

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION**

**SECURITIES AND EXCHANGE
COMMISSION,**

Plaintiff, : Civil Action No. :

1:11-cv-0056-TCB

v.

**STANLEY J. KOWALEWSKI and
SJK INVESTMENT
MANAGEMENT, LLC**

Defendants.

**NOTICE OF FILING OF DECLARATIONS IN SUPPORT OF
APPLICATION FOR ORDER TO SHOW CAUSE**

Plaintiff Securities and Exchange Commission gives notice of filing of the Declarations of Gregory J. Shaack and Doreen Chery in support of its application for an order to show cause. These declarations were not obtained until today and further document the need for sanctions against defendant Stanley J. Kowalewski.

May 26, 2011

/s/ Alex Rue
Alex Rue
Senior Trial Counsel
Georgia Bar No. 618950
Email: Ruea@sec.gov

Counsel for Plaintiff

U. S. SECURITIES AND EXCHANGE COMMISSION

3475 Lenox Road, N.E., Suite 1000

Atlanta, Georgia 30326-1234

(404) 842-7600

(404) 842-7679 fax

DECLARATION OF GREGORY J. SCHAACK

I, Gregory J. Schaack, pursuant to 28 U.S.C. § 1746, do hereby declare:

1. I am Chief Financial Officer and Treasurer of St. Joseph's/Candler Health System, Inc. ("SJCHS"). SJCHS is a private, faith-based, not-for-profit healthcare system operating in Georgia and South Carolina.

2. I have personal knowledge of SJCHS's financial investments, including SJCHS's investments in the SJK Absolute Return Fund, Ltd. (the "Absolute Return Fund") and the SJK Long/Short Equity Fund, Ltd. (together with the Absolute Return Fund, the "SJK Funds"). SJCHS has three separate accounts invested in the SJK Funds. SJCHS's investments in the SJK Funds, as reflected on November 2010 account statements provided by SS&C Fund Services, Inc. (the administrator for the SJK Funds), total over \$45 million, of which approximately \$38 million is invested in the Absolute Return Fund.

3. I understand that until February 2, 2011, the SJK Funds were advised by SJK Investment Management, LLC ("SJK") and that Stanley Kowalewski ("Kowalewski") was SJK's Chief Executive Officer and Chief Investment Officer. On behalf of SJCHS, I was the principal contact with SJK and Kowalewski.

4. On or about May 9, 2011, I received a text message from Kowalewski asking to meet with me to discuss SJCHS's investments in the SJK Funds and the

ongoing litigation between SJK, Kowalewski, and the United States Securities and Exchange Commission (the "SEC litigation").

5. After confirming that Doreen Chery, SJCHS's corporate compliance officer, would participate with me in any meeting with Kowalewski, I agreed to meet with Kowalewski.

6. On May 10, 2011, at approximately 10:30 am, myself and Doreen Chery participated in a telephone conference call with Kowalewski and Michael Fontenot, whom Kowalewski described as SJK's compliance officer. The telephone conference call lasted approximately 30 minutes.

7. A few minutes prior to the telephone conference call described in paragraph 6, Kowalewski sent an email to me, a true and correct copy of which is attached hereto as Exhibit A, with the reference line "SJK Responses".

8. During the telephone conference call described in paragraph 6, Kowalewski reiterated, and in some instances elaborated upon, the statements made by him in the "SJK Responses" email described in Paragraph 7.

9. During the telephone conference call, Kowalewski expressed his unhappiness with the performance of the receiver appointed by the Court to oversee SJK as part of the SEC litigation and stated that investors like SJCHS would have been much better off had the Court not appointed a receiver. Kowalewski stated that he had a far greater interest than the receiver and receiver's

counsel in trying to maximize any recovery for investors in the SJK Funds. To that end, Kowalewski stated that he believed the receiver and the receiver's counsel were only interested in billing for professional service fees.

10. Kowalewski also expressed his unhappiness with the receiver's proposed sale of the McNairy Pointe property because he stated that the McNairy Pointe property was more valuable than the amount the receiver was proposing to sell it for. Kowalewski stated that he was unaware of any mortgage debt on the McNairy Pointe property and that it would be the receiver's fault, not his, if the SJK Funds' investors lost money on the McNairy Pointe property.

11. During the call, Kowalewski repeatedly criticized the overall performance of the receiver and the receiver's counsel and suggested that the professional services fee cap imposed as part of the receivership was a disincentive for the receiver and the receiver's counsel to maximize any recovery for investors like SJCHS. Kowalewski stated that he believed that this disincentive had manifested itself in what he felt was the receiver and the receiver's counsels refusal to investigate and prosecute claims against other investors involved with the McNairy Pointe property. Kowalewski stated that he had been shrewd enough to negotiate and pay a fixed fee amount for his own attorneys.

12. Kowalewski also suggested that were he allowed to be involved in the process of redeeming the SJK Funds' investments with third party investment

managers, he, as opposed to the receiver, would be better able to negotiate a waiver of certain early redemption fees called for by the various subscription agreements between the SJK Funds and the third party investment managers.

13. When I questioned Kowalewski about the indemnification and advancement demand from the SJK Funds described in his email, he assured me that were the SEC to prevail in the litigation against him and SJK, he would return any money that was advanced to him back to the receivership.

14. My impression from listening to Kowalewski during the telephone conference call was that he was trying to obtain support from SJCHS to help him remove the receiver that had been appointed to oversee SJK as part of the SEC litigation. Kowalewski also stated during the call that he intended to contact other investors in the SJK Funds to discuss the topics he discussed during our telephone conference call.

I declare under the penalties of perjury that the foregoing is true and correct.

Executed this 20th day of May 2011.



GREGORY J. SCHAACK

Exhibit A

From: stan@argonaut-llc.com [mailto:stan@argonaut-llc.com]
Sent: Tuesday, May 10, 2011 10:15 AM
To: Schaack, Gregory
Subject: SJK Responses

Greg,

Here are some of the responses that we will be contending with the judge this week to the Receiver's memorandum- the final draft is being prepared now:

Dear Investors and their Representatives,

My clients, Stan Kowalewski and SJK Investment Management, have grown weary of the complete falsehoods, distortions of the truth and half-truths that continue to be told by the Securities and Exchange Commission attorneys and now the Receiver, Hays Financial Consulting, and their attorneys. Thus Mr. Kowalewski has authorized me to send you this letter to present a clear picture as to what is happening with your capital. We will follow the same capsules that Mr. Dantzler outlined in his Memorandum yesterday.

Underlying Litigation

The Securities and Exchange Commission, nor the Receiver, have not made any reasonable settlement offers to my clients and my clients are prepared to go to trial and win.

We concur that Mr. Kowalewski has made an advancement and indemnity demand to the two offshore SJK Funds. It is clearly outlined in the offering documents that Mr. Kowalewski is entitled to legal fees with regards to the SEC action and that the Funds are required to both reimburse him for incurred legal fees and advance him monies for future legal expenses.

Further, due to the Receiver's and their attorneys' lack of knowledge with respect to the hedge fund industry, they are unnecessarily incurring fees such as engaging Delaware outside counsel to review things that are not even relevant such as advancement and indemnity demands pertaining to Cayman Islands Funds.

SS&C/Investor Statements

The valuation of the SJK Special Opportunities Fund LP underscores the point that the Receiver is not capable of unwinding these types of investments. SJK Investment Management made its investment into CDLD Holdings based on an appraisal that valued McNairy Pointe at \$15.9 million. They also made the investment with the understanding that there was no debt or liens on the property and Kevan Combs and DKF Holdings (the other two partners in CDLD Holdings currently) made that representation to SJK Investment Management. Now, the Receiver comes forward with an appraisal amount of \$3.1 million. How did that property drop that much in value in six months without any changes to it? My clients have encouraged the Receiver to pursue claims against Kevan Combs and DKF Holdings on behalf of the investors

and they have refused to date. Also, it is interesting to note that a credit line for \$600,000 owed by Kevan Combs is not listed as a viable receivable for the SJK Special Opportunities Fund. That credit line is secured by almost \$30 million in real estate holdings held by Kevan Combs. Why is the Receiver not pursuing the collection of this credit line for the benefit of the investors? We believe that they will not pursue these claims because of their "fee cap" that they are running up against due to their lack of experience in hedge funds and refusal to "work for free." We would also like to know what settlement deals the Receiver is making with Combs and DKF Holdings.

If the Receiver is allowed to sell McNairy Pointe for only \$3.25 million this will constitute a "fire sale" and will cost you, the investors, millions. Judge Batten explicitly said that he will not allow any "fire sales" to take place and now the Receiver is proposing to make one already.

Any "losses" incurred in the SJK Special Opportunities Fund are solely the responsibility of the Receiver and their attorneys.

Plan of Distribution

It is certainly the goal of my clients for all of you, including my client's assets, to receive your capital back as quickly as possible.

Of course the Receiver failed to mention that the other thirteen investment funds have done very well thus far in 2011 and those gains would go right to your accounts; except that the Receiver and their attorneys' fees and expenses will eat away at a lot of those gains. Back in February 2011, Mr. Kowalewski (through his attorney) requested that a monitor be put in place rather than a Receiver to oversee the liquidation of the Funds. The decision to put in a Receiver has already cost the investors a lot of money and if they are allowed to proceed with the "fire sale" of the Special Opportunities Fund, they will cost the investors millions more. Unfortunately, much of the damage already done by the Receiver is irreversible and in fact will be more costly to the investors should Mr. Kowalewski prevail in litigation against the SEC.

With regards to Georgia Ports Authority, it is not lost on my clients that there has been no mention of how well that managed account performed since inception. Mr. Kowalewski would like to thank Georgia Ports for their loyalty and wish them well in the future.

Third Party Fund Redemptions

Mr. Kowalewski offered to help the Receiver to negotiate with the underlying managers to get the redemption fees/terms waived, but the Receiver declined that offer. Thus, the distributions will take even longer to be achieved.

Receivership Fees and Expenses

The only reason that this Receivership is not "simple and straightforward" is due to the lack of knowledge of the hedge fund industry by S. Gregory Hays and his army of lawyers, accountants, etc. Now that they have blown through their agreed upon "fee cap", they are now going to be asking the investors and the court for more money.

All of this could have been avoided if a monitor was appointed rather than a Receiver. There would be no "fire sales" and very little legal expense and investor value would be maximized. Damage has already been done, but there is an opportunity to mitigate it by removing the Receiver and asking for a court appointed monitor to replace them.

Stan Kowalewski
The Argonaut Group, LLC

DECLARATION OF DOREEN CHERY

I, Doreen Chery, pursuant to 28 U.S.C. § 1746, do hereby declare:

1. I am the Corporate Compliance Officer for St. Joseph's/Candler Health System, Inc. ("SJCHS"). SJCHS is a private, faith-based, not-for-profit healthcare system operating in Georgia and South Carolina.

2. On or about May 9, 2011, Greg Schaack, SJCHS's Chief Financial Officer and Treasurer, requested that I participate in a telephone meeting involving him and an individual named Stanley Kowalewski ("Kowalewski"). I understood that Kowalewski and his company SJK Investment Management, LLC ("SJK") previously had some role in advising SJCHS on its financial investments, including through the management of various investment funds (the "SJK Funds"), and that SJK and Kowalewski were currently involved in litigation against the United States Securities and Exchange Commission (the "SEC litigation").

3. On May 10, 2011, at approximately 10:30 am, myself and Greg Schaack participated in a telephone conference call with Kowalewski and Michael Fontenot, whom Kowalewski described during the call as SJK's compliance officer. The telephone conference call lasted approximately 30 minutes.

4. A few minutes prior to the telephone conference call described in paragraph 3, I understand that Kowalewski sent an email to Greg Schaack, a true

and correct copy of which is attached hereto as Exhibit A, with the reference line "SJK Responses." After he received this email from Kowalewski, Greg Schaack forwarded this email to me in advance of our telephone conference call; however, I did not retrieve it at that time and reviewed a copy provided me by Greg Schaack just as the phone call began.

5. During the telephone conference call described in paragraph 3, Kowalewski reiterated, and in some instances elaborated upon, the statements made by him in the "SJK Responses" email described in Paragraph 4.

6. During the telephone conference call, Kowalewski expressed his unhappiness with the performance of the receiver appointed by the Court to oversee SJK as part of the SEC litigation and stated that investors like SJCHS would have been much better off had the Court not appointed a receiver – but instead had appointed a monitor.

7. For example, Kowalewski expressed his unhappiness with the receiver's proposed sale of the McNairy Pointe property because he stated that the McNairy Pointe property was more valuable than the amount the receiver was proposing to sell it for. He claimed that the receiver did not follow the judge's order that there was to be no "fire sales" and that this sale – because of the reduced value – was in fact a "fire sale".

8. During the call, Kowalewski criticized the overall performance of the receiver and the receiver's counsel and suggested that the professional services fee cap imposed as part of the receivership was acting as a disincentive for the receiver and the receiver's counsel to maximize any recovery for investors like SJCHS. Kowalewski stated that he believed that this disincentive had manifested itself in what he felt was the receiver and the receiver's counsel's refusal to investigate and prosecute claims against other investors involved with the McNairy Pointe property.

9. Kowalewski also suggested that were he allowed to be involved in the process of redeeming the SJK Funds' investments with third party investment managers, instead of the receiver, the SJK Funds would not have to pay early redemption fees called for by the various subscription agreements between the SJK Funds and the third party investment managers. And, that he would do a better job and be able to get more funds back to the investors. Kowalewski claimed that he and his staff were educating the receiver and the receiver's counsel on hedge funds so he had no confidence that they knew what they were doing and the investors would suffer for it.

10. My impression from listening to Kowalewski during the telephone conference call was that he was trying to obtain support from SJCHS to help him remove the receiver that had been appointed to oversee SJK as part of the SEC

litigation. Kowalewski continuously discussed his own need for funds to cover his expenses i.e, reimburse him for attorneys' fees he has already paid, his children's unpaid medical bills, the wages he owes to his employees and also some past due vendor payments – which, according to Kowalewski – were all within the context of the judge's ruling. Kowalewski also stated during the call that he intended to contact other investors in the SJK Funds to discuss the topics he discussed during our telephone conference call.

I declare under the penalties of perjury that the foregoing is true and correct.

Executed this 26th day of May 2011.

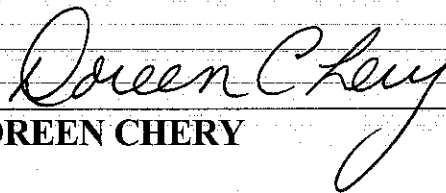

DOREEN CHERY

Exhibit A

From: stan@argonaut-llc.com [mailto:stan@argonaut-llc.com]
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Stan Kowalewski
The Argonaut Group, LLC

CERTIFICATE OF SERVICE

This is to certify that on April 29, 2011 I electronically filed the foregoing document with the Clerk of the Court using CM/ECF system, which will automatically send e-mail notification of such filing to the following attorneys of record:

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Office of Thomas R. Todd, Jr.
P. O. Box 88519
Atlanta, GA 30356

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Kevin W. Whiteheart, Esq.
Raleigh, North Carolina
1305 Navaho Drive, Suite 303
Raleigh, North Carolina 27609

I hereby certify that I have mailed by United States Parcel Service a copy of the same to the following non-CM-ECF participant:

Kimberly E. Neureiter
Pension Benefit Guaranty Corporation
Office of the General Counsel
1200 K. Street, N.W.
Suite 340
Washington, DC 20005

May 26, 2011

/s/ Alex Rue
Alex Rue