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*From the Los Angeles Times*

## COURTS

### **Investors claim duo's fraud cost them millions**

**Lawsuits allege that money meant for an esoteric scheme known as PIPEs was pocketed or spent.**

By Kim Christensen

Los Angeles Times Staff Writer

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He was an affable Santa Ana insurance salesman, she an Irvine securities lawyer with an impressive resume.

Together they took in more than \$40 million from scores of small investors, who say they were promised returns of up to 40% through a sophisticated investment strategy usually reserved for hedge funds and other Wall Street big boys.

But of all the money that James R. Halstead and Jeanne M. Rowzee solicited for Private Investment in Public Equities, or PIPEs, they placed exactly zero in the esoteric transactions, investors allege.

"There were no PIPEs," said John M. Powers Sr., an Arizona commercial real estate agent who claims losses of more than \$1 million in a lawsuit in U.S. District Court in Santa Ana.

"I'm 59 years old and ready to retire in two or three years, and I worked pretty much my whole life for that money," he said. "Basically, it's gone."

Powers' lament echoes through more than half a dozen civil lawsuits filed in state and federal courts accusing Halstead, 61, and Rowzee, 49, of defrauding more than 80 people before the alleged scheme collapsed last year.

Rowzee has denied wrongdoing but declined to comment.

Halstead, who has a 1998 felony conviction in Orange County Superior Court for selling securities unlawfully, said he, too, was defrauded. He blamed Rowzee, his longtime lawyer and friend, and said he has lost \$20 million he had in investment accounts with her.

"A lot of people got hurt in this deal," he said. "You want to know who's the biggest victim? You're talking to him, buddy. . . . I lost everything."

#### **Range of investors**

That may be a tough sell to investors, who ran the gamut from wealthy developers to retirees on fixed incomes, some of whom drained their home equity to invest. Many were seasoned business people who said they brought friends or relatives into the deal.

Several investors told The Times that they have detailed their allegations to the Securities and Exchange Commission and the FBI. Halstead said he's been in talks with the U.S. attorney's office but would not elaborate.

All three agencies declined to comment.

"I don't see how you can steal millions and millions of dollars and not be held accountable by the authorities," said Steve Perebzhak, 36, who, along with his elderly mother, allegedly lost \$450,000 they borrowed against their homes.

Where all the money went remains a mystery.

Rowzee, a single mother of two, is accused of stashing much of it in offshore banks, including \$2 million she wired to a former client, "a fugitive hiding in Brazil," one suit alleges.

Halstead allegedly blew millions more on a fast-lane lifestyle that included sports cars, diamond-crusted wristwatches, frequent strip-club visits and two houses with panoramic views of Las Vegas.

"These are people who have no consciences," said Norbert Foigelman, a retired Newport Beach psychologist and entrepreneur who allegedly lost \$1.5 million.

### **Life in the fast lane**

As tens of millions of dollars flowed into the PIPEs scheme from 2004 to 2006, the lawsuits charge, Halstead was living it up in Vegas.

Property records show he bought two 8,000-square-foot homes near Henderson, Nev., with sweeping views. One cost \$5.9 million, records show, the other \$3.5 million.

"His house was like a mansion and looked out over the top of Vegas, the whole Strip. It was a faraway, but beautiful view," said Foigelman, who met Halstead as an insurance client in 1997. "He had big parties there to entice people to invest more money."

Halstead's other Vegas house was for his girlfriend, according to Foigelman and others, who said she was an exotic dancer.

"She was a beautiful girl," Foigelman said. "They spent money like crazy, on jewelry and clothes."

And cars.

Sales records show the couple spent \$201,000 on a Ferrari 360 Spider convertible from a Las Vegas dealership on Christmas Eve 2005. The following July, Halstead paid \$368,000 for a 605-horsepower Porsche Carrera GT, records show.

Others recall him getting around Vegas in a chauffeur-driven limo, with an entourage that included a man named Sergio, whose job was to shop for the couple's clothes.

At the Bellagio hotel, acquaintances say, Halstead cheerily flashed his American Express Black Card to pick up the tab for himself and his friends, sometimes in the dozens. But American Express apparently has its limits, even if its vaunted Black Card doesn't: It sued Halstead in December for an unpaid balance of \$358,869.

### **'I'm not a fool'**

Halstead's response to stories of his wild spending can be summed up in two words: So what? He said he earned \$750,000 a year in the insurance business and had money to burn.

"If I want to buy five cars or 10 cars, or two houses, or go to Vegas, why shouldn't I?" he said. "I didn't need this PIPEs deal to live my lifestyle. . . . I didn't need anybody else's money and I didn't steal anybody's money. I'm not a fool."

In Orange County, Halstead toiled around in his sport cars and took business lunches at his regular table at Il Fornaio in Irvine. He lived with his wife, Susan, and three children in a quiet Santa Ana neighborhood and was active in his sons' youth baseball program.

Susan Halstead, whose 2007 divorce suit is pending, is a defendant in some of the lawsuits. She denied wrongdoing and declined to comment through attorney David L. Casterline, who also represents her husband.

Casterline said James Halstead's legal position was that investors relied on Rowzee for advice about PIPEs, not on his client. Halstead said as much in an interview.

"These were attorneys, investment bankers, big-time businessmen," Halstead said. "They knew what they were doing. They met with Jeanne, they talked with Jeanne. I'm just an insurance guy."

### **Lawyer-client partners**

Halstead said he met Rowzee in the early 1990s, when he hired her to defend him in a criminal case. He and another man were charged with bilking investors of more than \$1 million in a scheme to sell crude oil and German bank shares.

In 1998 he pleaded guilty to five felony counts and was put on probation, case records show. His conviction was reduced to a misdemeanor when he paid \$150,000 restitution.

He and Rowzee went on to become best friends, Halstead said in an interview, in which he also contended she repeatedly assured him that the PIPEs were on the up and up.

Many companies legitimately use PIPEs to raise capital for growth or acquisitions. The transactions vary, but investors typically -- and quietly -- buy stock below market price and later sell it at a profit.

"What perpetrators of fraud tend to do is play on the investment du jour," said Randall R. Lee, former head of the Los Angeles regional SEC office and now a securities lawyer in private practice.

"PIPEs actually have been kind of a hot thing, a hot way to raise money," said Lee, who was not familiar with the Rowzee-Halstead cases. "A few years ago, it was real estate-related investments."

In court papers and interviews, investors say Rowzee and Halstead, through his Game Plan Inc., promoted PIPEs as deals -- available only to a select few -- that would protect their principal while yielding up to 40% in as little as three months.

Halstead was the consummate salesman, they said, while Rowzee seemed to live up to his billing of her as a securities expert.

"She was very intelligent and very knowledgeable," Powers said of his first meeting with her. He also vetted her with a senior partner at a Washington, D.C., law firm where she worked before moving to Southern California in 1989.

"He gave her an outstanding recommendation," Powers said. "There were no red flags there. What more could you ask for?"

Powers and others got some money back early on and rolled their principal amounts into new PIPEs -- or so they thought. They now contend they were victims of a Ponzi scheme that thrived by paying out some cash from new investors to those who had come aboard earlier.

### **Another defendant**

In addition to Rowzee and Halstead, one lawsuit names Robert T. Harvey, 61, a Rancho Santa Margarita venture

capitalist she defended in a 2004 civil fraud lawsuit that was later settled.

In 1986 Harvey was sentenced to 18 months in federal prison after a jury convicted him and three other members of a New York commodities-trading firm of defrauding 1,200 investors out of \$11 million through misleading promotions and high-pressure sales tactics.

In 2002 the California Department of Corporations barred him from selling investments, citing his "numerous disciplinary actions" and "unsuccessful business ventures." The order noted that the National Assn. of Security Dealers, or NASD, had refused to register him because of "the serious nature of his misconduct" that led to his conviction.

While denying wrongdoing in the alleged Orange County PIPEs scheme, Harvey has agreed to repay \$4 million to some 30 investors. He referred questions to his attorney, William M. Hensley, who declined to comment.

Others were not so tight-lipped.

"Bob was a great salesman, a real slick guy," said Perebzk, a Lake Forest resident who works for a floor-maintenance company.

As Rowzee allegedly had been with other investors, Harvey was vague with him about exactly where the money was going, Perebzk said.

"Bob explained that they could not tell us what companies they were investing in because of the risk of insider trading or short-selling of the stock," Perebzk said. "None of that was happening at all, but it was a good story."

He said he initially invested \$35,000, followed by \$225,000 more that he borrowed against his house.

As checks rolled in, he and his widowed mother, Betty, 82, were so convinced it was legitimate that she borrowed \$250,000 against her condo and he put that in, too.

### **'Greatest thing'**

"They paid me back \$70,000 in six months and I thought, 'This is the greatest thing since sliced bread,' " Perebzk said. "Obviously it was too good to be true."

"It's devastating," he said. "I had excellent credit. Now I have three mortgages and my mother is using her retirement money. We're just trying to hold on and not have to sell the house in this market. But the rope is getting real thin."

In the fall of 2006, investors say, the PIPEs payments slowed. In a letter to investors in January 2007, Rowzee blamed new SEC rulings for damping the PIPEs market and said she would freeze their funds to protect them.

Payments stopped. Lawsuits flew.

Irvine attorney Steven L. Krongold, who represents Perebzk and others, recounted a recent conversation he had with Rowzee.

"Why would you do this? What was going through your head, with millions of dollars going through your accounts?" Krongold said he asked her. "Her response to me was, 'I was just stupid. I got caught up in this thing and it was stupid of me. I made a big mistake.' "

Halstead said he was "a good guy with a great heart" and was saddened by what happened to investors. But he said they also must accept responsibility.

"We were all greedy -- and stupid," he said. "That's what we were, and that's the truth."

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