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O.C. Man Is Indicted in Massive Fraud Case

Clients ask why the state didn't act after being warned about James Lewis in 2001.

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When a financial advisor told Georgia state authorities about the money manager who was guaranteeing his clients returns of 18%, alarm bells went off.

It was the spring of 2001, a year after the stock bubble burst, and the promise just sounded too good to be true. As they learned more about the Orange County man touting his investment prowess, James P. Lewis Jr., regulators in Atlanta became increasingly suspicious. They saw red flags in his boasts of traveling the world by private jet and, among other things, in the 60-day waiting period he imposed when clients asked to withdraw money from their accounts.

In a telephone call that April and in a letter the next month, the regulators alerted the California Department of Corporations to their serious concerns. "This was not our standard referral letter," said Tonia Curry, chief enforcement attorney for the Georgia Division of Securities and Business Regulation.

The warning went nowhere. Curry said Georgia had no record that the California agency ever even replied.

Lewis was indicted Wednesday on 14 counts of mail fraud and money laundering, accused of bilking more than $200 million from some 3,000 people, many of whom lost their life savings. But it was the federal government - not the state of California - that brought the case against him.

That has left some aggrieved investors wondering why the state failed to go after Lewis and his company, Financial Advisory Consultants Inc. of Lake Forest, when it had the chance.

"Why didn't they shut this down?" asked Janet Goldblatt, 61, a retired designer for toy maker Mattel Inc. She said she had signed a lease on a condominium near Century City in the belief she could more than cover the $2,600 rent with the $5,000 in investment income Lewis pledged would be hers every month. Now she is "penniless," she said, and hunting desperately for a roommate and a job.

FBI agents arrested Lewis in Houston two weeks ago. The Villa Park man had disappeared after the Securities and Exchange Commission, two days before Christmas, charged that he had been operating an elaborate, 20-year fraud.

It began to fall apart last summer, federal records show, when Lewis told investors they couldn't withdraw any money because the Department of Homeland Security had frozen their funds and was questioning whether some of the investments came from terrorists. The government says that excuse was bogus.

By the time the enterprise completely collapsed late last year, Lewis was telling clients that he controlled $813.9 million in various investment accounts. In fact, nearly all of that was invented, the SEC said. The company's assets totaled only about 1% of the $813.9 million he bragged about, according to the agency. And Lewis, federal agents said, had been spending freely, writing a check for $100,000 to a luxury jeweler and laying down a $50,000 deposit on a $400,000 Maybach limousine.

A nationwide dragnet for the 57-year-old ended Jan. 22 when agents burst into his room at a Comfort Inn in Houston, where Lewis had used a senior card to get a $6 discount.

An FBI spokeswoman said agents found him with dozens of credit cards and maps, including one of Mexico. He is expected to be returned to Orange County this weekend and to appear next week in federal court in Santa Ana.

Lewis' lawyer, Paul Meyer of Costa Mesa, said he was "reviewing the government's material" but couldn't comment further.

According to SEC filings and attorneys involved in the case, Lewis' victims include his computer technician, who mortgaged his house to invest with Financial Advisory Consultants, and the mother of Lewis' live-in companion, who handed over her entire $250,000 in retirement savings. Authorities say they have not determined net losses, since Lewis also paid out tens of millions in returns to investors.

The state of California did open an inquiry in response to the letter three years ago from Georgia, according to Andre Pineda, a former top deputy with the Department of Corporations. But investigators never made a case.

Explanations vary. State officials say they receive far more complaints than they can actively investigate and that, in any case, the investors themselves weren't complaining. But critics say the state simply doesn't aggressively pursue investment scams anymore.

"The culture for the last 2 1/2 years was to not investigate cases," said G.W. "Bill" McDonald, who spent 20 years as chief of enforcement for the Department of Corporations and left in 2001.

State officials dispute that. A major problem with the Lewis case was the investors themselves, according to Pineda. He said Lewis kept them happy by using money from new clients to pay off existing clients - standard operating procedure in so-called Ponzi schemes.

What's more, Pineda added, by the time Lewis stopped paying profits to clients last summer, prompting complaints, the Department of Corporations was in the process of laying off all 13 of its front-line investigators due to budget cuts.

But even back in 2001, the letter from Georgia was only enough for California regulators to put the case on the "keep on the lookout pile," Pineda said, not the "do something pile."

The director of the Department of Corporations, William P. Wood, declined to comment on his agency's handling of the Lewis matter since 2001, saying aspects of the case remained open.

Among the documents seized when FBI agents raided Lewis' office was a 1997 letter from the Department of Corporations. It said it had information that he was acting as an investment advisor without a license.

In a reply, Lewis said he was a licensed, self-employed insurance agent, operating in California since 1976 as Financial Advisory Consultants. Wood said the Department of Corporations appears to have accepted Lewis' explanation.

For the next four years, Lewis seems to have dropped off regulatory radar screens. The letter from Georgia arrived just as then-Corporations Commissioner Demetrios Boutris was forcing McDonald out as the head of enforcement. Boutris then slashed the enforcement staff, which specialized in consumer fraud cases, to 31 from 65. Boutris, who was replaced by Wood when Arnold Schwarzenegger became governor, declined to comment.

Sacramento's interest in Lewis was revived in 2002, when several investors asked state regulators if Lewis was a registered investment advisor. He wasn't.

But none of these investors would agree to help set up a sting with an undercover investigator, Pineda said. And so in June 2003, lacking any hard evidence, "we took the old-fashioned route: We went to his building, hoping to pick up clues" from his trash, Pineda said. "One of the key things to be considered there was to see if it was feasible to go through his garbage, and it wasn't."

By the time Lewis began refusing last summer to allow clients to withdraw money, the 13 investigators at the Department of Corporations were being moved to other agencies so the department could meet budget goals.

Last October, with investors now eager to cooperate, the department called the FBI. The agency was already looking into Lewis on a tip from Barry Minkow, mastermind of the infamous ZZZZ Best carpet cleaning fraud, who is now a fraud consultant.

After reviewing the 2001 letter from Georgia, James L. Sanders, the SEC's former top official in Los Angeles, said that it contained so many "red flags" that "any regulator would have to do something with this."

Goldblatt, the unhappy Lewis investor, is organizing a support group for Lewis' ex-clients.

"It just seems there needs to be some tighter controls or more scrutiny of people like this," she said. "We investors thought we were safe."

Some of Lewis' assets:

Cash:	$2.2 million
Commodities and stockbroker accounts:	$180,000
Laguna Niguel home:	$1.5 million
Palm Desert home:	$810,000
San Diego condominium:	$850,000
Lake Forest office condo:	$550,000
Villa Park home:	$1.8 million
Greenwich, Conn., home:	$2.3 million
Cars:	$170,000

Source: Securities and Exchange Commission, Robb Evans & Associates, Times research

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