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Kowalewski clients may lose millions

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GREENSBORO — The alleged financial exploits of Greensboro hedge-fund manager and basketball coach Stan Kowalewski will end up costing his clients a minimum of between $5 million and $10 million, federal court officials learned Friday.

The losses will be that high even if Kowalewski is sued successfully by the U.S. Securities and Exchange Commission or one of the aggrieved investors for such personal assets as his multimillion-dollar Summerfield house, financial-recovery lawyer David Dantzler said in a presentation in the U.S. District Court for Northern Georgia.

File photo (News & Record)

Stan Kowalewski

"There's not enough assets and cash there to completely make the investors whole, absent a lawsuit against someone other than Kowalewski," Dantzler said of the investors' losses to Kowalewski's alleged wheeling and dealing.

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"And today, it's premature to speculate if there is anything like that (another lawsuit against somebody else) out there."

Meanwhile, Dantzler submitted a written report Thursday evening revealing for the first time that Kowalewski allegedly violated a Jan. 6 court order freezing his assets by cashing a $100,000 check the day after the order took effect.

The local investment manager could face court action to at least recover the money as a result, Dantzler acknowledged, but added it is too early to know for sure.

"It would be a serious matter if the freeze was knowingly violated," Dantzler said in a telephone interview after the hearing. "That remains under investigation. ... We could possibly seek the return of the $100,000. We just learned about it very recently."

Dantzler's report also indicates that some of the misdirected investor money might have been part of nearly $500,000 that Kowalewski donated to Oak Ridge Military Academy, where the 38-year-old former college basketball player is the hoops coach.

And Dantzler said in his report that a court-appointed receiver recently closed Velocity Sports, the athletic training facility on Gallimore Dairy Road that Kowalewski allegedly bought last year with investor money. Velocity was to operate a new gym at the military academy that Kowalewski planned to build, but an Oak Ridge official said Friday that project is dead.

Kowalewski did not return a telephone call Friday seeking comment on the receiver's report and on his Jan. 7 withdrawal from one of his two bank accounts, which had a total balance of about $197,000 before he wrote the check.

His lawyer, Thomas R. Todd Jr. of Atlanta, declined to comment.

The SEC, which enforces federal laws governing certain types of investments, filed a civil lawsuit against Kowalewski and his Greensboro company — SJK Investment Management — on Jan. 6, immediately winning a judge's order freezing the assets of both defendants.

The government claims Kowalewski and SJK deceived investors by diverting about $16.7 million of their combined $77.9 million in investments to a fund they did not know about called the Special Opportunities Fund. Kowalewski wound up with about $7.45 million of that money through questionable payments to him by SJK, according to Dantzler's report.

Last month, U.S. District Judge Timothy C. Batten put all of Kowalewski's and SJK's assets under the control of a so-called receiver, Atlanta financial consultant S. Gregory Hays, whose job is to unravel what happened, recover as much money as possible and return it to the wronged investors.

Dantzler works with the receiver, representing Hays in court and other legal matters linked to unwinding the sort of financial train wrecks that merit SEC action.

Dantzler submitted his report Friday afternoon to Batten in a 10-minute hearing, during which the judge quickly granted a request by the receiver team to add the Special Opportunities Fund as a separate defendant in the case. Then Batten left, and Dantzler spent an hour briefing about half of the 16 investors on the status of his and Hays' efforts outlined in Thursday's written report.

The investors are a varied group of mostly out-of-state institutional investors ranging from hospitals to retirement plans, several private schools and individuals. Kowalewski is among the investors, using some of the money that he allegedly received through what the SEC calls "investment advisory fraud" in its court filings.

The report detailed how Kowalewski, SJK and the special fund spent the diverted money on proposed local residential developments, the $2.9 million purchase of Kowalewski's home as a purported business investment and a $3.9 million beach house in Pawleys Island, S.C. Kowalewski bought his home back from Special Opportunities after the SEC began investigating.

The report also shed new light on Kowalewski's relationship with Oak Ridge, where the former basketball player for Dartmouth College has coached since mid-2009. The report said that since February 2010, Kowalewski gave the school $471,343 in donations , some of which apparently came from more than $7.4 million in payments he received indirectly from the investors through SJK.

In addition, the report said Kowalewski put another $351,389 of that money into a memorial foundation honoring his late father-in-law, a fund that also gave scholarship money to students who attend Oak Ridge and other private secondary schools, colleges and universities.

"Stan has been a generous donor to the school," said Oak Ridge President David Johnson, adding he did not want to discuss the specifics of Kowalewski's gifts to the school or how many students received how much from Kowalewski's family-affiliated Terry J. Fontenot Memorial Foundation.

Johnson said some of Kowalewski's gifts to the school were for specific projects and others were to be used at the school's discretion.

But depending on the terms, the cash-strapped school could be on the hook for any tainted money it received from Kowalewski, although such a recovery effort is not a certainty.

"There are various circumstances under which we could (seek to recover the money), but I don't know enough about those transfers," Dantzler said of Kowalewski's gifts. "I'd just say it's on our list to investigate."

Johnson said school officials are no longer pursuing the new gym, for which only preliminary ground work related to a sewer line and a zoning change had been accomplished.

In the past month or so, school officials accepted the fact the gym will not happen, although it would have been a nice addition to campus, Johnson said. That acceptance had nothing to do with Thursday's revelation that the receiver closed and was liquidating Velocity Sports, the local franchise Kowalewski allegedly bought for about $200,000 through the Special Opportunities Fund.

Kowalewski originally planned to relocate Velocity to the proposed new gym, which was to include two basketball courts and cost $2.5 million to $4 million.

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