investors showed fraudulently inflated returns. Investors lost over \$11 million as a result of Kowalewski's fraudulent scheme.

On March 30, 2010, the SEC initiated a proceeding to determine whether there had been violations of the federal securities laws in connection with SJK. As part of its investigation, the SEC subpoenaed Kowalewski to testify under oath. During his sworn testimony, Kowalewski testified that, after the Special Opportunities Fund had purchased his three homes, the Fund had leased the properties to him and his relatives, each for a yearly rental payment. He testified further that Michael J. Fulcher, the Chief Financial Officer of SJK, had drafted, and Kowalewski had signed, the leases at or near the time of the homes' sales. In truth, however, Kowalewski and his relatives had never leased the homes back from the Special Opportunities Fund. Prior to Kowalewski's sworn testimony, Kowalewski and Fulcher conspired to obstruct the SEC proceeding by creating the leases and backdating them, in an effort to document the claimed lease relationships and to conceal Kowalewski's self-dealing transactions. Kowalewski provided the fraudulent leases to the SEC as part of the investigation and then testified falsely about them. Kowalewski further lied to the SEC in his sworn testimony when he testified that he had disclosed the Special Opportunities Fund to investors and attorneys and other professionals had approved of his self-dealing transactions.

While on bond awaiting trial in this case, Kowalewski defrauded investors in another company he controlled named Global Remediation Solutions. He solicited money from investors based on false pretenses and then misrepresented to them how he spent the money. As before, he diverted the investors' money to his own personal use. Kowalewski was living in Pawleys Island at the time. After Kowalewski's new fraud came to light, his bond was revoked. Kowalewski has been in custody based on that revocation since September 25, 2015.

Stanley J. Kowalewski, 44, of Pawleys Island, South Carolina, was sentenced by U.S. District Judge Richard W. Story to 18 years in prison, with credit for the time served since September 25, 2015, to be followed by three years of supervised release, and ordered to pay restitution in the amount of \$9,436,236.23. Kowalewski was convicted on 22 counts of wire fraud, one count of conspiracy, and one count of obstructing the SEC proceeding in November 2015 after a jury trial.

Michael J. Fulcher, 59, of Greensboro, North Carolina, has pleaded guilty to one count of conspiring with Kowalewski to obstruct the SEC proceeding. His sentencing date has not yet been scheduled.

This case was investigated by Special Agents of the Federal Bureau of Investigation, Investigators with the Atlanta Regional Office of the U.S. Department of Labor's Employee Benefits Security Administration (EBSA), and Special Agents of the Atlanta Regional Office of the U.S. Department of Labor's Office of the Inspector General. The Atlanta Division Office of the U.S. Securities and Exchange Commission previously brought a civil action against Kowalewski. In that case, Kowalewski was ordered to pay over \$16 million in disgorgement and civil penalties.

Assistant United States Attorneys Stephen H. McClain and J. Russell Phillips prosecuted the case.

For further information please contact the U.S. Attorney's Public Affairs Office at USAGAN.PressEmails@usdoj.gov or (404) 581-6016. The Internet address for the U.S. Attorney's Office for the Northern District of Georgia is <http://www.justice.gov/usao-ndga>.

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