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Trial begins in $56 million castle fraud

Former Redstone Castle owners implicated

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DENVER — A trial scheduled for 40 days began Monday in Denver over allegations of a $56 million investment fraud that financed the purchase of the Redstone Castle.

Five of seven people indicted in the case went on trial in U.S. District Court. Another, Jannice Schmidt of Denver, pleaded guilty last year, and the last, Peter Moss of London, England, remains a fugitive.

The Internal Revenue Service seized the castle in 2003 as part of its investigation into the alleged scam. Built around the start of the 20th century by coal magnate John Osgood, the castle was sold at auction in 2005 for $4 million to Ralli Dimitrius, a part-time Aspen resident. Proceeds from the sale, which also included $480,000 for a second Redstone property, went toward a restitution fund for victims of the alleged fraud. Redstone is located south of Carbondale, on Highway 133.

Federal investigators say those behind the investment scheme misrepresented it as being high-yield and low-risk, and used proceeds for purposes different from what had been promised to investors. During the investigation, agents seized not just the 42-room castle but about 60 bank accounts and eight NASCAR race cars.

IRS special agent John Harrison said shell companies known as Tranquility 1, 2 and 3 were incorporated by various people involved in the scheme and used to launder funds to buy the Redstone properties. Leon and Debbie Harte headed up the $6.5 million purchase. Leon Harte died before the 2004 indictments were handed down. Harrison said Debbie Harte, who had divorced Leon before his death, was not a participant in the scheme and was not indicted.

Jannice and Norman Eugene Schmidt also were among participants in the castle purchase, authorities say. Jannice Schmidt, 69 at the time of her sentencing last August, was given nine years in federal prison for securities fraud and agreed to forfeit assets including a farm in Nebraska.

The U.S. Attorney's Office has said the scam was operated from 1999 to 2003. It said Jannice Schmidt had been solicited to invest in one of several of the scam's investment programs in 2001, and later was paid a commission to solicit other investors. She became bookkeeper for the program and remained involved after learning it was fraudulent. Authorities say investors were falsely promised that their money would be held in an insured, non-depleting bank account.

In 2004, the U.S. Attorney's Office announced that a federal grand jury had indicted the Schmidts and five others on a total of 57 counts. The counts included conspiracy, mail and wire fraud, securities fraud and money laundering.

Others who were indicted include Moss; George Beros, of Shaker Heights, Ohio; George Alan Weed, of Benton, Ill.; Michael Duane Smith, of Colbert, Wash., and Charles Franklin Lewis, of Littleton.

Harrison said authorities believe Moss is still in London but have been unable to extradite him for several reasons, which Harrison said he can't discuss.

Authorities believe the scam reached into seven countries. They worked with police in such countries as England, Canada, Australia and New Zealand in the investigation.

Harrison said the scam is a variation of a Ponzi scheme. Such schemes rely on the money provided by later investors to pay off early ones. The variation that those on trial are accused of is known as a prime bank note or high-yield scheme. The scheme originated in Europe about 50 years ago and migrated to the United States, he said.

Harrison said none of the defendants has opposed the civil forfeiture action involving seized assets. As a result, summary judgments have made about $18 million available for disbursement to victims, and the government is in the process of making payments, he said.

He said the scam has taken a heavy financial toll on some of the victims, many of whom are elderly.

"From our perspective it's complete devastation for some families," he said.

But Harrison said some people haven't learned from scams such as the one that is the subject of the Denver trial.

"It hasn't deterred people from investing in similar things like it," he said.

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