IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

U.S. DISTRICT COURT
DISTRICT OF COLORADO
2003 MAR -6 PM 3:42
JAMES R. MANSPEAKER
CLERK
BY _____ DEP. CLK

Civil Action No. 03-RB-0403 (CBS)

UNITED STATES OF AMERICA,

Plaintiff,

v.

CERTAIN BANK ACCOUNTS

Defendants.

VERIFIED COMPLAINT FOR FORFEITURE IN REM

The United States of America, by and through United States Attorney John W. Suthers and Assistant United States Attorney James S. Russell, pursuant to Supplemental Rules for Admiralty and Maritime Claims C(2), states:

JURISDICTION AND VENUE

1. The United States of America (the "United States") has commenced this action pursuant to the civil forfeiture provisions of 18 U.S.C. §981, seeking forfeiture of the Defendant properties as involved in, as facilitating, and as the proceeds of violations of 18 U.S.C. §1341 (mail fraud), §1343 (wire fraud), §1956 and §1957 (money laundering), and 15 U.S.C. § 77q(a), 77x, 78j(b) and 78ff (securities fraud). This Court has jurisdiction under 28 U.S.C. §§1345 and 1355.

2. Venue is proper under 18 U.S.C. § 981(h), 19 U.S.C. §1605, and 28 U.S.C. §1395, as the Defendant properties are located, and many of the acts described herein occurred,

in the District of Colorado.

DEFENDANT PROPERTIES

3. Defendant Certain Bank Accounts are more fully described and owned as follows to include all monies, assets or other interests of any kind, located at the following banks, and in the following names, or held for the direct or indirect benefit of the following individuals:

a. Bella Vista Associates, Inc., at Bank of America, Sacramento, California, account number 4961979616;

b. Michael L. Young at Bank of America, Belleville, Illinois, account number 1920926661;

c. S.I.S. Associates, Inc., at Bank of America Nevada, Las Vegas, Nevada, account numbers 122400724 and 4961999638;

d. Smitty's, at Bank of New York, New York, New York, account number 021000018;

e. Heritage America, at Bank One Chicago, Illinois, account number 1115000176309;

f. Cambridge Ventures Ltd. and/or Cambridge Enterprises, LLC, at Bank One, NA, Chicago, Illinois, account numbers 071000013 and 1115002153225;

g. Terry Lorenzen at First Bank of Colorado, Lakewood, Colorado, account number 107005047;

h. Capital Holdings, Norman Schmidt, and/or Janice M. Mclain at Key Bank, Denver, Colorado, account number 760640008073;

i. Northwest Group, LLC at United States Bank, NA, Seattle, Washington, account number 153592246877;

j. Northwest Group, LLC, Red Heart Holdings, and/or Asset Holding at United States

Bank, NA, Seattle, Washington, Account number 125000105;

k. Capital Holdings International LLC, at U.S. Bank, Denver, Colorado, account number 1036586123387;

l. Capital Holdings, LLC, at U.S. Bank, Denver, Colorado, account number 153592309097;

m. Janice M. Mclain, at U.S. Bank, Littleton, Colorado, account number 150870368563;

n. Janice M. Mclain and/or Charles F. Lewis, U.S. Bank, Littleton, Colorado, account number 103671427591;

o. Miloka Holdings, at U.S. Bank, Denver, Colorado, account number 153553955870;

p. Miloka Holdings Trust, at U.S. Bank, Spokane, Washington, account number 153592246919;

q. National Marketing Solutions Trust, at U.S. Bank, Spokane, Washington, account numbers 153590366305, 153592247131, and 153592247115;

r. Northwest Group, Capital Holdings, and/or Michael D. Smith, U.S. Bank, Spokane, Washington, account number 194312307839;

s. Players Trust, at U.S. Bank, Arvada, Colorado, account number 153591423196;

t. Michael A. Vallone, at U.S. Bank, Chicago, Illinois, account number 2626007768;

u. Alan Weed, at U.S. Bank, Benton, Illinois, account number 195834130

collectively referred to as Defendant Bank Accounts.

FACTUAL BASIS FOR FORFEITURE

Except as otherwise noted, all of the following facts and information have been discovered through my own investigation and observations, and the observations and investigations of fellow law enforcement officers as reported to me.

4. Beginning no later than 1997, Norman Schmidt, Leon Harte, and Charles Lewis aided and assisted by numerous others, including but not limited to Michael Bergman, Janet Bach, Elia Figueroa, Clifford Pitt, Peter Moss, Mary Ann Gough, Rebecca Taylor, and Alan Weed, d/b/a Weed Agency, by utilizing the United States Postal Service and private and commercial interstate mail carriers, and by transmitting writings by wire in interstate and foreign commerce, engaged in a "High Yield Investment Program" to defraud individuals and institutions within the District of Colorado and elsewhere of approximately $20 million, by fraudulently offering and selling securities. The proceeds of the fraud scheme were laundered through a variety of financial accounts in different names. Defendant Certain Bank Accounts contain and consist of the proceeds of, and in some instances were involved in, the fraud scheme. Initially, those operating the fraud schemes used various entities affiliated with their "Reserve Foundation Trust", or "RFT"operation. They subsequently moved some of the illegal proceeds to, and operated as, "Smitty's Investments", and still later moved the proceeds to Defendant Bank Accounts while operating "Capital Holdings, LLC".

HIGH YIELD NOTE FRAUD SCHEMES GENERALLY

5. In a High Yield Note Fraud Scheme, those operating the fraud induce potential victims to invest or deposit with the operators large sums of money, by promising extremely high

rates of return, such as 25 percent to a 100 percent or higher per year, quarter, or even month. Typically, the operators of the fraud scheme will indicate that they are operating outside of the normal banking channels, wherein they may obtain alleged "High Yield Financial Instruments", "Prime Bank Notes", or otherwise named financial instruments not normally available in the usual investment circles. The operators of the fraud allege that the High Yield Financial Instruments, Prime Bank Notes, or otherwise named investments are only available in high dollar amounts, are purchased at a highly discounted rate because they are outside of the customary banking channels, and are not subject to customary banking or investment procedures and requirements. The operators of the scheme will also often indicate that the victim investors' monies are "fully insured" by major international insurance companies or otherwise " fully protected" by governmental, banking, or by financial institution policies or programs. Often the fraud scheme operators will allege that the High Yield Financial Instruments are traded on the international market, thereby further rendering the instruments beyond the scope of U.S. regulations and restrictions. Further, the fraud scheme operators will allege that, in addition to the exorbitantly high rates of return to be paid out at periodic intervals, after a specified period of time the individual victim investors will have their initial principal investment returned to them in full. The operators of the fraud scheme will thus induce the victim investors to enter into an investment contract, whereby the individual victim investors will transfer to the fraud scheme operators, often by mail or interstate wire communications, large sums of money allegedly for the purchase of the promised High Yield Financial Instruments.

6. In fact, there are no such High Yield Financial Instruments, there is no such trading of such instruments on the domestic or international market, there is no payment of the

exorbitant rates of interest promised, and the principal is not returned. Occasionally, individual victim investors may receive some initial return, to lull them into continuing to cooperate and invest further, to induce other victim investors to participate in the scheme, or to reduce the victim investors' demands for their promised high interest payment or return of principal investment. These payments come not from investments, as those usually are not made, but rather from investment monies diverted from other victims. When the promised periodic payments or ultimate return of the initial investment does not occur, and the victim investors begin making demands, the operators of the fraud scheme will typically offer a variety of different excuses, such as unwarranted interference by a domestic or foreign regulatory agency, an unexpected domestic or foreign calamity, or simply that the payments will be forthcoming "shortly". Meanwhile, the operators of the fraud scheme utilize the fraudulently obtained funds both to carry on the scheme and for their own personal benefit, expending the monies for their own uses.

7. It is illegal to engage in fraud in the offer or sale of a security. Under most circumstances, it is also illegal to sell securities which have not been registered with the U.S. Securities and Exchange Commission. A security includes the following items - "note," "stock," "bond," and "debenture," as well as more general terms - "investment contract" and "any interest or instrument commonly known as a 'security'." The definition of a security includes an investment contract, which is "a contract, transaction, or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or third part . . ."

THE COLORADO FRAUD SCHEME

8. As set forth in great detail in the accompanying affidavit of Federal Bureau of Investigation Special Agent Stephanie Ann Hahn, which affidavit is incorporated herein by reference, from on or about June 1, 1999 to the present there has been an on-going ponzi scheme based in Colorado and marketing non-existent investment vehicles described variously as "prime bank notes", "prime bank debentures" and "medium term bank notes", hereinafter identified as the "investment program." In this particular scheme, victim/investors were brought into the "investment program" by the operators of the scheme headquartered in Colorado as well as by persons soliciting victim/investors for them located throughout the United States. Victim/Investors were attracted with false promises of interest rates as high as 400% per month and non-existent insurance protection of their principal investment. Although operating under different names, including The Reserve Foundation Trust, Smitty's Investments, and Capital Holdings, there is little variation in the basics of the scheme, which include the siphoning of the victim/investor's monies to the operators, the payment of large commissions to the solicitors or branch offices, the use of some of those monies to pay "earnings" back previous victim/investors, and the use of invested funds to acquire personal assets controlled by the operators which were undisclosed to the investors. Typically, victim/investors received a contract called a Cooperative Private Placement Agreement ("CPPA") and wiring instruction to transmit funds to bank accounts controlled by the fraud operators. Disbursements or "lulling" payments were either made to the victim/investors directly from the operators or disbursed in blocks to the branch offices for distribution to their clients. The ongoing investigation has identified victims who have invested in the "investment programs" offered and sold by the Reserve Foundation Trust, Smitty's Investments, and Capital Holdings.

9. In the first phase of the scheme, under the auspices of the Reserve Foundation Trust ("RFT"), from on or about June 1, 1999 through November 13, 2000 the principals were identified as Leon Harte ("Harte"), Norman Schmidt ("Schmidt"), and Peter Moss ("Moss"), whose headquarters was first located at Leon Harte's home at 1322 33rd Avenue, Greeley, Colorado and subsequently moved to 58 Redstone Blvd., Redstone, Colorado. Victim/Investor funds were initially deposited into a Reserve Foundation Trust bank account at New Frontier Bank in Greeley Colorado, account number 101319 and then into a Reserve Foundation Trust bank account at Bank One in Greeley, Colorado, account number 192362547. Many of the RFT victim/investors received little or no repayment of their principal RFT investments when Harte and Schmidt stopped conducting business under the name RFT.

10. Phase two of the scheme, under the auspices of Smitty's Investments, LLC, headquartered in Colorado at 250 East 54th Avenue, Suite C, Denver Colorado, was organized by Norman Schmidt, and from this new organization he began soliciting further victim/investors. Victim/investors' funds were deposited into a Smitty's Investments bank account at Wells Fargo Bank West in Denver, Colorado, account number 057-8140956. The business address identified by Smitty's Investments to Wells Fargo Bank West was 550 E. 12th Ave., Apt 1805, Denver, Colorado, which is Schmidt's residence.

11. Phase three of the scheme, under the auspices of Capital Holdings, LLC, headquartered in Colorado at 1400 16th Street, Suite 4015, Denver, Colorado and operated primarily by Norman Schmidt and Charles Lewis, has expanded its operation to include several satellite offices around the country. Those others who operated branch offices or who solicited victim/investors are identified as Mike Smith and John Schlabach (Spokane, Washington);

Valdemar Bough (Sacramento, California); George Beros (Independence, Ohio); Joseph Pavela (Stoddard, Wisconsin); Michael Vallone and Brian Wasson (Chicago, Illinois); and others soliciting victim/investors on behalf of branch office operators. In addition, George Alan Weed of the Weed Insurance Agency (Benton, Illinois), was the person providing "evidence" of insurance policies that purportedly insured the investors principal investment into the various "investment programs." Victim/Investor funds acquired by the numerous sales offices throughout the United States were first deposited into bank accounts controlled by the sales offices. Victim/Investor funds from the sales offices located in Spokane, Washington and Sacramento, California were wire transferred into a Capital Holdings bank account that was located at Wells Fargo Bank West in Denver, Colorado, account number 101-1330204. The business address identified by Capital Holdings to Wells Fargo Bank West was 250 E. 54th Ave., Suite C, Denver, Colorado. Commission pay-outs to those who ran the sales offices in Spokane, Washington and Sacramento, California as well as "ponzi" payments to victim/investors brought into the "investment program" by these sales offices were wire transferred from the Capital Holdings Wells Fargo bank account in Denver, Colorado to banks located in Spokane, Washington and Sacramento, California.

12. On February 10, 2003, a search was conducted of the Colorado State Securities Registration data base and the Federal Securities Registration data base maintained by the SEC commonly known as "Edgar", to determine whether or not RFT, Smitty's, and Capital Holdings had registered either federally or with the State of Colorado any securities offerings they had publically sold during the period beginning January 1, 1998 - February 10, 2003. The search of these data bases disclosed that RFT, Smitty's, and Capital Holdings had not federally or with the

State of Colorado registered any securities offering during that period.

RESERVE FOUNDATION TRUST ("RFT")

13. As part of the scheme, on or about January 27, 2000, Norman Schmidt and Leon Harte organized the Reserve Foundation LLC in Colorado, with an address of 550 E. 12th Avenue, Suite 1805 Denver, Colorado. The Reserve Foundation LLC opened bank account number 1192362547 at Bank One, in Greeley, Colorado (the "RFT Bank One Account"). Harte, during a deposition taken on January 29, 2002 explained under oath that the Reserve Foundation LLC formed in Colorado was an investment arm of a trust out of the nation of St. Vincent and the Grenadines called Reserve Foundation Trust, which was a foreign corporation formed in St. Vincent and the Grenadines sometime during June 1999. Harte further stated during this deposition that he and Schmidt helped set up the Reserve Foundation Trust in St. Vincent and the Grenadines. During this phase of the fraud, the business names Reserve Foundation LLC and the Reserve Foundation Trust were used interchangeably. The names of the two businesses will be referred to as "RFT" throughout this complaint.

14. In the RFT fraud scheme, individual victim/investors would execute a CPPA with RFT, which would outline specific details of the investment, including a paragraph stating the principal was insured. The agreement included a schedule showing that the larger the investment amount the higher the rates of return would be, up to a return of as much as 400 per cent per month. All of the promises and inducements by those operating the fraud were false Harte signed many of the RFT CPPAs, while other RFT CPPAs were signed by Schmidt or other representatives of RFT. Other representatives soliciting investors for the program included Michael Bergman of Colorado, Kelly Schnorenberg (hereinafter "Schnorenberg") of Wyoming,

and Dirk Smith, Charles Frazier (hereinafter "Frazier"), and Kurt Hawks (hereinafter "Hawks"), all of Utah. The victim/investors would transfer their investment funds to RFT via either wire transfers or checks, which were deposited into the RFT Bank One Account. Victim/investors in the RFT "investment program" resided in numerous states throughout the United States and in at least ten foreign countries. Investors who resided outside Colorado had to wire transfer funds via interstate wire transfers to the RFT Bank One Account in Colorado or mail their investment checks to RFT, which investment checks would subsequently be deposited by RFT employees into RFT'S Bank One account in Colorado.

15. The operators of the RFT fraud scheme varied their false allegations and promises depending upon the circumstances. In one version investors were told by Moss, Harte, Schmidt, Bergman, Weed, Taylor, Pitt, Gough, D. Smith, Dunn, Alder, Schnorenberg, and others that RFT would invest the victims' money in some type of "notes" that were issued by foreign banks at a very great discount, such as 60 cents on the dollar; those operating the RFT fraud scheme told the victims that RFT would purchase these foreign notes at this great discount, and make significant profits by collecting interest on the notes and then selling the notes at a much higher price. Many victim/investors were also falsely assured that their investments were insured by St. Paul Fire & Marine Insurance company of Lloyds of London, through Alan Weed and the Weed Agency of Benton, Illinois.

16. Alan Weed (hereinafter "Weed"), d.b.a., Weed Agency (hereinafter "Weed Agency"), 504 Public Square, Benton, Illinois 62812, purported to insure investor's funds in the "investment programs" of RFT, and its successor Smitty's Investments, LLC and Capital Holdings, LLC. In fact, the only insurance coverage provided by St Paul Insurance Company was a Sole Obligor Depository Bond that insured the amount of money RFT deposited into a bank named CIBC Caribbean Limited ("CIBC") located in St. Vincent and the Grenadines in the

event that the money deposited with CIBC by RFT was not returned to RFT by CIBC, and a Commercial Crime Policy that provided insurance coverage solely to RFT in the event RFT sustained losses as a result of acts of RFT employee dishonesty. According to Jerry Landsman, Jr., an internal investigator employed by St Paul Fire and Marine Insurance Company, St. Paul did not guarantee or insure any deposit or investment in the RFT, nor did it provide coverage to individuals investors in the RFT.

a.. On January 6, 2000, The St. Paul Company sent letters to RFT investors notifying them that St. Paul did not guarantee any individual deposits made by any investor in the trust, contrary to representations made by Weed, Harte and Schmidt. Harte (Manager of RFT) had contacted Weed after the St. Paul Company letters went out on January 6, 2000, concerned about the letters and wanting to reassure the victim/investors. Harte dictated a letter to Weed which Weed mailed to all of the victim/investors on Saturday, January 9, 2000. According to Jerry Landsman, the St Paul Insurance Company investigator who obtained a copy of the letter, the tone of the letter was misleading and implied that everything was fine with the insurance coverage that was in place for each RFT investor.

b. On January 14, 2000, the investigator for The St. Paul Company received a call from Schmidt and Harte, who indicated they were the managers for the RFT. The misrepresentations that had been made by Weed were discussed and they stated that they understood.

c. On February 15, 2000, Weed admitted that the certificates that were issued to the policy holders were designed and mailed by him. Harte provided him with the names and addresses of investors.

d. Weed received a commission from Harte and Schmidt as the principals of RFT for selling the insurance policy and had received a total of $2,000 regarding that policy. As the policy grew, Weed was to receive further commissions from RFT.

17. Bank records from the RFT Bank One Account in the name of Reserve Foundation, LLC (RFT), 1322 33rd Avenue, Greeley, Colorado 80634 reveal that during the period beginning January 31, 2000 through November 13, 2000, the total funds deposited into this account were $20,914,544.00 and $20,914,544.00 was withdrawn from the account. This account was generally the account into which victim/investors were directed by RFT principals to wire transfer their investment funds, although some RFT victim/investors were directed by RFT principals to wire transfer their funds to offshore investment accounts controlled by the RFT principals. No source of funds deposited into this account had been identified as other than funds from investors in the RFT High Yield Private Placement "investment program." Many of the RFT investors received little or no repayment of their principal RFT investment when Harte and Schmidt stopped conducting business under the name RFT.

18. An analyst reviewing the RFT bank records could not identify disbursements of any of the funds deposited into these accounts into investment related activity as described in the offering documents or during verbal explanations of the RFT "investment program" provided to victim/investors prior to their decision to make their RFT investments.

19. Larry Dunn was an admitted big part of the RFT operation. During October 1999, Dunn met Harte in New York, New York. During mid to late October 1999, Dunn again traveled to New York, New York. During that trip, individuals named Robert Tringham (hereinafter "Tringham") and Richard Perry (hereinafter "Perry") introduced Dunn to Peter Wilberforce Moss

(hereinafter "Moss"). During this trip, Harte showed Dunn pictures of the Redstone Castle, indicting that he intended to purchase the Redstone Castle and turn it into a Health and Wellness center.

20. Harte and Moss were jointly working together to get individuals to make investments in RFT. Sometime during June or July 2000, Dunn received from Moss new investment contracts. Moss instructed Dunn to distribute these contracts to all the investors, to have the investors sign the new contracts and to get the new signed investment contracts back to Moss. Moss told Dunn that he (Moss) and Harte were putting RFT investors money into a new investment program that paid a smaller return to the investors than what the investors had been told they would earn when the investors made their original RFT investments. Moss also told Dunn not to disclose this change to existing RFT investors.

21. In May 2000, Harte purchased the Redstone Castle properties in Redstone, Colorado for $6.3 million. In August, 2000, Harte purchased a house at 410 Redstone Boulevard, Redstone, CO for approximately $450,000. Investigation to date has revealed that the money to purchase the Redstone Castle originated from victim/investor funds deposited into the RFT Bank One Colorado bank account. None of the money used to purchase the "Redstone Castle" appears to have been invested by RFT into any trading program.

22. Instead of the investments promised by Harte and Schmidt to RFT victim/investors prior to their RFT investments by Harte and Schmidt, loans were made to a restaurant chain in New York, and three corporations controlled by Harte and Schmidt (Tranquility Options, LLC, Serenity Options, LLC, Peaceful Options, LLC), a private loan made in London to an individual, a $6 million investment made in Sunstate FX in Florida and a loan to

Entertech Corporation. Harte has documentation for only three loans, Tranquil, Serenity and Peaceful. Investigative activity revealed that 3.5 million dollars of RFT funds was wire transferred at the direction of Harte from Sunstate FX to Aspen Title as part of the purchase price of the Redstone Castle, which was not an investment opportunity described to RFT investors prior to their decision to invest in a RFT "investment program."

23. Moss, Harte, Schmidt, Bergman, Weed, Pitt, Taylor, Gough, D. Smith, Dunn, Alder, Schnorenberg and others soliciting victim/investors did not disclose to investors the actual coverage of insurance policies issued by St. Paul Fire and Marine Insurance Company did not provide the coverage represented to the investors prior to their investment, nor the fact that commissions were promised to Moss, Harte, Schmidt, Bergman, Weed, Pitt, Taylor, Gough, D. Smith, Dunn, Alder, Schnorenberg and others soliciting victim/investors for their efforts to sell the RFT Prime Bank/HYPP "investment program" to victim/investors and that these commissions would be paid from investor funds.

24. Between May 30, 2000 and August 16, 2000, twelve intra bank transfers to Smitty's Bank One, Greeley, CO totaling approximately $207,775.00 was transferred from the RFT account, number 192362547 at Bank One, Greeley, CO.

25. William C. Kerr (hereinafter "Kerr"), National Bank Examiner, Comptroller of the Currency, Special Supervision and Fraud Division, 250 E Street, MS 6-10, Washington, DC 20219 provided a letter dated July 31, 2001, indicating that based on, among other items, his review of the RFT investment documents, the "investment opportunity" RFT, Schmidt, and Harte offered was an investment opportunity in a fictitious investment program, commonly described as a Bank Debenture Trading Program, to perpetrate a fraud. Kerr further opined the

program as described in the CPPA purports to represent some type of high yield investment program that does not exist in the legitimate financial world, public or private..

SMITTY'S INVESTMENTS, LLC ("SMITTY'S")

26. RFT principals Harte and SCHMIDT discontinued the investment scheme under the name RFT by the end of November 2000. Schmidt formed Smitty's on or about April 3, 2000 and began selling "investment programs" through Smitty's that were similar in nature to the fraudulent "investment programs" that were sold by RFT. Smitty's bank account number 057-8140956 was opened at Wells Fargo Bank West in Greeley, Colorado on or about April 23, 2001and bank account activity continued this account until at least October 2002.

27. On, about or during January 2002, Warren Peterson (hereinafter "Peterson") of Plainview, Nebraska was told of an" investment program" by a neighbor of his named Jan Mclain ("Mclain"), who has since moved to Colorado and married Schmidt. Mclain informed Peterson how great the program was and guaranteed Peterson his investment amount if the program went bad. At the time Peterson was offered the "investment program" opportunity, Charles Lewis ("Lewis") was also present. Lewis also told Peterson the investment program was a great "investment program." On January 8, 2002, Peterson invested $5,000 in an "investment program" operated by Smitty's. The "investment program" allegedly paid a return of 10% per month rate of interest. Pursuant to the investment, documents were purportedly signed by Schmidt on January 2, 2002 and signed by Peterson on January 8, 2002:

a. The "High Yield Private Placement" form initialed by Peterson on January 8, 2002, identified, among other items, the term of the investment was one year and 21 days, and profit payments would be distributed monthly after the initial 45 day period.

b. To enter the Smitty's "investment program," Peterson also signed a CPPA on January 8, 2002, which provided that [Smitty's]..."has arranged for the CPPA to participate in a certain financial program that is comprised of the contractual purchase and contractual sale or discounting of certain financial instruments of major banks and/or governments, which contracts to provide a profit." The CPPA also provides that [Peterson] "is desirous and capable of providing working capital in the amount of $5,000 to generate funds for their respective projects with the assistance and cooperation of the LLC. These funds will be used to buy, sell, lease or trade, on a loss free pre-sale agreed basis, in medium term notes and other banking and governmental financial instruments to the mutual benefit of [Peterson] and the [LLC]."

c. A review by an FBI Financial Analyst of bank records from account # 057-8140956 in the name of Smitty's at Wells Fargo Bank West, NA, PO Box 5247, Denver, Colorado 80274 disclosed a deposit of $5,000 via a wire transfer from account no. 020111031180. Investigative activity disclosed that this wire transfer was Peterson's $5,000 investment in Smitty's. At the time this wire transfer was received in Smitty's Wells Fargo account, the account had a negative balance of $45.27. Between January 11, 2002 and January 14, 2002 six disbursements totaling approximately $4700.00 of Peterson's $5,000 investment were made from the Smitty's bank account for such items as automobile gas and check card retail purchases. It appears that none of Peterson's $5,000 was used to make an investment of the type described in his Smitty's investment documents.

28. Jerry D. Jarman (hereinafter "Jarman") of Lakewood, Colorado learned of an investment opportunity from Bergman and Lewis through an individual named Ann Anderson (hereinafter "Anderson"). During August 2001, Anderson told Jarman of an investment

opportunity in Smitty's. Anderson explained that Smitty's invested in world banks by piggy backing onto large corporate investment like General Motors and that these investments paid a 15% monthly return to investors. Sometime after August 2001, Anderson and Jarman went to a meeting at Teddy's inside the Holiday Inn located at Interstate 25 and 54th Avenue in Denver, Colorado, where Bergman, Lewis, and Schmidt. Bergman pitched Smitty's "investment program" to Jarman, and Schmidt provided Jarman with the wire transfer instructions if Jarman decided to make the investment.

a. During the meeting at Teddy's, Bergman did not disclose the following: whether there was any risk of Jarman losing any of his principal investment in the Smitty's "investment program;" any explanation of what was actually being traded or how the "investment program" worked; any information of the past success or failure of the program or any information of how previous investor's investment funds had been invested or spent; that Bergman had been previously charged, with two counts of Securities Fraud in violation of the anti-fraud provisions of the Colorado Securities Act and one count of theft over $15,000 by the 18th Judicial District, District Attorney's office; that, subsequent to a criminal trial, Bergman was found guilty of both securities fraud charges and the theft over $15,000 charge on January 29, 2001; that as a result of his conviction, Bergman was sentenced on April 6, 2001 to ten years probation, 90 days in the county jail and ordered to pay $22,403.49 in restitution based on his sale of a similar "investment program;" that he was still on probation as a result of this conviction; and that Lewis plead guilty to State of Colorado criminal theft charges based on his business dealings with Bergman in the sale of the "investment program" that resulted in Bergman's convictions of State of Colorado securities fraud and theft charges.

b. Jarman decided not to invest in Smitty's "investment program" at the conclusion of the November 2001 meeting at Teddy's. Subsequent to the November 2001 meeting, Jarman did some research and determined that Smitty's "investment program" sounded like fraudulent "investment programs" he found on the Internet. Jarman telephonically communicated to Bergman his belief that Smitty's "investment program" was a "security" and the individuals who sold the "investment program" needed a securities license to make such sales. Bergman ended their telephone conversation. Shortly after this telephone conversation Jarman received a telephone call from Jan Mclain who informed him that he would not be accepted into Smitty's "investment program" because the "group" thought Jarman would cause trouble. Jan Mclain recently became Schmidt's wife.

29. Gerald Schreiber (hereinafter "Schreiber") was solicited by Lorenzen representing Smitty's, 250 East 54th Avenue, #17, Denver, CO. Lorenzen told Schreiber for a minimum of $10,000 he could get in on the program and take advantage of it. Lorenzen gave Schreiber a Medium Term Note Placement Program (MTNPP), a copy of the CPPA, and an Introduction to Bank Debenture Trading Program brochure. Lorenzen ran his investments through Schmidt's Monarch business.

30. In a letter dated April 5, 2002 from the State of Nebraska to Schmidt, Manager at Smitty's, 250 East 54th Avenue, Suite C, Denver, CO 80216, a Cease and Desist Order was issued against Smitty's. This order is a final order and permanently prohibits the further offer or sale of securities by Smitty's in Nebraska. A violation of the order is a Class IV felony under Nebraska state law.

31. Wells Fargo Bank West records for Smitty's, for account # 057-8140956 revealed

that during the period beginning April 23, 2001 through October 21, 2002, the total amount deposited into Smitty's account number 057-8140956 account was $ 6,193,243.95 and the total amount of withdrawals from this account was $ 5,701,753.38.

32. Schmidt had opened a business account in the name of Smitty's, 550 East 12th Avenue, Apt. 1805, Denver, CO, during April 2001 and a business account in the name of Capital Holdings, 250 East 54th Avenue, Suite C, Denver, CO in July 2002. These two accounts consistently received large dollar deposits from individuals in a range of $25,000 to $100,000 and the accounts showed large periodic disbursements out of the account via wire transfer. Jan Mclain was identified as the registered agent for a company named Monarch Capital Holdings (hereinafter "Monarch") with a business address 250 East 54th Avenue, Suite C, Denver, CO, the same as Capital Holdings business address. Mclain also had a business account at Wells Fargo titled Fast Track, 250 East 54th Avenue, Denver, CO. Schmidt had a Wells Fargo Account and lists his address as 250 East 54th Avenue, Suite C, Denver, CO. The Wells Fargo investigation into the Schmidt's banking transactions at Wells Fargo also disclosed that the Schmidt'S had referred Lewis and M.Lewis, d.b.a Players Trust (hereinafter "Players") and Mark and Vicky Perreault (hereinafter "Perreault" and "V. Perreault"), d.b.a. Miloka Holdings (hereinafter "Miloka") had been referred by the Schmidt's to Wells Fargo Bank for the purpose of opening business accounts. Lewis was designated as the trustee for Players Trust and Perreault was designated as the trustee for Miloka. An individual named George Beros (hereinafter "Beros"), a financial consultant for Richard Haas (an individual attempting to secure a loan from Wells Fargo). Beros also represented that he was a consultant to Monarch . As a result of the internal investigation by Wells Fargo Bank that was the substance behind this SAR, Wells Fargo Bank

has requested that all of the business accounts of the Schmidt'S and business accounts of other individuals who had been referred by the Schmidt's to Wells Fargo Bank were being closed no later than January 31, 2003, as a result of the banks suspicions that these accounts were all part of some type of investment scheme. The accounts at Wells Fargo were in fact closed on January 31, 2003 and funds were disbursed via cashiers checks to account holders or to wire transfers to accounts at other banks. One wire transfer in particular went to an account at US Bank owned by Smith in Spokane, Washington.

Capital Holdings, LLC ("Capital Holdings")

33. Capital Holdings, LLC, Capital Holdings International, Inc., Capital Holdings, Capital Holdings, Inc.,and Monarch Capital Holdings, LLC were either formed by or are associated with Schmidt appear to be the same business conducted un the various names. These numerous Capital Holdings variations are all referred to as Capital Holdings herein. The business mailing address for Monarch Capital Holdings, LLC was identified as Schmidt, 250 E. 54th Avenue, Suite C., Denver, Colorado 80216.

34. As the Smitty's fraud organization was wound down, Schmidt, Charles Lewis, and others carried on the fraud scheme under the various entities known as Capital Holdings. In the classic ponzi scheme, each month those operating the Capital Holdings fraud would take some monies from new victim/investors and pay it to the existing victim/investors as "distributions", "earning", and "disbursements". Once again there is no evidence that Capital Holdings ever made any of the promised real investments. The investigation has revealed that the proceeds of the Capital Holdings phase of the fraud scheme were deposited into Defendant Bank Accounts, which Defendant Bank Accounts were also used to operate the fraud. Some of the fraudulent activities as they relate to some of Defendant Bank Accounts are set forth below.

35. On or about November 24, 2002, an individual working for Capital Holdings, et al contacted the FBI with information relating to this investigation. Coming forward was motivated

by the individual's perception that things relating to the investment program did not seem right. The individual was subsequently opened as an FBI Confidential Informant ("CI") and since that time has been providing information regarding the individuals and entities identified herein.

36. The CI has continuous contact with Lewis on a daily basis, as well as with Schmidt on a regular basis. The CI is intricately knowledgeable of the inner workings of Capital Holdings and the business relationships between Capital Holdings and its branch sales offices in Spokane, Washington, and Sacramento, California, include but not be limited to bank account information, the receipt and deposit of funds from Capital Holdings investor/clients, disbursements of funds back to Capital Holdings victim/investor/clients from a Capital Holdings controlled bank account into which only Capital Holdings victim/investor/client funds are deposited, the receipt of Capital Holdings victim/investor/client funds from the sales offices in at least Spokane, Washington and Sacramento, California, and the disbursement of commission payments to Capital Holdings principals, sales office managers, and Capital Holdings sales agents employed through the various sales offices previously identified from the Capital Holdings bank account into which the only deposits were from Capital Holdings victim/investor/clients.

37. Capital Holdings is located at 1400 Sixteenth Street, Suite 4015, Denver, Colorado, telephone number (720) 932-8052. Capital Holdings is operated by Lewis. Lewis takes a monthly disbursement of $100,000 out of the Capital Holdings "investment program" bank account, the same account into which all victim/investors monies are deposited. Lewis receives his earnings on a combination of all of his accounts, which total approximately $21 million, the amount of his disbursement is then subtracted from his account in the name of

Miloka at the Capital Holdings office in Denver, CO. Schmidt appears to be the General Manager or Controller of the Capital Holdings "investment program." Schmidt is the only person at Capital Holdings authorized to send wire transfers of money to and from the Capital Holdings operating bank account and Schmidt also has the final say regarding whether or not checks cut at the Denver office are mailed to Capital Holdings investors. Monthly statements for Capital Holdings investor/clients are prepared and mailed from the Denver, Colorado Capital Holdings office, 1400 16th Street, Suite 4015, Denver, Colorado. Schmidt said the Capital Holdings "investment program" is, in terms of size, in the billion dollar range. The lease at 1400 16th Street, Suite 4015, Denver, CO, was signed by Schlabach and is under the name Northwest.

38. The FBI CI advised Lewis keeps an internal account at the Capital Holdings office, 1400 16th Street, Suite 4015, Denver, CO, entitled "XYZ". He places six percent from everything that comes through the Denver office into the XYZ account. Early investors were contracted with Smitty's. In July 2002 Capital Holdings opened a bank account and began receiving money from new investors.

39. Lewis' former partner in Summit Ventures was Perreault. Perreault previously worked in the insurance business with Smith in Spokane, WA. Perreault's current employees all have licenses to sell insurance. Perreault has a trust fund named Players and Lewis has a trust fund named Miloka.

40. The "investment program" fraud being run by Lewis and Schmidt operates under the name Capital Holdings. Monies coming into Capital Holdings are deposited into an operating account. Schmidt has another account he described as a "non-callable account". Schmidt said the money in this account was used for investments in foreign countries and also to

purchase federal government issued Medium Term Notes. The September 11, 2001 terrorism act was given as an example of how the investment program worked. When New York needed money for the cleanup, investors like Schmidt and Lewis provided that money and received some sort of profit margin for providing such money. Schmidt and Lewis further explained that they were buying something at a discount, like Bank Debentures or Medium Term Notes, and receiving a profit on those investments. The profit brought into the non-callable account in Denver from all other offices selling the investment program is supposedly deposited into an escrow account and was to be used for collateral only.

41. Since September 2002, 15% or 15 points of any money that was received at the Denver, Colorado Capital Holdings office from an investor was immediately taken and paid to numerous individuals who were involved with the sale of the investment to the investor or who were part of the management/control of Capital Holdings or businesses associated with Capital Holdings in the sale of the Capital Holdings "investment program."

42. Lewis and Schmidt are again telling investors their money is insured and there are insurance brokers and attorneys in the "investment program;" Documents provided by the source again list Weed as the Insurance Certificate holder for Capital Holdings. Weed is Capital Holdings insurance agent and is located in Benton, IL.

43. The Denver, Colorado Capital Holdings office has increased its client/investor base in the Capital Holdings "investment program" from 408 individuals to approximately 600 individuals.

44. On or about December 16, 2002, "earned" investment income to Capital Holdings investors totaling approximately $1.9 million dollars was to be disbursed from the

Capital Holdings Denver bank account at Wells Fargo to investors. Schmidt requested a wire transfer of funds from an offshore bank into the Capital Holdings Wells Fargo account prior to the disbursements of these payments to investors.

45. At the time Capital Holdings was preparing to push a new variation of the "investment program" fraud where individuals had to invest a minimum of two million dollars for a minimum of one year and twenty-one days. According to the "investment program" contract, Capital Holdings would use the victim/investors money for one year and in exchange, the victim/investors would be able to write off for an automobile race team as part of their sponsorship rights.

46. There is a bank account at Wachovia, f/k/a First Union Bank in New York that Schmidt described as a non-depleting account. Schmidt has also mentioned on several occasions, having a non-depleting custodial account for Capital Holdings at the Deutsche Bank Germany, with locations operating in New York. These accounts may be under the names of Schmidt, Monarch or Capital Holdings. Schmidt also has bank accounts at the Wells Fargo Bank, the US Bank, the Northern Trust Bank, Keybank and Bear-Stearns under the names - Schmidt, Monarch or Capital.

47. Prior to the January 15, 2003 distributions to victim/investors, check were written and wire transfer were prepared. Lewis instructed his son, M.Lewis to deliver the drafted wire transfer instructions to Schmidt on January 14, 2003, as Schmidt was the only individual associated with Capital Holdings who had the authority to issue wire transfer instructions. Lewis advised he closed his Miloka account on January 11, 2003 at US Bank because his checkbook had been stolen, and was to open a new account at US Bank. Lewis had bank

accounts under the name Miloka at both Wells Fargo and US Bank. On January 17, 2003, the CI advised Lewis has been telling people that his personal trust account, Miloka, reflecting his earnings with the Capital Holdings investment program had a balance of $17 million. Lewis' bank account at US Bank under the name Miloka is account number 153553955870. Lewis pays the office staff in Denver from his Miloka trust account. Review of the US Bank bank account records of Miloka disclosed that total funds deposited into the Miloka account for the period beginning July 2002 through December 2002 were actually approximately $177,000 and the total funds disbursed from this Miloka bank account for the same period of time was approximately $176,000.

48. On January 15, 2003, 180 checks were written for disbursements, however per Schmidt's instructions, they were not released that day. Schmidt was given the amount needed for disbursements and then wire transfer money into the Capital Holdings account. The Capital Holdings account receives monies from investors and withdrawals are made from the account for disbursements. Schmidt wires money into the account as needed, but Schmidt was not sure as of January 15, 2003, that the money he had wired had arrived in the Capital Holdings account. During the month of January, $1.4 million was deposited into the Wells Fargo Capital Holdings account.

49. Capital Holdings began to experience banking difficulties after January 31, 2003 when Wells Fargo bank closed all of the accounts. Subsequent to the account closing at Wells Fargo, Schmidt opened an account at US Bank. Soon after the US Bank account was opened, Schmidt began to experience more difficulties because US Bank had red flagged his accounts and had put a fraud alert on his account. All deposits into his US Bank accounts were held for 7-10

days. Schmidt, during this time period, traveled to New York to open accounts with Bear Stearns.

50. On February 8, 2003, Schmidt and Lewis made changes in procedures as to the acceptance of investors into the program. All clients were now asked to provide cashiers checks made out to Capital Holdings and the Denver office will no longer accept investments under $100,000. Schmidt advised the contract was to be changed to reflect a 45 day waiting period instead of the current 10 waiting period. Schmidt said his reason for changing the waiting period was it takes time to place the investment, when in fact the real reason was probably the difficulties Capital Holdings was experiencing with their bank accounts.

51. Mike Young operates an office which solicits clients for Capital Holdings's investment program. Lorenzen is a solicitor for the Capital Holdings investment program and operates T E & L Estates.

52. Harte's name has been mentioned several times at the Capital Holdings office. Schmidt says Harte is a friend and he (Harte) occasionally helps them out with some things.

53. Schmidt operates his investment business from an office located at Smitty's Motor Sport's Shop, 5850 East 58th Avenue, Commerce City, Colorado. Schmidt also occupies a building directly in front of 5850 East 58th Avenue. Schmidt maintains records at Smitty's Motorsports and his girlfriend/wife Jan Mclain keeps the books. Schmidt receives faxes at telephone number 303-291-1901 from the Spokane, Sacramento, and Denver offices.

54. On January 17, 2003, M.Lewis and Schmidt were at Smitty's Motorsports and Schmidt gave M.Lewis a copy of instructions for customer wire transfers.

55. Schmidt had a second business office located in his plastics plant, at 250 East 54th Avenue, Denver, CO 80216. The CI believes Mclain handles the Capital Holdings books and is accountant for Monarch.

56. Additional offices selling the Capital Holdings "investment program" are located in Sacramento, CA, Spokane, WA, Palos Hills, IL, Stoddard, WI and Independence, OH. The Denver Capital Holdings office, which includes investment dollars received from the Spokane and Sacramento offices, receives approximately $3.5 to $5 million dollars of new victim/investor money per month. Capital Holdings investor money is also received at the Denver office from other Capital Holdings branch sales offices.

57. The office located in Sacramento is run by an individual named Valdemar Bough and named VGB , Inc, f/k/a Income Innovators, Inc., 2020 Hurley Way, Suite 390, Sacramento, CA. Another office operated by Bough is located at 2987 Fulton Avenue, Sacramento, CA, telephone number (916) 971-2490. Bough was in Hawaii shortly before November 24, 2002 setting up another office to sell the Capital Holdings "investment program." Bough receives an 11% payout from Schmidt and Lewis, the principals of Capital Holdings, on all money he brings into the Capital Holdings "investment program." According to Bough, the Sacramento sales office investment account had $8 - 9 million dollars. Bough has a bank account at Bank of America under the name Bella Vista Associates, account number 4961979616.

a. Two wires were sent for December 2002 disbursements to the Sacramento office in January totaled $361,000. Schmidt signed the investor contract documents from the Sacramento, California office and he is the only person in the Capital Holdings Denver office

who could authorize the sending of these two wire transfers to the Sacramento office for December disbursements to Bough, his sales agents and his Capital Holdings investors.

58. The office in Spokane is operated by Mike Smith. He operates his investment program under the names National Marketing and Northwest. Smith receives a 12% payout on all money he brings into the Capital Holdings "investment program" from the Denver Capital Holdings office. This office is operated from Smith's personal residence, located on Gem Street, Colbert, WA. The basement of Smith's home is used as office space and has numerous file cabinets and eight computers. John Schlabach's office is also located in Smith's basement. Additional offices are located on the main floor.

a. Smith has accounts under the names MJR Holdings and Asset Holdings. Schlabach forms trusts for individuals who invest in the Capital Holdings "investment program" so the individuals can make investments through the name of their trust. According to Smith, the Spokane sales office investment account has $13 million dollars. Smiths's business address was identified as 9986 North Newport Highway, #191, Spokane, WA.

b. Smith also operates a health and life insurance businesses under National Marketing. Smith had printed pamphlets with the name National Marketing as well as business cards advertising for insurance salesman.

c. The Capital Holdings "investment program" being sold through the Spokane office prefers investors to start a trust, although it is not mandatory. Investors must then sign a confidentiality agreement prior to being provided any information regarding the Capital Holdings "investment program." The trustees for trust accounts are either Schlabach, Smith and/or an individual named Tammy Goulet. Schlabach charges a fee of $6,000 to set up a trust

fund. According to Smith, many people want to move their money from their 401(k) or IRA accounts into these trust accounts.

d. In mid December, 2002, Smith was to receive a $162,000 disbursement from the Capital Holdings operating bank account in Denver, Colorado.

e. Smith also has agents working for him to solicit new victim/clients for the investment program. Agents working for Northwest are Jeff Mitchell, Rick Hayes, Scott LNU, an agent known only as "Rocky", and one female agent. Robert D. Wommack, 16810 Butter Oak Drive, Spring, TX is also an agent for Smith.

f. Sterling Lipscomb who the FBI CI identified as a high ranking US Bank employee, personally manages all of Smith's bank accounts at US Bank for the "investment program" located in Spokane, Washington. Investigation revealed that when the US Bank account in Denver, Colorado was closed, the Spokane office was able to keep its US Bank accounts open because of the relationship between Lipscomb and Smith. US Bank in Denver, Colorado issued Schmidt a 2.5 million dollar cashiers check upon closing his US Bank account. Schmidt sent via Federal Express this check to Smith in Spokane, Washington who was able to negotiate this cashier's check through his US Bank account in Spokane, Washington after a few days hold because of the relationship between Lipscomb and Smith.

g. On January 21, 2003, Smith confirmed the receipt of their wire transfer to the Northwest account for $850,000.

h. On January 24, 2003, the Capital Holdings Denver office, 1400 16th Street, Suite 4015, Denver, CO, received a large Federal Express envelope from Northwest

containing over $670,000 in new contracts to be invested in the program.

59. The Palos Hills office is run by Vallone who operates under the names Cambridge and Regency Ventures, 11022 Southwest Highway, Palos Hills, IL. Schmidt is CEO of Capital Holdings. On December 20, 2002, another document produced by Vallone listed him as Executive Director of Heritage America and Aegis Company. On December 20, 2002, Vallone wired $300,000 from Cambridge into the Wells Fargo account for Capital Holdings. The $300,000 came from Vallone's bank account in Belize.

60. An individual named Joseph Pavela operates a sales office in Wisconsin. Pavela is operating under the business name Prosperity Unlimited, 300 Evergreen Court, Stoddard, WI. Pavela, received approximately $22,000 from Capital Holdings during 2002. FBI CI advised that Pavela had called the Denver Capital Holdings office requesting when he would receive his disbursements. On February 24, 2003, two checks were cut for Pavela. One was made payable to Pavela and one was made payable to Prosperity, Pavela's d.b.a.

a. On January 2, 2003, the FBI CI advised that an individual identified only by a first name of George and a last name that began with a "B" was operating another office in Cleveland, Ohio which is run similar to the Denver Capital Holdings office. FBI CI later advised the address of the Cleveland, Ohio office was 5005 Rockside, Suite 900, Independence, OH. Investigation by the FBI in Cleveland, OH revealed that 5005 Rockside, Suite 900, Independence, OH has a marquee outside Suite 900 listing Capitol Holdings Int'l, LLC and Monarch Capitol Holding, LLC.

b. On January 27, 2003, Beros, from the Cleveland office, 5005 Rockside, Suite 900, Independence, OH, advised he was interested in being involved with the sponsorship program of the race team with M.Lewis.

c. On January 29, 2003, Lewis said Schmidt's victims/clients were handled by Beros' accounting firm.

61. On or after January 28, 2003, an Excel sheet was produced at the Capital Holdings office for disbursements. Smith in Spokane received two wire transfers, Bough in Sacramento received one wire transfer and Vallone in Chicago received four wire transfers, one of which went to his account in Belize.

62. The following individuals are some of the victims who have invested money into the program:

i. Barbara G. Clark-Lahey d.b.a. C&L Trust, P.O. Box 155, Morro Bay, CA is a victim/ investor with Capital Holdings "investment program" through the Spokane, Washington sales office, 505 East Gem Lane, Colbert, Washington. LAHEY banks at Tier One Bank, 1235 North Street, Lincoln, NE and at Midstate Bank and Trust, 2276 Broad Street, San Luis Obispo, CA. Lahey invested $225,000 from her personal account. With earnings, her current account balance is over $300,000. Lahey has never withdrawn any money from her investment account and on statements it appears her investment is growing quickly, as she is earning 10% monthly.

63. Lyman and Marilyn Dewell 865 Golden Hills Road, Colorado Springs, CO, invested $425,000 in the Capital Holdings "investment program" through

Northwest the Spokane, Washington sales office, 505 East Gem Lane, Colbert, Washington and have received earning disbursements. Dewells initially invested $200,000, then subsequently invested other monies. Recently, Dewells withdrew $200,000 plus their earnings. On January 24, 2003, they executed a new contract for $100,000 under a new trust name, Lyman and Marilyn Dewells' Living Trust. Dewells receive their earnings from Northwest. Money to fund these monthly investor payments is transferred to the Northwest bank account in Spokane, Washington from the Capital Holdings bank account at Wells Fargo Bank in Colorado. These monthly wire transfers are authorized by Schmidt and/or Lewis, who control the Denver, Colorado Capital Holdings office.

64. Current Bronco football player, Dan Neil (hereinafter "NEIL"), 9472 South Shadow Hill, Littleton, CO, and retired Bronco player Howard Griffith (hereinafter "Griffith") have invested heavily into the program. Griffith's dad, Huie Griffith (hereinafter "H. Griffith"), 9152 South Clyde Avenue, Chicago, IL, is also invested in the program.

65. Mike Jones (hereinafter "Jones") borrowed $350, 000 to invest in the program. Jones is involved with Heaven's Haven, an orphanage he started and takes his monthly disbursements to make the payments on the loan. Jones is Eric Veve's (hereinafter "Veve") father-in-law. Veve is invested in the program.

66. Edward A. and Lois Creager invested $10,000.00 with Capital Holdings. A letter from Capital Holdings signed by Schmidt, was sent confirming receipt of their investment. The Creagers were faxed a certificate of insurance from Marsh USA Inc, 333 South 7th Street, Suite 1600, Minneapolis, MN. Companies affording coverage were allegedly Superior Guaranty Insurance Company of Vermont and Reinsured by Lloyds of London. The certificate holder was listed as Weed d.b.a. Capital Holdings, 550 East 12th Avenue, Suite 1805, Denver, CO. The Creagers executed a Private Contract Agreement number 121902B which referred to Party A as

Capital Holdings located at 1400 Sixteenth Street, Suite 400, Denver, CO, Telephone number (720) 932-8035. Party A projected a yield of 10% per month on the Creager's investment.

67. Capital Holdings Wells Fargo Bank West bank account #101-1330204 records reveal that the account was opened on July 22, 2002 with the deposit of a check in the amount of $239,000. Additional deposited were made on July 25, 2002, in the amount of $274,232.50, on July 31, 2002, in the amount of $241,590.83, and on August 5, 2002, in the amount of $167,700.

68. On August 6, 2002, $500,000 was transferred from this account into the Capital Holdings trust account at Wells Fargo, account number 020806 70601400. At the time of this transfer, all monies on deposit in this account had been obtained from victim/investors who had invested in the Capital Holdings "investment program."

69. On February 3, 2003, FBI CI advised as of January 31, 2003 the balance of the Capital Holdings account at the Wells Fargo bank was $5.5 million. Schmidt continued to hold all deposits into the US Bank account, totaling $300,000. The US Bank account number for Capital Holding Int'l, LLC is 103658613387. The February 2, 2003 deposit of $68,000 was also held. Because of the bank problems at Wells Fargo and US Bank, Lewis believed they may need to run all their investors' money through their attorney's trust account. On February 2, Schmidt advised the Capital Holdings account at US Bank had been closed. On February 8, 2003, Schmidt advised he had opened another account with Northern Trust Bank opened by Herbert for Schmidt under the name Capital Holdings, located in the same building that houses Capital Holdings.

70. The following is a synopsis of monthly deposits and withdrawals for the Capital Holdings Wells Fargo Account:

7/22 - 9/13/02	Beginning Balance	$ 0.00
	Deposits	$ 1,279.523.33
	Withdrawals	$ 500,000.00
	Ending Balance	$ 779,521.33
8/13 - 09/13/02	Beginning Balance	$ 779,521.33
	Deposits	$ 2,760,675.77
	Withdrawals	$ 2,061.173.28
	Ending Balance	$ 1,479,023.82
9/13 - 10/11/02	Beginning Balance	$ 1,479,023.82
	Deposits	$ 4,105,804.99
	Withdrawals	$ 3,395,629.96
	Ending Balance	$ 2,189,198.85
10/11 - 11/14/02	Beginning Balance	$ 2,189,198.85
	Deposits	$ 5,683,666.76
	Withdrawals	$ 1,429.953.07
	Ending Balance	$ 6,442,912.54

71. During the period beginning July 22, 2002 through November 13, 2002, the total amount deposited into this account was $13,829.670.85 and the total amount withdrawn from this account was $7,386,758.31

72. None of the investment contract documents signed by investor/victims interviewed who invested in the "investment programs" of RFT, Smitty's, and/or Capital Holdings disclosed to the investor/victims prior to their investment decision that the individuals

who made the sales presentation to them, would be paid a commission that would be funded by the money the investor/victims thought they were investing in the RFT, Smitty's, and/or Capital Holdings "Prime Bank "investment programs."

73. Research revealed that the only corporation registered with the Colorado Secretary of State as Capital Holdings, LLC is a Wyoming corporation which has no known affiliation or relationship with the Capital Holdings entity being operated by Schmidt and Lewis. As such, Capital Holdings is not a legally formed entity and is in fact only the alter ego of Schmidt and Lewis.

74. Several victims have stated none of the monies invested were invested in the manner described in the agreement. Schmidt, Lewis, Smith, Schlabach, Vallone, Wasson, Bough, Pavela, Beros and their agents did not make disclosures of material facts during the sale of the investment. The crimes were facilitated by the use of mails and commercial carriers, wire transfers of monies and the usage of telephone and fax lines.

75. State of Colorado Division of Securities Investigator Charles Reinhardt provided the partial results of his review of a book titled *The Myth of Prime Bank Investment Scams*, authored by Professor James E. Byrne, J.D., a faculty member at George Mason University School of Law and the Director of the Institute of International Banking Law & Practice, Inc. In this publication, Professor Byrne identified some common characteristics that make Prime Bank Investment Programs readily identifiable as unlawful schemes and which distinguish them from legitimate programs and opportunities for investments. These common characteristics include, but are not limited to the following:

a. There is no economic basis for the transaction or creditable explanation of how the investment can generate the promised returns;

b. The promised returns on the investments are disproportionate to the risk;

c. The commercial basis for the transaction is frequently obscure and it is often unclear whether it involves finance, trading in instruments, or commercial activity;

d. The schemes often rely upon trading activity conducted by mysterious individuals on mysterious and secretive markets for profits;

e. Technical terms used in the scheme are misused and the definitions of these terms are distorted from their meaning in customary financial/commercial transactions;

f. The schemes are surrounded by an aura of secrecy and an almost conspiratorial sense by the frequent use of non-circumvention and non-disclosure agreements that unwary investors must sign to participate in the investment opportunity;

g. The schemes are typically clouded in unnecessary complexity, layered transactions, and, confusion;

h. The schemes use well-known banks and state that investor funds are placed in escrow, non-depleting accounts and similarly named accounts to confuse investors into thinking their money is safely deposited and it cannot be removed unless certain conditions are met;

i. Any fees and commissions to be paid to the promoters of the schemes are usually not identified as the promoters convince investors the promoters are simply sharing part of their profit from the scheme with the investors; and

j. A typical feature of these schemes is that the funds are used for purposes

that have no relationship to the transaction. Rather, the funds are spent by the promoters, sales people and other individuals involved with the furtherance of the scheme on personal expenses for travel, the purchase of homes and automobiles, vacations , and general living expenses without this type of use of investor's funds being disclosed to investors prior to their investment in the scheme.

In the instant matter, investigative activity to date has disclosed that the various "investment programs" being offered and sold by the principals and sales agents of RFT, Smitty's, and Capital Holdings have elements of all of the above general characteristics of Prime Bank Investment Scams and fraudulent Prime Bank investment schemes as described by Professor Byrne.

76. On March 4, 2003, National Bank Examiner William Kerr, of the Controller of the Currency was again contacted and asked to review CPPAs and other offering documents from RFT, Smitty's, and Capital Holdings. KERR reviewed such documents and offered the following opinion: The CPPAs and other offering documents as provided to investors by the principals, sales office managers, and sales agents of RFT, Smitty's and Capital Holdings had numerous similarities, such as the use of non-circumvention/non-disclosure requirements, the promise of high rates of return as high as 50% monthly, and the attempt to describe what appears to be highly sophisticated investment transactions that are usually found in High Yield Investment Scams. The purported insurance coverage, while possibly protecting investment money that had been deposited into whatever bank account that was purportedly protected, does nothing to protect the investment transaction that is allegedly going to provide the investor with the high rates of return. The documents reviewed typify classic High Yield Investment Scams that are created solely for the purposes to perpetuate an investment fraud through an aura of a

sophisticated or a series of sophisticated transactions.

SUMMARY

77. RFT, Smitty's, and Capital Holdings, through their principals, Harte, Schmidt, and Lewis, as well as the branch sales offices of Capital Holdings in Spokane, Washington, Sacramento, California, Palos Hills, Illinois, Cleveland, Ohio, and Stoddard, Wisconsin operated by Smith, Bough, Vallone, Beros, and Pavela have operated a ponzi investment scheme that has survived at least three business name changes and a host of business name derivatives and within this affidavit. This ongoing investment scheme operated by offering individuals an opportunity to invest in fictitious investment vehicles variously described as "Prime Bank Notes," "Prime Bank Debentures," "Medium Term Bank Notes," and "High Yield Investment Programs," referred to in this affidavit as the "investment program." Prior to making their investment decisions, victim/investors were told by the principals and sales agents of RFT, Smitty's, Capital Holdings, and the branch sales offices of Capital Holdings, among other information, that their investment funds would earn profits from 25% to as high as 400% a month, that there was no risk to such an investment because their investment funds were insured against loss by insurance companies such as St Paul Fire and Marine and Lloyds of London, that they were investing in an "investment program" the government and large financial institutions did not want them to discover so the government and large financial institutions could keep this enormous profit to themselves, that they had to keep their principal investment funds in the "investment program" for at least one year and twenty-one days, that their funds would be deposited into non-depleting investment accounts, and that they could begin to receive monthly distribution of the profits earned from their investment into the various "investment programs"within forty-five (45) days

from the date of their investment or the investor could roll all of their earned profit back into the "investment program" each month and receive one lump sum payment at the end of the year and twenty-one day time period of their investment.

78. Investigative activity disclosed that Weed was the individual responsible for providing RFT, Smitty's, and Capital Holdings investors certificates and other evidences of the purported insurance coverage of an investors original investment. In the opinion of Kerr as an expert in the analysis of the type of ongoing fraudulent investment scheme described herein, the offering documents of the RFT, Smitty's, and Capital Holdings "investment programs" were similar in nature and typified classic High Yield Investment Scams that are created solely for the purpose to perpetuate an investment fraud through an aura of a sophisticated or a series of sophisticated transactions.

79. Investigative activity of records available and reviewed to date of Defendant Bank Accounts into which investors' funds were deposited reveals Defendant Bank Accounts virtually did not have a source of income other than from victim/investor funds and that disbursements were made for the benefit of the principals of RFT, Smitty's, and Capital Holdings and others identified in this complaint by the purchase of a $6.3 million historical castle in Redstone, Colorado, the purchase of NASCAR race cars and all the equipment necessary to support a NASCAR race team, the daily life style expenses of the principals of RFT, Smitty's and Capital Holdings, the business expenses of RFT, Smitty's and Capital Holdings and other business entities to include office leases, office furniture, office supplies, and staff salaries. The bank records of RFT, Smitty's, and Capital Holdings also consistently show there was no investment into any legitimate investment vehicle in legitimate financial markets in the United States and/or

abroad. These bank records also consistently show the payments to investors of purportedly earned profits and the occasional payments of original investment principal to an investor. The source of the funds to make the purported earned profit payments and the occasional payments of original investment principal to investors was from funds received by RFT, Smitty's, and Capital Holdings from subsequent investors.

80. Proceeds obtained via the operation of the ongoing fraudulent investment scheme were ultimately laundered through various companies bank accounts and into other assets as previously described in this to include but not be limited to the purchase of luxury vehicles for personal use, the payment of foreign travel expenses and the life style expenses of the principals herein identified. Proceeds were also laundered to promote the ongoing fraudulent investment scheme as evidenced by the payment of business expenses and the "ponzi" payments made to RFT, Smitty's and/or Capital Holdings victim/investors.

81. None of the disbursements from the RFT, Smitty's and/or Capital Holdings bank accounts were disclosed to investors by principals of RFT, Smitty's, and Capital Holdings prior to these investors making their decisions to invest in a RFT, Smitty's and/or Capital Holdings "investment program." None of the RFT, Smitty's and/or Capital Holdings bank accounts were established as or operated as non-depleting bank accounts. The fact that none of the bank accounts utilized during the ongoing fraudulent investment scheme described in this affidavit were non-depleting bank accounts was also not disclosed to RFT, Smitty's, and/or Capital Holdings victim/investors interviewed to date prior to their decision to invest in a RFT, Smitty's, and/or Capital Holdings "investment program."

82. The FBI's CI, is a person in a position to know the inner workings of the business,

financial decisions made, and methods of operation of Capital Holdings. The CI explained how Lewis, with the approval of Schmidt would direct the operation of the Denver Capital Holdings office at 1400 16th Street, Suite 4015, Denver, Colorado to include the depositing of investor money received from Capital Holdings branch sales offices into bank accounts controlled by the principals of Capital Holdings. Schmidt had to approve all disbursements via check and/or wire transfer of funds from these Capital Holdings bank account back to bank accounts controlled by the Capital Holdings branch sales offices.

83. The proceeds of the fraud schemes were deposited into Defendant Bank Accounts, which accounts were also utilized to operate the fraud.

84. In so operating these High Yield Financial Instrument fraud schemes with the false promises of the purchase of discounted notes, high investment returns, and security through insurance, Lewis, Harte, Schmidt, and others committed securities fraud. In so utilizing the United States Postal Service, private and commercial mail carriers, and the wire services during the fraud to transmit information, materials, and funds, those individuals committed mail and wire fraud. In so conducting financial transactions, including deposits into and withdrawals from financial institutions, with the proceeds of the fraud scheme, to carry on and promote the scheme, and to conceal the nature, location, source, ownership, and control of the proceeds of the scheme; in transferring funds into and out of the United States to promote and carry on the scheme and to conceal the nature, location, source, ownership, and control of the proceeds; and in depositing the proceeds of the fraud, into Defendant Bank Accounts and transferring the money between accounts, the individuals committed money laundering. Defendant Bank Accounts, and the funds contained therein, constitute the proceeds of, and were involved in, these crimes.

VERIFICATION OF STEPHANIE ANN HAHN, SPECIAL AGENT
FEDERAL BUREAU OF INVESTIGATION

I, Special Stephanie Ann Hahn, hereby state and aver that I have read the foregoing Factual Basis for Forfeiture and that the facts and information contained therein are true to the best of my knowledge and belief.

Stephanie Ann Hahn

STATE OF COLORADO)
) SS.
CITY AND COUNTY OF DENVER)

The foregoing was subscribed and sworn to me this 6th day of March 2003, by Stephanie Ann Hahn, Federal Bureau of Investigation.

Notary Public

My Commission Expires: [illegible]

FIRST CLAIM FOR RELIEF

85. The Plaintiff repeats and incorporates by reference the paragraphs above.

86. By the foregoing and other acts, Defendant Bank Accounts are the proceeds of mail fraud violations of 18 U.S.C. § 1341 and are therefore forfeited to the United States pursuant to 18 U.S.C. § 981(a)(1)(C), 18 U.S.C. § 1956(c)(7) (A), and 18 U.S.C. § 1961(1).

SECOND CLAIM OF RELIEF

87. The Plaintiff repeats and incorporates by references the paragraphs above.

88. By the foregoing and other acts, Defendant Bank Accounts are the proceeds of wire fraud violations of 18 U.S.C. § 1343 and are therefore forfeited to the United States pursuant to 18 U.S.C. § 981 (a)(1)(C), 18 U.S.C. § 1956 (c)(7)(A), and 18 U.S.C. § 1961(1).

THIRD CLAIM FOR RELIEF

89. The Plaintiff repeats and incorporates by references the paragraphs above.

90. By the foregoing and other acts, Defendant Bank Accounts were involved in money laundering violations of 18 U.S.C. §§ 1956 and 1957, and are therefore forfeited to the United States pursuant to 18 U.S.C. § 981(a)(1)(A).

FOURTH CLAIM FOR RELIEF

91. The Plaintiff repeats and incorporates by references the paragraphs above.

92. By the foregoing and other acts, Defendant Bank Accounts are the proceeds of securities fraud violations of 15 U.S.C. § 77q(a), § 77x, §78j(b), and § 78ff, and are therefore forfeited to the United States pursuant to 18 U.S.C. § 981(a)(1)(C), 18 U.S.C. § 1956(c)(7)(A), and 18 U.S.C. § 1961(1).

WHEREFORE, the United States prays for entry of a final order of forfeiture for the Defendant Properties in favor of the United States, that the United States be authorized to dispose of the Defendant Properties in accordance with law, and that the Court enter a finding of probable cause for the seizure of the Defendant properties and issue a Certificate of Reasonable Cause pursuant to 28 U.S. C. § 2465.

Dated: 3/6/03

Respectfully submitted,

JOHN W. SUTHERS
United States Attorney

By: _____

James S. Russell
Assistant United States Attorney
1225 17th Street, Suite 700
Denver, CO 80202
(303) 454-0100

United States Attorney's Office Box #16

AFFIDAVIT IN SUPPORT OF SEARCH WARRANT

I, STEPHANIE ANN HAHN, being first duly sworn, depose and state as follows:

1. I am a Special Agent (SA) of the Federal Bureau of Investigation (FBI) and have been so employed for over fifteen years. I am assigned to the Fort Collins office of the Denver Division to investigate all violations of Title 18, United States Code, Section 371 (Conspiracy), Section 1341 (Mail Fraud), Section 1343 (Wire Fraud), Section 1956 (Laundering of Monetary Instruments), Section 1957 (Money Laundering) , and and Title 15, United States Code, Section 77q(a) , 77x, 78j (b) and 78ff (Securities Fraud).

2. Based on the information set forth below, your affiant believes that there is probable cause to believe that violations of the following Federal laws are being committed, were committed and may continue to be committed, to wit, Title 18, United States Code, Sections 371, 1341, 1343, 1956, 1957and Title 15, United States Code, Section 77q(a) , 77x, 78j (b) and 78ff were committed by Leon Harte, Norman Schmidt, Charles Lewis, and Peter Moss at the premises described in Attachments A-1, A-2, A-3 and A-4. If two or more persons conspire either to commit any offense against the United States, or to defraud the United States, or any agency thereof in any manner or for any purpose, and one or more of such persons do any act to effect the object of the conspiracy, each shall be fined under this title or imprisoned not more than five years, or both. (371); having devised or intended to devise a scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations or promises, place in any post office any matter or thing whatever to be sent or delivered by any private or commercial interstate carrier, or took or received there from any such matter or thing, or knowingly caused to be delivered by mail or such carrier according to the direction thereon, or at the place at which it is directed to be delivered by the person to whom it is addressed, any such matter or thing (1341); or be transmitted or caused to be transmitted by means of wire, radio, or television communication in interstate or foreign commerce, any writings, signs, signals, pictures, or sounds for the purpose of executing such scheme or artifice (1343); Whoever, knowing that the property involved in a financial transaction represents the proceeds of some form of unlawful activity, conducts or attempts to conduct such a financial transaction which in fact involves the proceeds of specified unlawful activity; with intent to promote the carrying on of specified unlawful activity ; or to conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity; or to avoid a transaction reporting requirement under State or Federal law (1956); Whoever, knowingly engages or attempts to engage in a monetary transaction in criminally derived property that is of value greater than $10,000 and is derived from specified unlawful activity (1957); it shall be unlawful for any person in the offer or sale of any securities or any security-based swap agreement (as defined in section 206B of the Gramm-Leach-Bliley Act) by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly to employ any device, scheme, or artifice to defraud, or to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, or to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser (Title 15, U.S.C. 77q(a)); any person who willfully violates any of the provisions of this subchapter, or the rules and regulations promulgated by the Commission under authority thereof, or any person who willfully, in a registration statement filed under this subchapter, makes any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, shall upon conviction be fined not more that $10,000 or imprisoned not more than five years, or both (77x); it shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, or of any facility of any national securities exchange to use or employ, in connection with the purchase or sale of any security registered on a national securities exchange or any security not so registered, or any securities-based swap agreement (as defined in section 206B of the Gramm-Leach-Bliley Act), any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors (78j(b); and the Commission, by rule or order, as it deems necessary or appropriate in the public interest and for the protection of investors, to maintain fair and orderly markets, or to assure equal regulation, may require any person not a member or a

designated representative of a member of a national securities exchange effecting transactions on such exchange without the services of another person acting as a broker , or any broker or dealer not a member of a national securities exchange effecting transactions on such exchange on a regular basis, to comply with such rules of such exchange as the Commission may specify (78ff).

3. Your affiant believes that maintained on or contained within the premises described in Attachment A are evidence, fruits and instrumentalities of the above described offenses, including but not limited to those items described in Attachment B

4. The activities described in this affidavit date from, on or about June 1, 1999 to the present involve an on-going ponzi scheme marketing non-existent investment vehicles described variously as "prime bank notes", "prime bank debentures" and "medium term bank notes" hereinafter identified as the "investment program." In this particular scheme, investors were brought into the "investment program" by the operators of the scheme headquartered in Colorado as well as persons soliciting investors for them located throughout the United States. Investors were attracted with the promises of interest rates as high as 50% per month and non-existent insurance protection of their principal investment. Although operating under different names including The Reserve Foundation Trust, Smitty's Investments, and Capital Holdings, there is little variation in the basics of the scheme which include the siphoning of the investor's monies to the operators, the payment of large commissions to the solicitors or branch offices; the use of some of those monies to pay back previous investors and the use of invested funds to acquire personal assets controlled by the operators which were undisclosed to the investors. Typically, investors receive a contract called a Cooperative Private Placement Agreement and wiring instruction to bank accounts controlled by the operators. Disbursements or "lulling" payments are either made to the investor directly from the operators or disbursed in blocks to the branch offices for distribution to their clients. Investigative activity as described in this affidavit identify individuals who have invested in the "investment programs" offered and sold by the Reserve Foundation Trust, Smitty's Investments, and Capital Holdings.

In the first phase of the scheme (Reserve Foundation Trust), from, on or about June 1, 1999 through November 13, 2000 the principals were identified as Leon Harte, Norman Schmidt and Peter Moss, whose headquarters was first located at Leon Harte's home at 1322 33rd Avenue, Greeley, Colorado and subsequently moved to 58 Redstone Blvd., Redstone, Colorado. Investor funds were initially deposited into a Reserve Foundation Trust bank account at New Frontier Bank in Greeley Colorado, account number 101319 and then into a Reserve Foundation Trust bank account at Bank One in Greeley, Colorado, account number 192362547. Many of the RFT investors received little or no repayment of their principal RFT investment when HARTE and SCHMIDT stopped conducting business under the name RFT.

In phase two of the scheme (Smitty's Investments, LLC), also headquartered in Colorado at 250 East 54th Avenue, Suite C, Denver Colorado, was organized by Norman Schmidt and from this new organization he began soliciting investors. Investor's funds were deposited into a Smitty's Investments bank account at Wells Fargo Bank West in Denver, Colorado, account number 057-8140956. The business address identified by Smitty's Investments to Wells Fargo Bank West was **550 E. 12th Ave., Apt 1805, Denver, Colorado**.

Phase three of the scheme (Capital Holdings, LLC), also headquartered in Colorado at 1400 16th Street, Suite 4015, Denver, Colorado and operated by Norman Schmidt and Charles Lewis, has expanded its operation to include several satellite offices around the country. Those others who operated branch offices or who solicit investors are identified as Mike Smith and John Schlabach (Spokane, Washington); Valdemar Bough (Sacramento, California); George Beros (Independence, Ohio); Joseph Pavela (Stoddard, Wisconsin); Michael Vallone and Brian Wasson (Chicago, Illinois); and others soliciting investors on behalf of branch office operators. In addition, George Alan Weed of the Weed Insurance Agency (Benton, Illinois), is the person providing evidence of insurance policies that purportedly insured the investors principal investment into the various "investment programs." Investor funds acquired by the numerous sales offices throughout the United States are first deposited into bank accounts controlled by the sales offices. Investor funds from the sales offices located in Spokane, Washington and Sacramento, California are wire transferred into a Capital Holdings bank account that was located at Wells Fargo Bank West in Denver, Colorado, account number 101-1330204. The business address identified by Capital

Holdings to Wells Fargo Bank West was **250 E. 54th Ave., Suite C, Denver, Colorado**. Commission pay-outs to those who ran the sales offices in Spokane, Washington and Sacramento, California as well as "ponzi" payments to investors brought into the "investment program" by these sales offices were wire transferred from the Capital Holdings Wells Fargo bank account in Denver, Colorado to banks located in Spokane, Washington and Sacramento, California.

5. On February 10, 2003, a search was conducted of the Colorado State Securities Registration data base and the Federal Securities Registration data base maintained by the SEC commonly known as Edgar, to determine whether or not RFT, SMITTY'S and CAPITAL HOLDINGS had registered either Federally or with the State of Colorado any securities offerings they had publically sold during the period beginning January 1, 1998 - February 10, 2003. The search of these data bases disclosed that RFT, SMITTY'S, and CAPITAL HOLDINGS had not Federally or with the State of Colorado registered any securities offering during the period beginning January 1, 1998 through February 10, 2003.

RESERVE FOUNDATION TRUST ("RFT")

6. As part of the scheme, on or about January 27, 2000, Norman Schmidt (hereinafter "SCHMIDT") and Leon Harte (hereinafter "HARTE") organized the Reserve Foundation LLC in Colorado, with an address of **550 E. 12th Avenue, Suite 1805 Denver, Colorado.** The Reserve Foundation LLC opened bank account number 1192362547 at Bank One, in Greeley, Colorado. HARTE, during a deposition taken on January 29, 2002 explained under oath that the Reserve Foundation LLC formed in Colorado was an investment arm of a trust out of St. Vincent and the Grenadines called Reserve Foundation Trust, which was a foreign corporation formed in St. Vincent and the Grenadines sometime during June 1999. HARTE further stated during this deposition that he and SCHMIDT helped set up the Reserve Foundation Trust in St. Vincent and the Grenadines. Information obtained from interviews of investors and documents and correspondence obtained from investors, and documents obtained from previously executed search warrants and grand jury subpoenas disclosed that the business names Reserve Foundation LLC and the Reserve Foundation Trust were used interchangeably. The names of the two businesses will be referred to as RFT throughout this affidavit.

7. Interviews of investors in the RFT "investment program" to date disclosed substantially as follows: Individual investors would execute a CPPA with RFT, which would outline specific details of the investment, including a paragraph stating the principal was insured. The agreement included a schedule showing that the larger the investment amount the higher the rates of return would be up to a return of as much as 400 per cent per month. HARTE signed many of the RFT CPPA's, while other RFT CPPA's were signed by SCHMIDT and other representatives of RFT. Other representatives soliciting investors for the program included BERGMAN of Colorado, Kelly Schnorenberg (hereinafter "SCHNORENBERG") of Wyoming, and D.SMITH, Charles Frazier (hereinafter "FRAZIER"), ALDER, and Kurt Hawks (hereinafter "HAWKS") all of Utah. The investors would transfer their investment funds to RFT via either wire transfers or checks, which were deposited into an RFT Bank One Colorado account paragraph 14, supra. A review of the subpoenaed RFT Bank One bank records disclosed that investors in the RFT "investment program" resided in numerous states throughout the United States and in at least ten foreign countries. Investors who resided outside Colorado had to wire transfer funds via interstate wire transfers to the RFT Bank One account in Colorado or mail their investment checks to RFT, which investment checks would subsequently be deposited by RFT employees into RFT'S Bank One account in Colorado.

8. The operators of the RFT fraud scheme varied their false allegations and promises depending upon the circumstances. In one version investors were told by MOSS, HARTE, SCHMIDT, BERGMAN, WEED, TAYLOR, PITT, GOUGH, D.SMITH, DUNN, ALDER, SCHNORENBERG, and others that RFT would invest the victims' money in some type of "notes" that were issued by foreign banks at a very great discount, such as 60 cents on the dollar; those operating the RFT fraud scheme told the victims that RFT would purchase these foreign notes at this great discount, and make significant profits by collecting interest on the notes and then selling the notes at a much higher price.

9. On January 4, 2001 Evan H. Bynum (hereinafter "BYNUM") filed a complaint with the Colorado Division of Securities. A review of BYNUM'S complaint disclosed substantially as follows:

A. BYNUM had been offered an opportunity to invest money in exchange for the payment of a high rate of interest and return from RFT. Michael Bergman (hereinafter "BERGMAN") made this investment offer to BYNUM and quoted BYNUM an interest rate of 25% per month to be compounded monthly. BERGMAN further told BYNUM his investment money would be in his own account with RFT and would be fully insured. Investigation revealed that BERGMAN was working directly with HARTE and SCHMIDT

B. Based on the information and assurances provided to him by BERGMAN, BYNUM signed an RFT investment contract known as a Cooperative Private Placement Agreement (hereinafter "CPPA") on February 14, 2000, Attachment C. BYNUM provided RFT a Certified Check, Check No. 074544 dated February 14, 2000 in the amount of $25,000 made payable to RFT and subsequently deposited into the RFT Bank One account, account number 192362547. HARTE initialed the separate pages and signed page four of BYNUM'S RFT CPPA, and SCHMIDT endorsed the Certified Check BYNUM used to make his RFT investment.

C. During April 2000, BYNUM requested BERGMAN provide him (BYNUM) a copy of the insurance policy on his RFT investment. (Note: The paragraph titled "Security" on page five of BYNUM'S RFT CPPA, Attachment C stated in part that, "The Initial Principal is 100% Insured by Lloyds of London...Every client will be issued their own binder upon bank receipt of funds.") At that time, BERGMAN informed BYNUM that the insurance policy did not exist, that BYNUM'S individual account with RFT did not exist, that BYNUM'S investment had been rolled into the account of Janet Bach-Bergman (hereinafter "J. BERGMAN") [previously identified as BERGMAN'S common law wife] and that BYNUM'S investment would now earn 50% a month in interest compounded monthly. Calculation tables were provided to BYNUM by BERGMAN to indicate the growth of BYNUM'S RFT investment at the originally stated rate of return of 25% per month, compounded monthly and at the new rate of return of 50% per month, compounded monthly;

D. On June 15, 2000 BYNUM completed a form to request a $4,000 withdrawal of earned profits from his RFT investment. On July 10, 2000 BYNUM received a $4,000 payment from RFT via wire transfer into his personal bank account. Sometime after July 10, 2000, BYNUM completed another withdrawal of funds form requesting the remaining $21,000 from his RFT investment account. Between August 10 and the end of September 2000, BYNUM had numerous conversation with BERGMAN about the status of his $21,000 withdrawal request. BERGMAN always said it was being worked on and that BYNUM should receive the payment in two to three weeks;

E. In early October 2000, Janet Bergman (hereinafter "J.BERGMAN") informed BYNUM the RFT investment program had been shut down by the "feds" and that BYNUM would be contacted by an RFT attorney to present two options to BYNUM; 1) BYNUM could be paid his total principal investment and accumulated earnings or 2) he could roll over the cumulative principal into a new program. J. BERGMAN told BYNUM that if he had any further questions, he should call SCHMIDT at (303) 861-8630;

F. BYNUM was one of three investors who contributed to the initial investment of $25,000 on February 14, 2000. The additional two investors were identified by BYNUM as E. Juanita Meyer (hereinafter "E.MEYER") and Ronald L. Meyer (hereinafter "R.MEYER"). During October 2000, the MEYERS' made several telephone calls to SCHMIDT to complain about their not getting their promised periodic interest payments and R. MEYER mentioned to BYNUM at least twice that SCHMIDT was not being responsive to telephone calls from the MEYERS' regarding their non-receipt of their promised periodic interest payments;

G. On or about November 3, 2000, HARTE left a message on R. MEYER'S answering machine informing R. MEYERS that he (HARTE) would fax a release form to him. This release form was the form R.MEYER would have to use to request any money from his (R.MEYER'S) RFT investment and the form that BYNUM had to use for the same purpose. On November 14, 2000, BYNUM faxed the completed release form back to HARTE. During November and December 2000, BYNUM faxed additional requests to have the exact

amount of money he identified on the release ($33,500), which included the BYNUM'S original investment amount and the interest BYNUM earned on his RFT investment, wire transferred to his account. As of January 4, 2001 BYNUM had not received any funds from RFT other that the $4,000 he received via wire transfer in June 2000.

10. On March 21, 2001, Cynthia Lange (hereinafter "LANGE") contacted the Denver FBI Office and provided the following information:

A. In May 2000, Leon and Debbie Harte purchased the Redstone Castle. HARTE told LANGE, a former employee of the Redstone Castle, he invested with RFT and made the money from that investment to purchase the Redstone Castle. HARTE, SCHMIDT and friends of theirs told LANGE it was a good opportunity to invest if she could afford it. Investigative activity has disclosed that the Redstone Castle is a historic 100 year old castle located in Redstone, Colorado which was built by Cleveland Osgood, described as part robber baron and part visionary. The castle has hosted high society masquerade balls, was operated as a bed and breakfast and is predominately furnished with antiques. HARTE purchased the Redstone Castle for approximately 6.3 million dollars.

B. LANGE sold her home in Redstone, CO and on August 1, 2000 invested the $50,000 she made from the sale of her home through HARTE in the RFT "investment program."

C. In October, 2000, LANGE contacted HARTE numerous times and was put off by him saying she would receive the promised earnings on her investment. By the end of November, LANGE was frustrated and faxed a form to RFT requesting her initial investment back. She has never received her money back.

11. Alan Weed (hereinafter "WEED"), d.b.a., Weed Agency (hereinafter "WEED AGENCY"), **504 Public Square, Benton, Illinois 62812**, was purporting to insure investor's funds in RFT, and its successor entities known as Smitty's Investments, LLC (hereinafter "SMI TTY'S") and Capital Holdings, LLC (hereinafter "CAPITAL HOLDINGS") "investment programs."

A. On or about November 26, 1999, another RFT investor, Boyd A. Brown (hereinafter "BROWN"), received a letter via US Mail from the WEED AGENCY, **504 Public Square, Benton, Illinois 62812**, dated November 23, 1999, signed by WEED and BROWN'S RFT Insurance Certificate was enclosed. According to the letter, BROWN's investment of $5000 was insured directly by the St. Paul Fire and Marine Insurance Company, St. Paul, Minnesota under RFT. Investigative activity to date has revealed that the only insurance coverage provided by St Paul Insurance Company was a Sole Obligor Depository Bond that insured the amount of money RFT deposited into a bank named CIBC Caribbean Limited ("CIBC") located in St. Vincent and the Grenadines in the event that the money deposited with CIBC by RFT was not returned to RFT by CIBC and a Commercial Crime Policy that provided insurance coverage solely to RFT in the event RFT sustained losses as a result of acts of RFT employee dishonesty. According to Jerry Landsman, Jr., an internal investigator employed by St Paul Fire and Marine Insurance Company, St. Paul did not guarantee or insure any deposit or investment in the RFT, nor did it provide coverage to individuals investors in the RFT.

B. On or about December 30, 1999, WEED, d.b.a., WEED AGENCY, **504 Public Square, Benton, Illinois 62812**, faxed to Orvalee Farris (hereinafter "FARRIS") infra paragraph 16B , a letter confirming that the $100,000 investment made by FARRIS in RFT on December 31, 1999 would be insured by St. Paul Fire and Marine Insurance Company, St. Paul, Minnesota, immediately upon the verification of the receipt of the wired investment funds into the trust account for RFT. FARRIS emphasized that she would not have invested in this High Yield Investment Program unless there was an insurance guarantee.

12. WEED was interviewed on January 11, 2000, in his office in **Benton, Illinois**, by Jerry Landsman, Jr., from the St. Paul Fire and Marine Insurance Company following WEED'S receipt of a St. Paul Company demand to cease and desist, and provided the following information:

A. WEED admitted having disseminated the letters and certificates of insurance to RFT investors at the request of HARTE. He stated that he was aware that he was not an authorized agent of The St. Paul Company and had no authority to represent himself as such. He could give no explanation for having made the representation on his stationary or on the certificates. He also was unable to offer an explanation for having used the St. Paul logo on the certificates. WEED admitted he had never met HARTE in person, but stated he seemed very professional in his dealings. WEED was not personally involved in identifying investors; his only role was to explain the insurance coverage. HARTE would contact WEED with the name and address of a potential investor and WEED would send out the introductory letter. If the investor deposited money into the trust, HARTE notified WEED and he sent out a confirmation letter and a certificate.

B. WEED advised that FARRIS (paragraph 16B, infra) invested $100,000 with RFT and received an insurance certificate from him. WEED said the deposit information concerning FARRIS came in after he had received the cease and desist order from the St. Paul Company. WEED was asked how much money he believed was in the bank account of the RFT and he estimated $6.8 million.

C. On January 6, 2000, The St. Paul Company sent letters to RFT investors notifying them that St. Paul did not guarantee any individual deposits made by any investor in the trust, contrary to representations made by WEED, HARTE and SCHMIDT. WEED advised that HARTE (Manager of RFT) had contacted him after the St. Paul Company letters went out on 1/6/00. HARTE was concerned about the letters and wanted to reassure the investors. WEED said HARTE indicated he was very busy and asked WEED to get a letter out to the investors. HARTE dictated a letter to WEED which WEED mailed to all of the investors on Saturday, 1/9/00. According to Jerry Landsman, the St Paul Insurance Company investigator who obtained a copy of the letter, the tone of the letter was misleading and implied that everything was fine with the insurance coverage that was in place for each RFT investor.

D. On January 14, 2000, the investigator for The St. Paul Company received a call from SCHMIDT and HARTE, who indicated they were the managers for the RFT. The misrepresentations that had been made by WEED were discussed and they stated that they understood.

13. On February 15, 2000, WEED was interviewed by the FBI at **504 Public Square, Benton, Illinois**, and provided the following information:

A. WEED advised the certificates that were issued to the policy holders were designed and mailed by him. Per WEED's interview by St. Paul, HARTE provided him with the names and addresses of investors, paragraph 12A, supra.

B. WEED received a commission from HARTE and SCHMIDT as the principles of RFT for selling the insurance policy and had received a total of $2,000 regarding that policy. As the policy grew, WEED was to receive further commissions from RFT.

14. On or about June 11, 2001, SA HAHN, FBI received bank records from Bank One Colorado, NA, PO Box 215002, Denver, Colorado 80221-9002 for bank account number 192362547 in the name of Reserve Foundation, LLC (RFT), 1322 33rd Avenue, Greeley, Colorado 80634. These bank records were obtained via Federal Grand Jury Subpoena during the investigation of Roger D. Griggs, a.k.a. Roger D. Griggs, d.b.a. Sunburst Griggs Trust by the Indianapolis Division of the FBI. These records cover a period beginning January 31, 2000 through November 13, 2000. Signatories for the Bank One business checking account were HARTE and SCHMIDT. During the period beginning January 31, 2000 through November 13, 2000, the total funds deposited into this account were $20,914,544.00 and $20,914,544.00 was withdrawn from the account. As discussed above, this was generally the account into which investors were directed by RFT principals to wire transfer their investment funds, although, as identified below, some RFT investors were directed by RFT principals to wire transfer their funds to offshore investment accounts controlled by the RFT principals. Through the date of this affidavit, no source of funds deposited into this account had been identified as other than funds from investors in the RFT High Yield Private Placement ("HYPP") "investment program." Many of the RFT investors received little or

no repayment of their principal RFT investment when HARTE and SCHMIDT stopped conducting business under the name RFT.

15. Based upon the RFT New Frontier Bank and Bank One Bank Records, FBI sent out over 160 leads to conduct interviews of individuals involved with the RFT investment program covering 34 of the 50 continental United States (U.S.). In addition, a total of 37 leads were sent to FBI Legats requesting information regarding individuals involved with RFT outside the U.S. The analyst reviewing these RFT bank records could not identify disbursements of any of the funds deposited into these accounts into investment related activity as described in the offering documents or during verbal explanations of the RFT "investment program" provided to investors prior to their decision to make their RFT investments.

16. The following interviews, among others, were conducted:

- The investigation of Rebecca Taylor (hereinafter "TAYLOR") has disclosed that TAYLOR acted as a sales agent on behalf of RFT and that she maintained investor records of the investment transactions she completed.

A. Joseph Fleishon (hereinafter "FLEISHON"):

i. FLEISHON, Alexander D. Wilson (hereinafter "WILSON"), and Eric Bateman (hereinafter "BATEMAN") traveled to Rebecca Taylor's (hereinafter "TAYLOR") d.b.a. World Finance (hereinafter "WORLD FINANCE") home near Indianapolis, Indiana during May 2000. TAYLOR explained, among other things, that RFT was involved in Medium Term Bank Notes, that RFT pooled money into blocks of $100,000,000 at Bank One, that the $100,000,000 pools provided RFT higher interest rates on the RFT "investment program," that an investment in RFT had no risk because the investors money never moved and that the investors would receive a 100% return on a RFT investment every three months. FLEISHON, WILSON, and BATEMAN returned to their homes in California without having made a decision to invest in RFT.

ii. Shortly after returning to California, FLEISHON and BATEMAN, jointly invested $700,000 in RFT on or about May 10, 2000. WILSON also invested $300,000 in RFT for a total investment by the three individuals of $1,000,000. FLEISHON, BATEMAN and WILSON mailed their investment check to RFT through TAYLOR via the US Mail. Review of the offering documents FLEISHON received prior to making this investment identified the address for RFT as **550 East 12th Avenue, Suite 1805, Denver, CO 80203.** Through the date of this affidavit the FLEISHON group has lost all of its investment principal invested in the RFT "investment program." Their investment principal was not covered by insurance as represented to them prior to their decision to invest in the RFT "investment program."

B. Orvalee Farris (hereinafter "FARRIS")

i. FARRIS was solicited to invest in an RFT "investment program" by TAYLOR on or about during December 1999. On December 30, 1999, FARRIS received a fax at her home in Oregon, from the WEED AGENCY, **504 Public Square, Benton, IL**. The fax was a letter to FARRIS in which WEED confirms that their $100,000 will be insured upon the receipt of the wire transfer to the RFT Account # 10148965 at CIBC St. Vincent's and the Grenadines. The letter was signed by WEED.

ii. On December 31, 1999, FARRIS wire transferred $100,000 to the CIBC, RFT account from her Merrill Lynch account in Portland, OR.

iii. On April 4, 2000, FARRIS wire transferred $100,000 to Bank One, Colorado NA, 822 Seventh Street, Greeley, CO for RFT, Account # 1192362547.

iv. Mark Beinstock (hereinafter "BEINSTOCK") of the Federal Recovery Group (hereinafter "FRG") which appears to be a privately owned asset recovery firm operated by BEINSTOCK that

certain RFT investors hired to recover the investment funds they had placed with RFT. 30 Fordham Street, Valley Stream, New York, telephone 516-792-2842, was contacted by FARRIS. Mary Ann Gough (hereinafter "GOUGH") d.b.a. Gold Coast Enterprises (hereinafter "GOLD COAST"), the person who convinced FARRIS to invest with RFT, told FARRIS to call BEINSTOCK regarding the recovery of her investment. FARRIS sent BEINSTOCK $1000 in December 2000, and has not received any money back from RFT.

C. Kathleen Anne Giles (hereinafter "GILES")"

i. On February 22, 2000, GILES wire transferred $35,000 from her Alaska USA Federal Credit Union account to the RFT Bank One account in Greeley, Colorado for the purpose of making an investment in RFT'S "investment program." Through the date of this affidavit GILES has lost all of her investment principal invested in the RFT "investment program." GILES investment principal was not covered by insurance as represented to her prior to her decision to invest in the RFT "investment program." GILES was solicited by Gary Bell (hereinafter "BELL") and to date has not received any of her principal investment funds or promised earnings from her RFT investment.

D. Scott Alder (hereinafter "ALDER")

i. On February 15, ALDER invested $819,965 with RFT using SSA Family Trust. ALDER resides in St. George, UT. The $819,965 invested originated with several investors who pooled their money. Investors solicited into the RFT "investment program" by ALDER, lost a substantial amount of their investment principal. The $819,965 originated from a group of investors to include the WINGROUP discussed below.

17. Lieutenant Doug Whitney, (hereinafter "WHITNEY") made your affiant aware of an investigation being conducted by the Utah County Attorney's office in Provo, Utah. The investigation revealed that Larry C. Dunn (hereinafter "DUNN") was a key player in the investment program for RFT and answered to HARTE.

A. WHITNEY provided your affiant with the summary of his investigation, which referenced a recorded telephone conversation, which was made between a Confidential Informant and DUNN on May 3, 2000, in which DUNN admitted he was in possession of copies of all the investment contracts he entered into between investors and HARTE d.b.a. RFT. DUNN also indicated during this conversation that he was an integral part of the RFT organization.

B. WHITNEY provided your affiant with copies of several E-Mails he had received during the course of his investigation. Some of the E-Mails were from DUNN to investors in Utah, who were all members of an entity known as the WinGroup (hereinafter 'WINGROUP"). DUNN's E-Mail address was LCD832@aol.com. On August 29, 2001, WHITNEY received information from Dan Hooper, State Investigator, Utah, State Computer Forensics Expert, who determined through records of America On-Line (AOL) that the E-Mail site LCD832@aol.com belonged to DUNN. DUNN was sending "lulling" E-Mails from his home at 1514 Linden Hurst, McLean, Virginia, through September 10, 2001. The purpose of these E-Mails was to reassure investors that their initial investment was safe and that their interest payments would be forthcoming, but had merely been delayed. Some of DUNN's E-Mails to investors contained imbedded E-Mails from HARTE. These investors, to include those from the WINGROUP, ALDER, and Dirk Smith (hereinafter "D.SMITH") dealing through DUNN lost over $1,375,000.

18. On December 18, 2001, Special Agents of the FBI executed a search warrant at the residence of DUNN located at 1514 Linden Hurst Avenue, McLean, Virginia 22101. During the execution of this search warrant, numerous items were seized to include but not be limited to documents and computer-stored data. Review and analysis of the items seized from DUNN include substantially the following information:

A. Spreadsheets created and maintained by DUNN disclosed that DUNN was keeping itemized records of RFT investors, the amount of money that was being invested in RFT on a monthly basis, the amount of investment money placed with RFT that was kept in the "RFT" investment program," the amount of money investors were earning on a monthly basis, finders fees to be paid, the identity of individuals who found new individuals to invest in RFT'S "investment program," and what percentage of an investors money would be paid as a finders fee.

B. Numerous faxes were sent between HARTE and DUNN concerning the record keeping of the WINGROUP. Computer disks contained blank copies of the CPPA. DUNN had in his possession a document titled, *International Procedures, Procedures for the $100,000 USD and up CPPA investment program.* This document stated that, "The initial principal [invested] is 100% insured by Lloyds of London through WEED AGENCY. These funds can not be hypothecated or encumbered." This document also stated that, "Once the funds are received the principal [investor] will receive the trust certificate of insurance from the agency on behalf of the Reserve Foundation Trust."

C. A Fax Cover sheet dated 20 April 2002 from DUNN to WEED. The fax references the fact that insurance coverage for RFT investors that was originally provided by St. Paul was cancelled and the replacement insurance that was to have been provided by Lloyds of London was taking longer than expected to get in place.

D. A document that had the word "Specimen" written diagonally across its face purportedly signed by WEED of the WEED AGENCY, **504 Public Square, Benton, IL 62812-0727**. This letter identified HARTE as the Account Manager of RFT and it stated that an [investor's] RFT investment principal was insured by a Private Depository Bond and a Commercial Crime Policy issued by St. Paul Fire and Marine Insurance Company. DUNN also had copies of the St. Paul Private Depository Bond and the Commercial Crime Policy issued by St. Paul, and a blank insurance certificate that WEED issued to RFT investors. Investigative activity disclosed that RFT investors such as Gordon Hulbert received a copy of this letter in November 1999 from the WEED AGENCY without the word "specimen" written diagonally across its face.

E. Numerous E-Mail's between DUNN, RFT investors and HARTE regarding the status of investor requests to get some of their money out of the RFT "investment program" and attempts to understand why HARTE would not release money to investors as was promised by the RFT principals to investors prior to the RFT investment. Numerous E-Mail's were found from DUNN to HARTE in which DUNN was requesting HARTE to handle payout requests for RFT investors. Numerous E-Mails from HARTE to DUNN were found in which HARTE offered explanations to DUNN as to why investors were not getting their promised monthly payments or other requested pay outs. These E-Mails included statements that MOSS was working hard to bring in $100,000 from new investors. E-Mails seized also state DUNN was sending information to HARTE and MOSS regarding the "lulling" information DUNN was providing to downline investors. Numerous E-Mails to and from DUNN and MOSS were also seized . These E-Mails detail an ongoing dialogue between DUNN and MOSS as to why the investors brought into the RFT Prime Bank/HYPP "investment program" were not getting paid and why RFT was unable to place these investor's funds into an "investment program" that would work and start paying profits as was originally promised to the investors.

F. A RFT Monthly Disbursement & Reinvestment Form that instructed individuals to fax the document to (303) 861-8630. [Telephone number (303) 861-8630 was previously identified by HARTE as a number where SCHMIDT could be reached, paragraph 9E, supra.] Information obtained from Qwest Communications pursuant to a Federal grand jury subpoena disclosed that service for fax number was established on August 27, 1996 and that such service was located at **550 E. 12th Ave., Apartment 1805, Denver, CO 80203.**

G. A Blank "Non-Circumvention/Non-Disclosure Agreement & Fee Protection Agreement." Some of the RFT investors interviewed to date have indicated that they had to sign such a "Non-Circumvention/Non-Disclosure Agreement" prior to being accepted as an investor in the RFT "investment program." Some RFT investors refused to be interviewed by FBI Special Agents because they had signed such an

agreement. This non-circumvention non-disclosure agreements was routinely used by RFT with investors and generally required the investors not to disclose any information about the RFT "investment program" to any person, business entity, or government agency. RFT investors stated to FBI agents that to violate the non-circumvention non-disclosure portions of their investment agreements with RFT would subject them to the possible loss of all of their principle investment funds and accumulated earnings.

H. A document titled, "Wiring Instructions for RFT" disclosed that money was to be wire transferred to the RFT account at Bank One in Greeley, Colorado.

19. On December 18, 2001, SA HAHN interviewed DUNN. DUNN provided the following information:

A. During October 1999, DUNN met HARTE in New York, New York. During mid to late October 1999, DUNN again traveled to New York, New York. During that trip, individuals named Robert Tringham (hereinafter "TRINGHAM") and Richard Perry (hereinafter "PERRY") introduced DUNN to Peter Wilberforce Moss (hereinafter "MOSS"). During this trip, HARTE showed DUNN pictures of the Redstone Castle. HARTE also told DUNN that he (HARTE) intended to purchase the Redstone castle and turn it into a Health and Wellness center.

B. HARTE and MOSS were jointly working together to get individuals to make investments in RFT. RFT was then offering investments in "paper" and treasury bills. During December 1999 and January 2000, DUNN began making investments of his WINGROUP investors in RFT. On February 10, 2000, the WINGROUP, who wanted to get their money into an investment that was insured, transferred their investment money to RFT/HARTE.

C. Based on DUNN'S association with HARTE and RFT, DUNN knew that HARTE had two bank accounts. One in Greeley, Colorado and one in St. Vincent and the Grenadines. DUNN had banking instructions that were provided to RFT investors, so the investors knew where to send their checks or their wire transfer of funds when making investments in RFT'S "investment programs." DUNN further said that all investor contracts were delivered to them via facsimile transmission. Investigators have since reviewed these contracts and have determined they are generally the same as investor contracts discussed above.

D. Sometime during June or July 2000, DUNN received from MOSS new investment contracts. MOSS instructed DUNN to distribute these contracts to all the investors, to have the investors sign the new contracts and to get the new signed investment contracts back to MOSS. MOSS told DUNN that he (MOSS) and HARTE were putting RFT investors money into a new investment program that paid a smaller return to the investors than what the investors had been told they would earn when the investors made their original RFT investments. MOSS also told DUNN not to disclose this change to existing RFT investors.

E. HARTE identified SCHMIDT to DUNN as his (HARTE'S) business partner and that if DUNN could not reach HARTE, DUNN should call SCHMIDT regarding questions about the RFT "investment program."

20. On January 7, 2002, an FBI cooperating witness (CW) provided information to the FBI concerning the individuals and entities identified in Attachment B of this affidavit. This CW is an individual who was well acquainted with HARTE and SCHMIDT and in a position to have a sound basis of knowledge regarding RFT principals SCHMIDT and HARTE.

A. Mara Kleinschmidt, an Attorney for a group of Canadian Investors was trying to reach HARTE in order to locate MOSS. Investigation revealed that starting in February, 2000 those operating the fraud scheme approached Universal Synergy, Inc., Discovery Bay Capital Corp., Rama Universal Holdings, Ltd., Ross Peat, Subash Shumar, and Alan Bethune. These victim investors were shown the CPPA, told their investment would be used to acquire financial instruments, and would be fully insured. In April, Rama Universal wire

transferred $1.825 million to the RFT account at Bank One. in May 2000 Ross Peat wire transferred $338.000 to RFT account at Bank One. Subash Shumar wired $100.000 to the RFT account at Bank One. Discovery Bay Capital Corp. wire transferred $565.000 to the RFT account at Bank One. Universal Synergy wire transferred $390.980.48 to the RFT account at Bank One. and Adam Bethune wired $150.000 to the RFT account at Bank One. None of these victim investors ever received back their original investments or the promised returns.

B. SCHNORENBERG, TAYLOR and DUNN called HARTE. WEED an insurance person from Illinois, was also trying to reach HARTE. WEED told the CW he was connected with Saint Paul Liberty Insurance.

C. HARTE spent time at the Benjamin Hotel in New York, New York with MOSS. HARTE was receiving investments and through MOSS they were purportedly investing the funds into the World Trade Organization. RFT advised they would be loaning these investment funds to third world countries and were able to loan more out than was actually on deposit which was how they made their money. Some of the RFT contracts were drafted in London by MOSS and Rebecca Tait (hereinafter "TAIT") and they were then sent via E-mail to HARTE.

D. HARTE purchased a certified check for $250,000 payable to Sheldon and Good to receive a bidder's number for the auction of the Redstone Castle located in Redstone, CO. On April 2, HARTE won the bid and purchased the castle for $6.3 million. In August, 2000, HARTE purchased a house at 410 Redstone Boulevard, Redstone, CO for approximately $450,000. While living at the castle, SCHMIDT came to visit HARTE. Investors in RFT also came to the castle looking for HARTE and made threatening remarks to the point the Sheriff was called and responded to the castle property and made them leave. Bank records revealed that on or about March 30, 2000, HARTE writes and signs check number 1023 in the amount of $275,000, payable to himself, HARTE drawn off the RFT account number 1192362547, Bank One, Greeley, CO. HARTE listed the notation "Redstone Castle" and he endorsed the check with his signature, HARTE. On or about April 4, 2000 these monies were received by Aspen Title Corporation as an initial earnest money deposit for the purchase of Redstone Castle Properties.

E. BEINSTOCK, President of FRG called for HARTE and represented himself as an FBI Agent investigating HARTE. [Paragraph 16 subparagraphs B, iv, supra.]

21. Investigation confirmed the purchase of the "Redstone Castle" by Leon and Debbie Harte. The "Redstone Castle" was purchased for approximately six million dollars in May 2000 and the Harte's closed on the property. Investigation to date has revealed that the money to purchase the Redstone Castle originated from investor funds deposited into the RFT Bank One Colorado bank account. A review of the account disclosed that deposits came from investor's monies and there appears to be no other source of money other than investor money deposited into this account. None of the money used to purchase the "Redstone Castle" appears to have been invested by RFT into the trading program described in paragraph 7, supra.

22. HARTE was deposed on January 29, 2002 for the purpose of determining his assets in a dissolution of marriage action between himself and his spouse. The following statements were made by HARTE during his deposition under oath:

A. Since October 2000, HARTE has lived at **550 East 12th Avenue, Apt. 1805, Denver, Colorado**. The apartment was owned by his partner, SCHMIDT who lived there with him. Prior to living at the apartment on East 12th Ave., HARTE lived at 68 Redstone Blvd, in Redstone, Colorado:

B. HARTE stated he was then currently unemployed however, but had been a member of RFT and had received compensation in the form of loans from RFT that totaled $113,000 during the year 2000. RFT had two members, HARTE and SCHMIDT, who each had a 50% interest. RFT was formed in January 2000 with the purpose of handling the investment arm of a trust out of St. Vincent and the Grenadines called RFT. RFT was a foreign trust formed by HARTE, SCHMIDT, trustees, and lawyers from Saint Vincent and the Grenadines.

HARTE could not remember the name of the trustee. [Investigation later determined the trustee for the RFT was Clifford Pitt (hereinafter "PITT")]. HARTE stated there were no current trustees or beneficiaries of RFT. Originally HARTE and SCHMIDT were the beneficiaries of RFT but because of changes in the laws in 2000 they were excluded as beneficiaries.

C. HARTE said he, SCHMIDT and MOSS made the investment decisions of RFT. HARTE stated they kept the records for RFT at **550 East 12th Avenue, Apt. 1805, Denver, CO**. MOSS, HARTE and SCHMIDT were to be paid a percentage from the profits which HARTE claimed there had never been any profits. HARTE said that he has not invested any personal money;

D. Instead of the investments promised to RFT investors prior to their RFT investments by HARTE and SCHMIDT, loans were made to a restaurant chain in New York, and three corporations controlled by HARTE and SCHMIDT (Tranquility Options, LLC, Serenity Options, LLC, Peaceful Options, LLC), a private loan made in London to an individual, a $6 million investment made in Sunstate FX in Florida and a loan to Entertech Corporation. HARTE has documentation for only three loans, Tranquil, Serenity and Peaceful. Investigative activity revealed that 3.5 million dollars of RFT funds was wire transferred at the direction of HARTE from Sunstate FX to Aspen Title as part of the purchase price of the Redstone Castle, which was not an investment opportunity described to RFT investors prior to their decision to invest in a RFT "investment program."

E. HARTE stated " I've been studying a program of trading since 1989 that has yet to be successful. We thought we had found the magic wand a couple of time. We haven't yet.....We've never done it successfully. I've been trying to do it since 1989." HARTE was asked whether he had ever bought or sold any discounted notes and he replied no. Furthermore, HARTE was asked why people would invest if he had never been successful in buying discounted notes and he answered "Because I thought we could do it, and we've never accomplished it."

F. HARTE had been studying a trading program where they (RFT) would buy deeply discounted notes from large corporations or banks. HARTE admitted he had never successfully operated such a program. By buying Triple A discount notes and selling them immediately. HARTE explained that if the transactions worked he could be compensated. More explicitly, the transaction is to buy discounted paper that is handled through World Bank or IMF or Federal Reserve; buy Triple A paper at a deep discount and return it through a client's account and flip it back through the institution or the Federal Reserve or the market. The bank can not do this by themselves because it is not legal for the bank to invest in unregistered paper. It's not registered until it runs through private hands. So that is where RFT comes in. They are the middleman to "season" the money to make it legit.

G. HARTE stated there were investors in RFT but would not reveal them. HARTE claims that although they have not made any money on any of the investments up to this point, he has never had to advertise or find an investor because they have found him by word of mouth. He states that the investors invested under a contract called the CPPA to go into a trading program such as was described. There's offshore banking capabilities that whatever investment was made in the U.S. could be paired on a credit line overseas. The notes could be used as an asset to leverage into a trading program. One CPPA has RFT as one party and the other party was various individuals, corporations and the government.

H. HARTE received about $113,000.00 in loans from RFT and obtained his first check from RFT in January 2000. He has a promissory note payable to RFT that was not created until December 2000, when HARTE'S wife sought a divorce. For over a year and a half time period HARTE received anywhere from $1,000.00 to $5,000.00 on a given day from the RFT. HARTE would make out and sign the checks to himself. The promissory note was for $113,000.00 which was the amount he received from RFT in 2000. The $113,000 in loans came from investors' funds. HARTE claims to have had the authority to do that under the mutual agreement of the members of the RFT. It had never occurred to him that these actions were a breach of trust with the investors. HARTE claims SCHMIDT borrowed the same amount ($113,000) in the same way (unsecured note). RFT also invested twenty-five thousand dollars in Harte Entertainment Group, for which there is no promissary

note. Harte Entertainment Group is the owner of the liquor license at the Redstone Castle, owned by Debbie Harte (estranged wife of HARTE). The twenty five thousand dollars was loaned in May or June 2000. There is no documentation of the loan, it is unsecured and there are no terms of the loan. HARTE couldn't say for sure if the trustee was ever notified about this loan.

I. HARTE admitted he did not file a tax return in 2000. He also admitted to doctoring loan applications that were used to purchase another property in Redstone, CO. HARTE admitted to obtaining a note for $4.2 million with $33,000 a month payments and had no idea how they would make the payments. And in doing so, HARTE admitted to not acting in the best interest of the RFT or Tranquil Options, LLC.

J. HARTE stated RFT had investors who invested $12 million, but did not identify any specific investments. He stated RFT is currently in litigation and they are trying to liquidate it. There are two lawsuits pending against him in Pitkin County, one for 3.8 million and one for 50,000. HARTE admitted that he is worried about going to jail. Saying that he, SCHMIDT and MOSS were short in paying back investors and the investments they made were not very clever. He knew that if he didn't pay back investors he would go to jail.

23. RFT investors interviewed, disclosed that prior to consummating their investment into a RFT Prime Bank/HYPP "investment program", MOSS, HARTE, SCHMIDT, BERGMAN, WEED, PITT, TAYLOR, GOUGH, D.SMITH, DUNN, ALDER, SCHNORENBERG and others soliciting investors did not disclose to investors the actual coverage of insurance policies issued by St. Paul Fire and Marine Insurance Company did provide the coverage represented to the investors prior to their investment, nor the fact that commissions were promised to MOSS, HARTE, SCHMIDT, BERGMAN, WEED, PITT, TAYLOR, GOUGH, D.SMITH, DUNN, ALDER, SCHNORENBERG and others soliciting investors for their efforts to sell the RFT Prime Bank/HYPP "investment program" to investors and that these commissions would be paid from investor funds.

24. According to the Office of the Colorado Secretary of State Corporate Records, SCHMIDT is the manager of Reserve Foundation, LLC.

25. As of February 1, 2002, RFT became a historical investigation. Investigative activity revealed that between May 30, 2000 and August 16, 2000, twelve intra bank transfers to SMITTY'S Bank One, Greeley, CO totaling approximately $207,775.00 was transferred from the RFT account, number 192362547 at Bank One, Greeley, CO.

26. On or about August 5 , 2001, William C. Kerr (hereinafter "KERR"), National Bank Examiner, Comptroller of the Currency, Special Supervision and Fraud Division, 250 E Street, MS 6-10, Washington, DC 20219 provided a letter dated July 31, 2001. In this letter, KERR'S provided an opinion based on, among other items, his review of the RFT investment documents received during BYNUM'S interview on February 13, 2001 see paragraph 9, supra. KERR'S opinion was the investment opportunity RFT, SCHMIDT, and HARTE offered BYNUM through BERGMAN was an investment opportunity in a fictitious investment program, commonly described as a Bank Debenture Trading Program, to perpetrate a fraud. KERR further opined the program as described in BYNUM'S CPPA purports to represent some type of high yield investment program that does not exist in the legitimate financial world, public or private.

28. State of Colorado Investigator REINHARDT provided the partial results of his review of a book titled *The Myth of Prime Bank Investment Scams*, authored by Professor James E. Byrne, J.D., a faculty member at George Mason University School of Law and the Director of the Institute of International Banking Law & Practice, Inc. In this publication, Professor Byrne identified some common characteristics that make Prime Bank Investment Programs readily identifiable as unlawful schemes and which distinguish them from legitimate programs and opportunities for investments. These common characteristics include, but are not limited to the following:

A. There is no economic basis for the transaction or creditable explanation of how the investment can generate the promised returns;

B. The promised returns on the investments are disproportionate to the risk;

C. The commercial basis for the transaction is frequently obscure and it is often unclear whether it involves finance, trading in instruments, or commercial activity;

D. The schemes often rely upon trading activity conducted by mysterious individuals on mysterious and secretive markets for profits;

E. Technical terms used in the scheme are misused and the definitions of these terms are distorted from their meaning in customary financial commercial transactions;

F. The schemes are surrounded by an aura of secrecy and an almost conspiratorial sense by the frequent use of non-circumvention and non-disclosure agreements that unwary investors must sign to participate in the investment opportunity;

G. The schemes are typically clouded in unnecessary complexity, layered transactions, and, confusion;

H. The schemes use well-known banks and state that investor funds are placed in escrow, non-depleting accounts and similarly named accounts to confuse investors into thinking their money is safely deposited and it cannot be removed unless certain conditions are met;

I. Any fees and commissions to be paid to the promoters of the schemes are usually not identified as the promoters convince investors the promoters are simply sharing part of their profit from the scheme with the investors; and

J. A typical feature of these schemes is that the funds are used for purposes that have no relationship to the transaction. Rather, the funds are spent by the promoters, sales people and other individuals involved with the furtherance of the scheme on personal expenses for travel, the purchase of homes and automobiles, vacations , and general living expenses without this type of use of investor's funds being disclosed to investors prior to their investment in the scheme.

In the instant matter, investigative activity to date has disclosed that RFT has elements of all of the above general characteristics of Prime Bank Investment Scams (hereinafter "PBIF") and fraudulent Prime Bank investment schemes as described by Professor Byrne.

28. On February 10, 2003, a search was conducted of the State of Colorado and Federal securities licensing data base known as the Central Registration Depository (hereinafter "CRD") maintained by the National Association of Securities Dealers (hereinafter "NASD"), which operates under the oversight of the US Securities and Exchange Commission (hereinafter "SEC"). This search disclosed that none of the individuals identified in Attachment B were licensed to sell securities anywhere in the United States during the period March 11, 1998 - February 25, 2003. Information obtained during previous unrelated investigations of alleged violations of the anti-fraud provisions of the Colorado Securities Act conducted during the period beginning January 1, 1990 through December 31, 1996 disclosed that BERGMAN and HARTE had securities licenses during the 1970's when BERGMAN worked for a licensed securities broker-dealer named Waddell Reed and when HARTE worked for a now defunct securities broker-dealer named Marshall Davis.

SMITTY'S INVESTMENTS, LLC ("SMITTY'S")

29. Investigative activity disclosed that RFT principals HARTE and SCHMIDT discontinued the investment scheme under the name RFT by the end of November 2000. SCHMIDT formed SMITTY'S on or about April 3, 2000 and began selling "investment programs" through SMITTY'S that were similar in nature to the "investment programs" that were sold by RFT, see paragraph 52, infra. SMITTY'S bank account number 057-

8140956 was opened at Wells Fargo Bank West in Greeley, Colorado on or about April 23, 2001and bank account activity continued this account until at least October 2002.

30. During the period beginning on or about March 21, 2001 through the date of this affidavit, interviews of additional investors in numerous investment programs commonly known as "Prime Bank Investment Programs," "High Return Asset Management Programs," and "High Yield Investment Programs" that have been sold through business entities named RFT, SMITTY'S, and CAPITAL HOLDINGS have been conducted and continue to be conducted.

31. On, about or during January 2002, Warren Peterson (hereinafter "PETERSON"), PO Box 386, Plainview, Nebraska 68769, telephone number (402) 582-3803 was told of an" investment program" by a neighbor of his named Jan Mclain ("MCLAIN"), who has since moved to Colorado. MCLAIN informed PETERSON how great the program was and guaranteed PETERSON his investment amount if the program went bad. At the time PETERSON was offered the "investment program" opportunity, Charles Lewis ("LEWIS") was also present. LEWIS also told PETERSON the investment program was a great "investment program." On January 8, 2002, PETERSON invested $5,000 in an "investment program" operated by SMITTY'S. The "investment program" paid a return of 10% per month rate of interest. Pursuant to the investment, documents were purportedly signed by SCHMIDT on January 2, 2002 and signed by PETERSON on January 8, 2002:

A. The Client Information Sheet in PETERSON'S investment documents identified the bank coordinates for his distributions as Wells Fargo Bank West, 15 South Main, Brighton, Colorado 80601. The bank account name was SMITTY'S, the account number was identified as 0578140956, Kathy Mills was identified as a contact at the Brighton, Colorado Wells Fargo branch, and the desired monthly payout to PETERSON was 10%. The documents letter head was SMITTY'S, **250 East 54th Avenue, Suite C, Denver, CO**, Telephone number (303) 298-0321.

B. The "High Yield Private Placement" form initialed by PETERSON on January 8, 2002, identified, among other items, the term of the investment was one year and 21 days, and profit payments would be distributed monthly after the initial 45 day period.

C. To enter the SMITTY'S "investment program," PETERSON also signed a CPPA (Attachment D) on January 8, 2002, which provided that [SMITTY'S]..."has arranged for the CPPA to participate in a certain financial program that is comprised of the contractual purchase and contractual sale or discounting of certain financial instruments of major banks and/or governments, which contracts to provide a profit." The CPPA also provides that [PETERSON] "is desirous and capable of providing working capital in the amount of $5,000 to generate funds for their respective projects with the assistance and cooperation of the LLC. These funds will be used to buy, sell, lease or trade, on a loss free pre-sale agreed basis, in medium term notes and other banking and governmental financial instruments to the mutual benefit of [PETERSON] and the [LLC]."

D. PETERSON received from SMITTY'S Official Check No. 0478708457 dated February 8, 2002, in the amount of $250.00 as an interest payment payable at Wells Fargo Bank West, NA.

E. PETERSON'S investment documents in SMITTY'S 'investment program", identified the address for SMITTY'S as **250 East 54th Avenue, Suite C, Denver, CO**.

32. A review by a FBI Financial Analyst of bank records from account # 057-8140956 in the name of SMITTY'S at Wells Fargo Bank West, NA, PO Box 5247, Denver, Colorado 80274 disclosed a deposit of $5,000 via a wire transfer from account no. 020111031180. Investigative activity disclosed that this wire transfer was PETERSON'S $5,000 investment in SMITTY'S. At the time this wire transfer was received in SMITTY'S Wells Fargo account, the account had a negative balance of $45.27. This negative balance was caused in part by a $299.75 payment to a Bank Western hotel in Madera, California on January 9, 2002 and an overdraft fee of $20.00 charged to this account on January 10, 2002. Between January 11, 2002 and January 14, 2002 six disbursements totaling approximately $4700.00 of PETERSON'S $5,000 investment were made from the SMITTY'S bank account

for such items as automobile gas and check card retail purchases. It appears that none of PETERSON'S $5,000 was used to make an investment of the type described in his SMITTY'S investment documents.

33. On July 23, 2002, Jerry D. Jarman (hereinafter "JARMAN"), 1140 S. Fenton Street, Lakewood, Colorado was interviewed. During the course of this interview JARMAN stated substantially as follows: JARMAN learned of an investment opportunity from BERGMAN and LEWIS through an individual named Ann Anderson (hereinafter "ANDERSON"). During August 2001, ANDERSON told JARMAN of an investment opportunity in SMITTY'S. ANDERSON explained that SMITTY'S invested in world banks by piggy backing onto large corporate investment like General Motors and that these investments paid a 15% monthly return to investors. JARMAN initially told ANDERSON he wasn't interested in SMITTY'S "investment program." Sometime after August 2001, ANDERSON and JARMAN went to a meeting at Teddy's inside the Holiday Inn located at Interstate 25 and 54th Avenue in Denver, Colorado. The individuals at this meeting were BERGMAN, LEWIS, a women only identified as Jan, and SCHMIDT. BERGMAN provided most of the verbal explanation of SMITTY'S "investment program" to JARMAN, though SCHMIDT provided JARMAN with the wire transfer instructions if JARMAN decided to make the investment. JAN ("LNU") stated that SCHMIDT was a genius, and LEWIS stated that he had been in a similar investment once before and it wasn't the right program, but now that he was in SMITTY'S "investment program" he was making a lot of money. BERGMAN explained, among other things, that:

A. Boys Town had invested in the SMITTY'S "investment program" and JARMAN and ANDERSON would piggy back on the Boys Town investments. Those investments consisted of several transactions a day with each transaction generating a 1% profit.

B. The current "investment program" being offered by SMITTY'S was through Barclay Bank and monthly interest payments could be paid either by wire transfer or by check. JARMAN would have to keep his money in the "investment program" one year and 21 days. Documents provided by JARMAN list SMITTY'S address as **550 East 12th Avenue, Suite 1805, Denver, CO**, Telephone number (303) 517-1988.

C. None of the individuals offering SMITTY'S "investment program" had to be licensed as they were only selling to close friends; and

D. During the meeting at Teddy's, BERGMAN did not disclose the following: whether there was any risk of JARMAN losing any of his principal investment in the SMITTY'S "investment program;" any explanation of what was actually being traded or how the "investment program" worked; any information of the past success or failure of the program or any information of how previous investor's investment funds had been invested or spent; that BERGMAN had been previously charged, with two counts of Securities Fraud in violation of the anti-fraud provisions of the Colorado Securities Act and one count of theft over $15,000 by the 18th Judicial District, District Attorney's office; that, subsequent to a criminal trial, BERGMAN was found guilty of both securities fraud charges and the theft over $15,000 charge on January 29, 2001; that as a result of his conviction, BERGMAN was sentenced on April 6, 2001 to ten years probation, 90 days in the county jail and ordered to pay $22,403.49 in restitution based on his sale of a similar "investment program;" that he was still on probation as a result of this conviction; that BERGMAN had past business dealings with LEWIS and SCHMIDT wherein they all participated in the operation of a business that sold "investment programs" similar to the SMITTY'S "investment program" currently being offered JARMAN; and that LEWIS plead guilty to State of Colorado criminal theft charges based on his business dealings with BERGMAN in the sale of the "investment program" that resulted in BERGMAN'S convictions of State of Colorado securities fraud and theft charges.

E. JARMAN decided not to invest in SMITTY'S "investment program" at the conclusion of the November 2001 meeting at Teddy's. Subsequent to the November 2001 meeting, JARMAN did some research and determined that SMITTY'S "investment program" sounded like fraudulent "investment programs" he found on the Internet. JARMAN telephonically communicated to BERGMAN his belief that SMITTY'S "investment program" was a "security" and the individuals who sold the "investment program" needed a securities license to make such sales. BERGMAN ended their telephone conversation. Shortly after this telephone conversation JARMAN received a telephone call from JAN ("LNU") who informed him that he would not be accepted into

SMITTY'S "investment program" because the "group" thought JARMAN would cause trouble. Subsequently, Jan LNU was identified as Jan McLain who just recently became SCHMIDT'S wife.

34. On February 2, 2003, Gerald Schreiber (hereinafter "SCHREIBER") contacted the FBI and advised he had been solicited by LORENZEN representing SMITTY'S, **250 East 54th Avenue, #17, Denver, CO**. LORENZEN told SCHREIBER for a minimum of $10,000 he could get in on the program and take advantage of it. SCHREIBER provided copies of the following documents given to him by LORENZEN: A Medium Term Note Placement Program (MTNPP), a copy of the CPPA and an Introduction to Bank Debenture Trading Program brochure. Additionally SCHREIBER provided copies of Emails sent from LORENZEN . According to FBI CI, LORENZEN runs his investments through SCHMIDT'S MONARCH business.

35. A letter dated February 13, 2002 was sent via Certified Mail from the State of Nebraska to SCHMIDT, Manager at SMITTY'S, **250 East 54th Avenue, Suite C, Denver, CO 80216** regarding Compliance with Securities Act of Nebraska ("Act"). The letter requested SCHMIDT provide information to determine his status under the Securities Act of Nebraska.

A. On February 23, 2002, SCHMIDT responded in a letter to Thomas Sindelar, Enforcement Manager, Department of Banking & Finance, Lincoln, NE. SCHMIDT advised the following: SMITTY'S is a 'privately held limited liability corporation' incorporated under the laws and jurisdiction of the State of Colorado. SMITTY'S does not "OFFER for SALE" 'contacts' of any sorts. Further SMITTY'S , DOES NOT SOLICIT in the State of Nebraska or any other state.

B. A letter dated April 5, 2002 was sent via Federal Express Delivery from the State of Nebraska to SCHMIDT, Manager at SMITTY'S, **250 East 54th Avenue, Suite C, Denver, CO 80216**. The letter advised that the Department's (Department of Banking and Finance) February 13, 2002 letter was intended to notify SCHMIDT of various compliance issues under the Act, and provide an opportunity for him to address such issues. The response dated February 23, 2002, paragraph 31A, supra, did not reflect the known sales of securities in Nebraska by SMITTY'S. As such, a Cease and Desist Order was issued against SMITTY'S. This order is a final order and permanently prohibits the further offer or sale of securities by SMITTY'S in Nebraska. A violation of the order is a Class IV felony under Nebraska state law.

36. Pursuant to a Federal Grand Jury Subpoena, Wells Fargo Bank West provided bank records for SMITTY'S, **550 East 12th Avenue, Apartment 1805, Denver, CO**. Bank records for account # 057-8140956 were reviewed by an FBI Financial Analyst and the following information was obtained:

A. During the period beginning April 23, 2001 through October 21, 2002, the following deposits were made into this account via wire transfers, check and/or cash:

i. Terry Lorenzen (hereinafter "LORENZEN"):
-On January 22, 2002, $5000 was deposited into this account.

TOTAL: $5,000.00

ii. MCLAIN
-On February 13, 2002, $16,000 was deposited into this account.

TOTAL: $16,000.00

iii. Cambridge Ventures, Ltd., (hereinafter " CAMBRIDGE"):
-On March 22, 2002, $100,000 was deposited into this account.
-(CAMBRIDGE is a company operated by Michael A. Vallone (hereinafter "VALLONE"), **11022 Southwest Highway, Palos Hills, IL**.

TOTAL: **$100.000.00**

iv. Val Bough. Jr. (hereinafter "BOUGH"):
-On June 25. 2002. $40.000 was deposited into this account.
-(Note: FBI CI advised BOUGH operates the Sacramento office soliciting investors for the CAPITAL HOLDINGS "investment program". **2020 Hurley Way. Suite 390. Sacramento. CA and 2987 Fulton Avenue. Sacramento. CA)**

TOTAL: **$40.000.00**

B. During the period beginning April 23.2001 through October 21.2002. the following withdrawals via wire transfers and checks were made from this account:

i. Scott Schmidt (hereinafter S.SCHMIDT)
-On August 1. 2001. Check No. 1060 in the amount of $1.500
-On August 14. 2001. Check No. 1069 in the amount of $3.000.
-On August 15. 2001. Check No. 1070 in the amount of $1.000.
-On August 31. 2001. Check No. 1075 in the amount of $500.
-On September 14. 2001, Check No. 1029 in the amount of $2.000.
-On September 17, 2001, Check No. 1034 in the amount of $2,000.
-On September 19, 2001, Check No. 1076 in the amount of $2.500.
-On October 1, 2001, Check No. 1042 in the amount of $1.500.
-On October 4. 2001. Check No. 1049 in the amount of $3.000.
-On November 6, 2001. Check No. 1151in the amount of $3.500.
-On November 23. 2001. Check No. 1110 in the amount of $1,000.
-On November 29. 2001. Check No. 1105 in the amount of $2.000.
-On December 5, 2001, Check No. 1111 in the amount of $3.504.
-On December 6. 2001. Check No. 1086 in the amount of $400.
-On December 12. 2001. Check No. 1088 in the amount of $4,100.
-On December 31. 2001. Check No. 1157 in the amount of $400.
-On January 22. 2001. Check No. 1158 in the amount of $1.500.
-On January 30. 2001. Check No. 1168 in the amount of $2.000.
-On January 31. 2001. Check No. 1128 in the amount of $2.000.
-On February 1. 2001. Check No. 1129 in the amount of $1.000.
-On February 13. 2001. Check No. 2150 in the amount of $3.500.
-On March 22. 2002. Check No. 2173 in the amount of $1.000.
-On April 4. 2002. Check No. 1220 in the amount of $9.000.
-On April 9. 2002. Check No. 1227 in the amount of $9.500.
-On June 26. 2002. Check No. 2260 in the amount of $7.000.
-On August 7. 2002. Check No. 2009 in the amount of $9.500.
-On August 8. 2002. Check No. 2011 in the amount of $9.500.
-On August 27. 2002. Check No. 2069 in the amount of $6.200.
-On September 11. 2002. Check No. 2090 in the amount of $9.500.
-On October 2. 2002. Check No. 2103 in the amount of $7.000.
-On October 16. 2002. Check No. 2107 in the amount of $5.000.

TOTAL: **$115.104.00**

ii. BERGMAN:
-On August 27. 2001. Check No. 1073 in the amount of $400.
-On October 3. 2001. Check No. 1044 in the amount of $1.000.
-On December 11. 2001. Check No. 1085 in the amount of $700.

-On December 26, 2001, Check No. 1092 in the amount of $1500.
-On January 23, 2002, Check No. 1099 in the amount of $1,000.
-On March 1, 2002, Check No. 1150 in the amount of $500.
-On March 20, 2002, Check No. 1197 in the amount of $1,000.
-On March 29, 2002, Check No. 1211 in the amount of $3,000.
-On April 10, 2002, Check No. 1230 in the amount of $3,000.
-On July 29, 2002, Check No. 1434 in the amount of $1,500.
-On August 15, 2002, Check No. 1478 in the amount of $2,200.
-On September 10, 2002, Check No. 1492 in the amount of $2,000.
-On September 13, 2002, Check No. 1504 in the amount of $10,000.
-(Note: Check No. 1504 had a notation, check to A-1 Bail Bonds - Michael Bergman)

TOTAL: **$ 37,800.00**

iii. SCHMIDT:
-On September 14, 2001, Check No. 1033 in the amount of $2,500.
-On October 2, 2001, Check No. 1045 in the amount of $1,000.
-On October 4, 2001, Check No. 1047 in the amount of $2,000.
-On October 23, 2001, Check No. 1081 in the amount of $200.
-On November 8, 2001, Check No. 1102 in the amount of $2,604.
-On November 19, 2001, Check No. 1109 in the amount of $1,000.
-On March 7, 2002, Check No. 1183 in the amount of $2,200.
-On March 12, 2002, Check No. 1191 in the amount of $500.
-On March 15, 2002, Check No. 1193 in the amount of $2,500.
-On March 21, 2002, Check No. 1204 in the amount of $2,500.
-On April 9, 2002, Check No. 1228 in the amount of $9,000.
-On June 26, 2002, Check No. 1370 in the amount of $9,500.
-On August 29, 2002, Check No. 1493 in the amount of $9,500.
-On August 29, 2002, Check No. 2074 in the amount of $25,000.
-(Note: Check No. 2074 was written to SMITTY'S, a company owned and operated by SCHMIDT.)

TOTAL: **$70,004.00**

iv. American West Packaging (hereinafter "AMERICAN WEST"):
-(NOTE: investigative activity revealed that AMERICAN WEST is owned by SCHMIDT)
-On May 21, 2001, Check No. 1011 in the amount of $2000.
-On September 25, 2001, Check No. 1037 in the amount of $2850.
-On October 5, 2001, Check No. 1048 in the amount of $2000.
-On November 23, 2001, Check No. 1108 in the amount of $2,000.
-On December 4, 2001, Check No. 1121 in the amount of $2,000.
-On December 18, 2001, Check No. 1095 in the amount of $2,000.
-On January 8, 2002, Check No. 1160 in the amount of $2,000.
-On January 17, 2002, Check No. 1170 in the amount of $2,000.
-On February 5, 2002, Check No. 1130 in the amount of $2,000.
-On February 22, 2002, Check No. 1146 in the amount of $2,000.
-On August 23, 2002, Check No. 1485 in the amount of $4,200.
-On September 17, 2002, Check No. 1518 in the amount of $5,000.
-On October 8, 2002, Check No. 1544 in the amount of $10,000.

TOTAL: **$ 40,050.00**

v. J.BERGMAN:
-On November 14, 2001, Check No. 1103 in the amount of $2,000.
-On December 5, 2001, Check No. 1125 in the amount of $2,000.
-On April 8, 2002, Check No. 1208 in the amount of $5,000.

TOTAL: **$ 9,000.00**

vi. HARTE:
-On December 18, 2001, Check No. 1094 in the amount of $200.
-On December 28, 2001, Check No. 1154 in the amount of $200.
-On January 23, 2002, Check No. 1165 in the amount of $300.
-On January 29, 2002, Check No. 1173 in the amount of $500.
-On February 4, 2002, Check No. 1175 in the amount of $200.
-On March 15, 2002, Check No. 1192 in the amount of $750.
-On March 19, 2002, Check No. 1196 in the amount of $10,000.
-On March 22, 2002, Check No. 1201 in the amount of $750.
-On April 1, 2002, Check No. 1209 in the amount of $750.
-On April 9, 2002, Check No. 1225 in the amount of $1,000.
-On May 15, 2002, Check No. 1267 in the amount of $13,352.40 to Debbie Harte, Redstone Castle.
-On September 5, 2002, Check No. 1499 in the amount of $1,000.

TOTAL: **$ 29,002.40**

vii. LORENZEN,:
- (NOTE: Investigative activity disclosed that LORENZEN is a sales agent who solicited SCHREIBER, paragraph 34, supra.)
-On December 19, 2001, $1501 was wire transferred to 1st Bank of Lakewood.
-On February 7, 2002, was wire transferred $1,968.83.
-On February 8, 2002, was wire transferred $1,968.83.
-On May 16, 2002, Check No. 1306 in the amount of $1,195.75.
-On June 20, 2002, Check No. 1343 in the amount of $3,849.12.
-On June 24, 2002, Check No. 1291 in the amount of $1,500.
-On July 22, 2002, Check No. 1415 in the amount of $10,000.
-On July 23, 2002, Check No. 1394 in the amount of $2,600.
-On August 19, 2002, Check No. 1464 in the amount of $2,000.
-On September 20, 2002, Check No. 1512 in the amount of $2,260.
-On October 18, 2002, Check No. 1553 in the amount of $2,000.

TOTAL: **$ 29,342.53**

viii. MCLAIN:
-On January 14, 2002, Check No. 1162 in the amount of $500.
-On January 18, 2002, Check No. 1169 in the amount of $3,000.
-On February 4, 2002, Check No. 1131 in the amount of $2,000.
-On February 6, 2002, Credit Card payment Phone in the amount of $400.
-On March 11, 2002, Credit Card payment Phone in the amount of $600.
-On April 9, 2002, Check No. 1223 in the amount of $1,000.
-On April 15, 2002, Check No. 1234 in the amount of $4,700.
-(Note this check was written to Fast Track LLC (hereinafter "FAST TRACK") a company operated by MCLAIN.)

-On April 15, 2002, Check No. 1239 in the amount of $470.
-On May 21, 2002, Check No. 1268 in the amount of $5,000.
-On June 17, 2002, Check No. 1332 in the amount of $5,500.
-On July 8, 2002, Check No. 1384 in the amount of $3,000.
-On July 9, 2002, Credit Card payment Phone in the amount of $5,000.
-On August 6, 2002, Check No. 1454 in the amount of $10,000.
-On August 7, 2002, Check No. 1459 in the amount of $22,000.
-(Note: Check No. 1459 was written to FAST TRACK a company operated by MCLAIN.)
-On August 7, 2002, Check No. 1460 in the amount of $50,000.
-On September 3, 2002, Check No. 1498 in the amount of $2,000.
-On September 12, 2002, Check No. 1507 in the amount of $20,000.
-On October 1, 2002, Check No. 1535 in the amount of $5,000.
-On October 17, 2002, Check No. 1568 in the amount of $3,500.

TOTAL: **$ 143,670.00**

ix. LEWIS:
-On February 22, 2002, Check No. 1177 in the amount of $1,000.
-On March 21, 2002, Check No. 1199 in the amount of $4,500.
-On April 17, 2002, Check No. 1242 in the amount of $15,000.
-On May 15, 2002, Check No. 1319 in the amount of $53,100.
-(Note: Ck # 1319 was written to MILOKA trust holdings, owned by LEWIS.)
-On May 31, 2002, Check No. 2228 in the amount of $400.
-On June 3, 2002, Check No. 2231 in the amount of $600.
-On June 4, 2002, Check No. 1281 in the amount of $8,800.
-(Note: Ck # 1281 was written to MILOKA trust holdings, owned by LEWIS.)
-On June 19, 2002, Check No. 1351 in the amount of $27,226.25
-(Note: Ck # 1351 was written to MILOKA trust holdings, owned by LEWIS.)
-On July 10, 2002, Check No. 1392 in the amount of $10,000.
-(Note: Ck # 1392 was written to MILOKA trust holdings, owned by LEWIS.)
-On July 23, 2002, Check No. 1412 in the amount of $20,000.
-(Note: Ck # 1412 was written to MILOKA trust holdings, owned by LEWIS; a notation on the deposit read July disbursement.)
-On July 24, 2002, Check No. 1432 in the amount of $10,000.
-(Note: Ck # 1432 was written to MILOKA trust holdings, owned by LEWIS.)
-On September 6, 2002, Check No. 1502 in the amount of $5,000.
-On October 3, 2002, Check No. 1537 in the amount of $10,000.
-On October 10, 2002, Check No. 1560 in the amount of $7,967.

TOTAL: **$ 173,593.25**

x. Rent Rite (hereinafter "RENTRITE"):
- (NOTE: Operated by Tom Wright, was the business entity that sold two race cars to SMITTY'S.)
-On February 27, 2002, Check No. 1149 in the amount of $20,000.
-On March 7, 2002, Check No. 1176 in the amount of $10,000.
-On March 21, 2002, Check No. 2171 in the amount of $10,000.
-On April 4, 2002, Check No. 1215 in the amount of $7,805.65
-On July 17, 2002, Check No. 1393 in the amount of $8,756.
-On October 3, 2002, Check No. 1538 in the amount of $75,000.

TOTAL: **$ 131,561.65**

xi. Gary N. Herbert (hereinafter "HERBERT"):
-On March 25, 2002, Check No. 1202 in the amount of $5,000.
-On April 2, 2002, Check No. 1210 in the amount of $5,000.
-On April 3, 2002, Check No. 1213 in the amount of $10,000.
-On April 23, 2002, Check No. 1246 in the amount of $10,000.
-On April 30, 2002, Check No. 1251 in the amount of $5,000.
-On May 14, 2002, Check No. 1308 in the amount of $35,000.
-On May 14, 2002, Check No. 1309 in the amount of $5,000.
-On June 4, 2002, Check No. 1278 in the amount of $10,000.
-On June 5, 2002, Check No. 1280 in the amount of $5,000.
-On June 18, 2002, Check No. 1295 in the amount of $5,000.
-On July 5, 2002, Check No. 1375 in the amount of $10,000.
-On June 5, 2002, Check No. 1376 in the amount of $5,000.
-On July 23, 2002, Check No. 1397 in the amount of $10,000.
-On July 29, 2002, Check No. 1430 in the amount of $3,200.
-On July 29, 2002, Check No. 1433 in the amount of $7,500.
-On July 31, 2002, Check No. 1441 in the amount of $5,000.
-On August 2, 2002, Check No. 1451 in the amount of $5,000.
-On August 7, 2002, Check No. 1456 in the amount of $5,000.
-On August 19, 2002, Check No. 1477 in the amount of $10,000.
-On September 16, 2002, Check No. 1508 in the amount of $5,000.
-On September 16, 2002, Check No. 1509 in the amount of $10,000.
-On October 4, 2002, Check No. 1539 in the amount of $15,000.
-On October 4, 2002, Check No. 1540 in the amount of $10,000.

TOTAL: $ 195,700.00

xii. TWG Motors (hereinafter "TWG MOTORS"):
-On March 25, 2002, Check No. 1206 in the amount of $18,700.
-On April 23, 2002, Check No. 1250 in the amount of $7,586.85.
-On May 16, 2002, Check No. 1270 in the amount of $8,605.85.
-On June 6, 2002, Check No. 1284 in the amount of $8,763.85.
-On June 26, 2002, Check No. 1371 in the amount of $7,738.66.
-On July 30, 2002, Check No. 2027 in the amount of $4,203.
-(Note: Deposit noted Mustang)
-On August 16, 2002, Check No. 2023 in the amount of $4,727.36.
-On August 21, 2002, Check No. 2060 in the amount of $5,223.38.

TOTAL: $ 65,548.95

xiii. Mike Lewis (hereinafter M. LEWIS):
-On March 29, 2002, Check No. 2176 in the amount of $1,500.
-On August 5, 2002, Check No. 2001 in the amount of $3,500.
-On August 19, 2002, Check No. 1467 in the amount of $2,414.51.
-On August 19, 2002, Check No. 2058 in the amount of $4,500.
-On September 9, 2002, Check No. 1491 in the amount of $527.71.
-On September 9, 2002, Check No. 2088 in the amount of $4,000.

TOTAL: $ 16,442.22

xiv. DC Racing Engines (hereinafter "DC RACING"):
-On April 12, 2002, Check No. 2179 in the amount of $1,300.

-On April 25, 2002, Check No. 2195 in the amount of $1,403.20.
-On May 8, 2002, Check No. 1264 in the amount of $17,000.
-On June 17, 2002, Check No. 1326 in the amount of $6,592.50.
-On June 26, 2002, Check No. 1363 in the amount of $9,430.60.
-On August 27, 2002, Check No. 1489 in the amount of $20,000.
-On August 27, 2002, Check No. 2064 in the amount of $1,406.

TOTAL: **$ 57,132.30**

xv. MLC Racing (hereinafter "MLC RACING"):
-On March 25, 2002, Check No. 2169 in the amount of $966.86.
-On April 24, 2002, Check No. 2189 in the amount of $920.99.
-On April 29, 2002, Check No. 2197 in the amount of $2,000.
-On April 29, 2002, Check No. 2201 in the amount of $1,084.82.
-On May 7, 2002, Check Card in the amount of $702.48.
-On May 13, 2002, Check Card in the amount of $2,445.72.
-On June 6, 2002, Check No. 2229 in the amount of $2,352.09.
-On June 10, 2002, Check No. 2234 in the amount of $3,079.59.
-On June 10, 2002, Check No. 2235 in the amount of $1,169.
-On July 15, 2002, Check Card in the amount of $3,392.57.
-On July 22, 2002, Check No. 2287 in the amount of $2,368.57.
-On July 25, 2002, Check No. 2295 in the amount of $2,043.76.
-On August 8, 2002, Check No. 2002 in the amount of $1,612.94.
-On August 8, 2002, Check No. 2005 in the amount of $259.56.
-On August 27, 2002, Check No. 2066 in the amount of $1,127.70.
-On August 30, 2002, Check No. 2070 in the amount of $3,992.88.
-On September 6, 2002, Check No. 2075 in the amount of $1,985.59.

TOTAL: **$31,505.12**

xvi. Halifax Pls, Bank of Scotland:
-On April 29, 2002, a wire transfer in the amount of $25,000 was sent to the Bank of Scotland.

TOTAL: **$ 25,000.00**

xvii. FRG:
- (NOTE: This money is being paid to RFT investors from SMITTY'S.)
-On May 8, 2002, a wire transfer in the amount of $20,000.
-(Note: FRG was hired by GOUGH, d.b.a GOLD COAST to recover $2,050,000.00 which was invested through RFT, see paragraph 16 subparagraph B iv, supra.)
-On June 17, 2002, a wire transfer in the amount of $25,000
-(Note: Wire was sent to North Fork Bank.)
-On June 19, 2002,a wire transfer in the amount of $25,000.
-On July 19, 2002, a wire transfer in the amount of $25,000.
-On October 1, 2002, a wire transfer in the amount of $25,000.

TOTAL: **$120,000.00**

xviii. PERREAULT:
-On May 14, 2002, Check No. 1311 in the amount of $5,300.
-On July 23, 2002, Check No. 1405 in the amount of $54,000.

-(Note: Check No. 1405 was written to Players Trust (hereinafter "PLAYERS") an account owned by PERREAULT: a notation on the deposit read July disbursement.)

TOTAL: **$ 59,300.00**

ix. Swiss American Bank:
-On May 15, 2002, a wire transfer in the amount of $15,677.42 was sent to Swiss American Bank account number 020515044594.
-On May 15, 2002, a wire transfer in the amount of $1,895.28 was sent to Swiss American Bank account number 020515044596.

TOTAL: **$ 17,572.00**

x. Asset Holdings (hereinafter "ASSET HOLDING").
-On May 15, 2002, a wire transfer in the amount of $3,700.00.
-(Note: According to FBI CI, ASSET HOLDINGS is an account owned by Mike Smith (hereinafter "SMITH"), d.b.a., Northwest Group (hereinafter "NORTHWEST") and National Marketing Solutions, LLC (hereinafter " NATIONAL MARKETING"), **505 East Gem Lane, Colbert, WA.**
-On June 18, 2002,a wire transfer in the amount of $24,273.75.
-(Note: A US Bank account owned by SMITH, d.b.a., NORTHWEST and NATIONAL MARKETING, **505 East Gem Lane, Colbert, WA.**)
-On July 19, 2002, a wire in the amount of $2,135.75.
-(Note: ASSET HOLDINGS, an account owned by SMITH, d.b.a., NORTHWEST and NATIONAL MARKETING, **505 East Gem Lane, Colbert, WA**)

TOTAL: **$30,109.50**

xi. Global Marketing (hereinafter "GLOBAL MARKETING"):
-On May 31, 2002, Check No. 1277 in the amount of $37,569.
-On June 12, 2002, Check No. 1288 in the amount of $35,590.
-On June 21, 2002, Check No. 1354 in the amount of $50,000.
-On June 26, 2002, Check No. 1366 in the amount of $50,000.
-On July 9, 2002, Check No. 1391 in the amount of $10,000.
-On July 18, 2002, Check No. 1395 in the amount of $50,000.
-On July 31, 2002, Check No. 1445 in the amount of $50,000.
-On August 14, 2002, Check No. 1463 in the amount of $20,000.
-On August 26, 2002, Check No. 1484 in the amount of $38,000.
-On September 4, 2002, Check No. 1473 in the amount of $40,722.
-On September 17, 2002, Check No. 1520 in the amount of $47,000.
-On September 25, 2002, Check No. 1523 in the amount of $6,000.
-On October 3, 2002, Check No. 1541 in the amount of $42,500.

TOTAL: **$477,381.00**
-(Note: According to FBI CI, Bill Thomas, 430 East 6th Street, Loveland, CO operates Global Marketing. A search of Colorado Corporation and Limited Partnership records, Global Marketing Consultants, LLC at 430 East 6th Street, Loveland, CO, revealed the registered agent as David William Thomas.

xii. SMITTY'S:
-On June 5, 2002, a wire transfer in the amount of $10,000.

-(Note: This account was called the SMITTY'S Custody Account.)

TOTAL: **$10,000.00**

xiii. Walker Motorsports (hereinafter "WALKER MOTORSPORTS"):
-On June 17, 2002, a wire transfer in the amount of $40,000.
-On July 8, 2002, Check No.1372 in the amount of $75,400.
-On August 5, 2002, Check No. 1428 in the amount of $35,000.

TOTAL: **$150,400.00**

xiv. SCHLABACH:
-On June 17, 2002, Check No. 1355 in the amount of $3,008.

TOTAL: **$3,008.00**

xv. Land Management Trust (hereinafter "LAND MGMT"):
-On June 18, 2002, a wire transfer in the amount of $5,495.97 to LAND MGMT an account owned by SMITH, d.b.a., NORTHWEST and NATIONAL MARKETING, **505 East Gem Lane, Colbert, WA.**
-On July 19, 2002, a wire transfer in the amount of $5,495.97 to LAND MGMT an account owned by SMITH, d.b.a., NORTHWEST and NATIONAL MARKETING, **505 East Gem Lane, Colbert, WA.**

TOTAL: **$10,991.94**

xvi. Karen Lewis (hereinafter "K.LEWIS"):
-On June 20, 2002, Check No. 1344 in the amount of $1,500.
-On July 22, 2002, Check No. 1398 in the amount of $1,500.

TOTAL: **$3,000.00**

xvii. Eric Veve (hereinafter "VEVE"):
-On June 24, 2002, Check No. 1346 in the amount of $1,676.
-On July 23, 2002, Check No. 1417 in the amount of $1,600.

TOTAL: **$3,276.00**

xviii. Steven Hnat (hereinafter "HNAT"):
-On May 29, 2002, Check No. 1266 in the amount of $4,038.79.
-On June 26, 2002, Check No. 1337 in the amount of $3,425.81.
-On July 23, 2002, Check No. 1419 in the amount of $3,100.

TOTAL: **$10,564.60**

xix. Capital Holdings, LLC (hereinafter "CAPITAL HOLDINGS"):
-On July 8, 2002, Check No. 1383 in the amount of $1,000.
-On July 23, 2002, a wire transfer in the amount of $500,000.
-(Note: Wells Fargo Bank, CAPITAL HOLDINGS, an account owned by SCHMIDT, **250 East 54th , Suite C, Denver, CO.**)
-On August 1, 2002, a wire transfer in the amount of $500,000.
-On August 15, 2002, Check No. 1466 in the amount of $100,000.

TOTAL: **$1,101,000.00**

xx. MJR Holdings (hereinafter "MJR HOLDINGS"):
-On July 19, 2002, a wire transfer in the amount of $13,881.84 to MJR HOLDINGS, an account owned by SMITH, d.b.a., NORTHWEST and NATIONAL MARKETING, **505 East Gem Lane, Colbert, WA**.
-(Note: On January 11, 2003, CI advised SMITH controls MJR HOLDINGS.)

TOTAL: **$13,881.84**

xxi. Alan Weed (hereinafter "WEED"):
-On August 26, 2002, Check No. 1483 in the amount of $10,000.
-(Note: WEED uses office space at Reed Agency, **504 Public Square, Benton, IL**).
-On October 9, 2002, Check No. 1562 in the amount of $70,000.
-(Note: Compliance Holding Company, LLC (hereinafter "COMPLIANCE HOLDING") is a company in which WEED is listed as the registered agent located at **504 Public Square, Benton, IL**)

TOTAL: **$80,000.00**

xxii. BOUGH:
-On August 27, 2002, Check No. 1471 in the amount of $18,518.50.
-(Note: Check No. 1471 was written to Income Innovators International, a company now known as VGB, and is operated by BOUGH, at **2020 Hurley Way, Suite 390 and 2987 Fulton Avenue, Sacramento, CA**).

TOTAL: **$18,518.50**

xxiii. George Beros (hereinafter "BEROS"):
-On September 3, 2002, Check No. 1494 in the amount of $5,000.
-(Note: BEROS d.b.a. Capitol Holdings International, LLC (hereinafter "CAPITOL HOLDINGS INT'L" and Monarch Capitol Holding (hereinafter "MONARCH CAPITAL HOLDING).
-On September 26, 2002, Check No. 1524 in the amount of $5,000.
-On October 8, 2002, Check No. 1546 in the amount of $12,000.

TOTAL: **$22,000.00**

xxiv. Smitty's Motorsports (hereinafter "SMITTY'S MOTORSPORTS"):
-On September 11, 2002, Check No. 2089 in the amount of $25,000.
-(Note: SMITTY'S MOTORSPORTS is a company operated by SCHMIDT, located at **5850 East 58th Avenue, Units E and F, Commerce City, CO**)
-On September 30, 2002, Check No. 2102 in the amount of $30,000.

TOTAL: **$55,000.00**

xxv. Premier Automotive (hereinafter "PREMIER AUTOMOTIVE"):
-On September 20, 2002, a wire transfer in the amount of $15,000.
-On September 23, 2002, a wire transfer in the amount of $15,000.

TOTAL: **$30,000.00**

xxvi. Harvick Motorsports (hereinafter "HARVICK MOTORSPORTS"):
-On September 5, 2002, Check No. 1497 in the amount of $5,000.
-On October 7, 2002, Check No. 1543 in the amount of $41,000.

TOTAL: $46,000.00

xxvii. Gary Rademacher (hereinafter "RADEMACHER"):
-On June 25, 2002, Check No. 1357 in the amount of $7,500.
-(Note: This was a check written regarding case number 02CV3430.)

TOTAL: $7,500.00

C. During the period beginning April 23, 2001 through October 21, 2002, the total amount deposited into SMITTY'S account number 057-8140956 account was **$ 6,193,243.95** and the total amount of withdrawals from this account was $ 5,701,753.38.

37. On December 27, 2002, the FBI received a Suspicious Activity Report ("SAR") from Wells Fargo Bank that disclosed substantially as follows: Suspicious banking transactions occurring in the bank accounts of SCHMIDT and S.SCHMIDT caused a Wells Fargo bank employee to investigate their business accounts. This investigation disclosed that the SCHMIDT'S had opened a business account in the name of SMITTY'S, **550 East 12th Avenue, Apt. 1805, Denver, CO**, during April 2001 and a business account in the name of CAPITAL HOLDINGS, **250 East 54th Avenue, Suite C, Denver, CO** in July 2002. CAPITAL holdings is discussed in paragraph 40 infra. These two accounts consistently received large dollar deposits from individuals in a range of $25,000 to $100,000 and the accounts showed large periodic disbursements out of the account via wire transfer. MCLAIN was identified as the registered agent for a company named Monarch Capital Holdings (hereinafter "MONARCH") with a business address **250 East 54th Avenue, Suite C, Denver, CO**, the same as CAPITAL HOLDINGS business address. MCLAIN also had a business account at Wells Fargo titled FAST TRACK, **250 East 54th Avenue, Denver, CO**. SCHMIDT had a Wells Fargo Account and lists his address as **250 East 54th Avenue, Suite C, Denver, CO**. The Wells Fargo investigation into the SCHMIDT'S banking transactions at Wells Fargo also disclosed that the SCHMIDT'S had referred LEWIS and M.LEWIS, d.b.a Players Trust (hereinafter "PLAYERS") and Mark and Vicky Perreault (hereinafter "PERREAULT" and "V. PERREAULT"), d.b.a. Miloka Holdings (hereinafter "MILOKA") had been referred by the SCHMIDT'S to Wells Fargo Bank for the purpose of opening business accounts. LEWIS was designated as the trustee for PLAYERS TRUST and PERREAULT was designated as the trustee for MILOKA. An individual named George Beros (hereinafter "BEROS"), a financial consultant for Richard Haas (an individual attempting to secure a loan from Wells Fargo). BEROS also represented that he was a consultant to MONARCH . As a result of the internal investigation by Wells Fargo Bank that was the substance behind this SAR, Wells Fargo Bank has requested that all of the business accounts of the SCHMIDT'S and business accounts of other individuals who had been referred by the SCHMIDT'S to Wells Fargo Bank were being closed no later than January 31, 2003, as a result of the banks suspicions that these accounts were all part of some type of investment scheme. The accounts at Wells Fargo were in fact closed on January 31, 2003 and funds were disbursed via cashiers checks to account holders or to wire transfers to accounts at other banks. One wire transfer in particular went to an account at US Bank owned by SMITH in Spokane, Washington. Some of these entities will be discussed in paragraph 40 infra.

38. According to the Office of the Colorado Secretary of State Corporate Records, SCHMIDT is the manager of SMITTY'S.

CAPITAL HOLDINGS, LLC ("CAPITAL HOLDINGS")

39. Capital Holdings, LLC, Capital Holdings International, Inc., Capital Holdings, Capital Holdings, Inc.,and Monarch Capital Holdings, LLC were either formed by or are associated with SCHMIDT. For the purposes of this affidavit, these numerous Capital Holdings variations are all referred to as CAPITAL HOLDINGS.

A. Keisha Ruble ("RUBLE") of the National White Collar Crime Center ("NW3C") advised that, subsequent to her search of numerous public data bases that contain information of lawfully formed and operating businesses throughout the United States, Capital Holdings, LLC and Monarch Capital Holdings appeared to be the same business with variant names.

B. RUBLE further advised that records maintained by the Wyoming Secretary of State disclosed that the business mailing address for Monarch Capital Holdings, LLC was identified as SCHMIDT, **250 E. 54th Avenue, Suite C., Denver, Colorado 80216**.

40. On or about November 24, 2002, an individual contacted the FBI with information relating to this investigation. Coming forward was motivated by the individual's perception that things relating to the investment program did not seem right. After conducting research on the internet, the individuals concerns were confirmed and at that point the individual contacted the FBI. The individual was subsequently opened as an FBI Confidential Informant ("CI") and has been providing information regarding the individuals and entities identified in Attachment B since that time.

A. The CI has continuous contact with LEWIS on a daily basis, as well as with SCHMIDT on a regular basis. The CI is intricately knowledgeable of the inner workings of CAPITAL HOLDINGS and the business relationships between CAPITAL HOLDINGS and its branch sales offices in Spokane, Washington, and Sacramento, California to include but not be limited to bank account information, the receipt and deposit of funds from CAPITAL HOLDINGS investor/clients, disbursements of funds back to CAPITAL HOLDINGS investor/clients from a CAPITAL HOLDINGS controlled bank account into which only CAPITAL HOLDINGS investor/client funds are deposited, the receipt of CAPITAL HOLDINGS investor/client funds from the sales offices in at least Spokane, Washington and Sacramento, California, and the disbursement of commission payments to CAPITAL HOLDINGS principals, sales office managers, and CAPITAL HOLDINGS sales agents employed through the various sales offices previously identified from the CAPITAL HOLDINGS bank account into which the only deposits were from CAPITAL HOLDINGS investor/clients. While the FBI CI has heard of the individuals named VALLONE, BEROS, and PAVELA who operate the CAPITAL HOLDINGS branch sales offices in Palos Hills, Illinois, Cleveland, Ohio and Stoddard, Wisconsin, the FBI CI does not process the investor contract documents for these three offices, and therefore does not have the same level of information about these offices as the offices in Sacramento, California and Spokane, Washington.

B. CAPITAL HOLDINGS is located at **1400 Sixteenth Street, Suite 4015, Denver, Colorado**, telephone number (720) 932-8052. CAPITAL HOLDINGS is operated by LEWIS. LEWIS takes a monthly disbursement of $100,000 out of the CAPITAL HOLDINGS "investment program" bank account {the same account into which all investors monies are deposited}. LEWIS receives his earnings on a combination of all of his accounts, which total approximately $21 million, according to account statements kept at the Denver office. The amount of his disbursement is then subtracted from his MILOKA account statement at the CAPITAL HOLDINGS office in Denver, CO. SCHMIDT appears to be the General Manager or Controller of the CAPITAL HOLDINGS "investment program." SCHMIDT is the only person at CAPITAL HOLDINGS authorized to send wire transfers of money to and from the CAPITAL HOLDINGS operating bank account and SCHMIDT also has the final say regarding whether or not checks cut at the Denver office are mailed to CAPITAL HOLDINGS investors. Monthly statements for CAPITAL HOLDINGS investor clients are prepared and mailed from the Denver, Colorado CAPITAL HOLDINGS office, **1400 16th Street, Suite 4015, Denver, Colorado.** SCHMIDT said the CAPITAL HOLDINGS "investment program" is, in terms of size, in the billion dollar range. The lease at **1400 16th Street, Suite 4015, Denver, CO**, was signed by SCHLABACH and is under the name NORTHWEST.

i. The FBI CI advised LEWIS keeps an internal account at the CAPITAL HOLDINGS office, **1400 16th Street, Suite 4015, Denver, CO**, entitled XYZ. He places six percent from everything that comes through the Denver office into the XYZ account. This account was sorted by date and it reflected a 2-3 month gap showing no activity in the investors' accounts on file. Early investors were contracted

with SMITTY'S. The money was invested in March, 2002, but nothing was done with the investments until July, 2002. In July 2002 CAPITAL HOLDINGS opened a bank account and began receiving money from new investors.

C. LEWIS' former partner in Summit Ventures (hereinafter "SUMMIT VENTURES") was PERREAULT. PERREAULT previously worked in the insurance business with SMITH in Spokane, WA. PERREAULT'S current employees all have licenses to sell insurance. PERREAULT has a trust fund named PLAYERS and LEWIS has a trust fund named MILOKA.

D. The "investment program" being run by LEWIS and SCHMIDT operates under the name CAPITAL HOLDINGS. Monies coming into CAPITAL HOLDINGS are deposited into an operating account. SCHMIDT has another account he described as a non-callable account. SCHMIDT said the money in this [bank] account was used for investments in foreign countries and also to purchase federal government issued Medium Term Notes. The 9/11/01 terrorism act was given as an example of how the investment program worked. When New York needed money for the cleanup, investors like SCHMIDT and LEWIS provided that money and received some sort of profit margin for providing such money. SCHMIDT and LEWIS further explained that they were buying something at a discount, like Bank Debentures or Medium Term Notes and receiving a profit on those investments. The profit brought into the non-callable account in Denver [from all other offices selling the investment program] is supposedly deposited into an escrow account and was to be used for collateral only.

E. Since September 2002, 15 points [15%] of any money that was received at the Denver, Colorado CAPITAL HOLDINGS office from an investor was immediately taken and paid to numerous individuals who were involved with the sale of the investment to the investor or who were part of the management/control of CAPITAL HOLDINGS or businesses associated with CAPITAL HOLDINGS in the sale of the CAPITAL HOLDINGS "investment program." Individuals working as agents for CAPITAL HOLDINGS and/or SMITTY'S in Denver, CO are K.LEWIS, Brent Bersbach (hereinafter "BERSBACH"), LORENZEN, DEON, and others not yet fully identified.

F. LEWIS and SCHMIDT are telling investors their money is insured and there are insurance brokers and attorneys in the "investment program;" Documents provided by the source list WEED as the Insurance Certificate holder for CAPITAL HOLDINGS located at **550 E. 12th Avenue, Suite 1805, Denver, CO** 80203-2529. WEED is CAPITAL HOLDINGS insurance agent and is located in **Benton, IL**.

G. The Denver, Colorado CAPITAL HOLDINGS office has increased its client/investor base in the CAPITAL HOLDINGS "investment program" from 408 individuals to approximately **600** individuals.

H. On or about December 16, 2002, earned investment income to CAPITAL HOLDINGS investors totaling approximately 1.9 million dollars was to be disbursed from the CAPITAL HOLDINGS Denver bank account at Wells Fargo to investors. SCHMIDT requested a wire transfer of funds from an offshore bank into the CAPITAL HOLDINGS Wells Fargo account prior to the disbursements of these payments to investors.

I. CAPITAL HOLDINGS was preparing to push a new variation of the "investment program" where individuals had to invest a minimum of two million dollars for a minimum of one year and twenty-one days. According to the "investment program" contract, CAPITAL HOLDINGS will use the investors money for one year and in exchange, the investors would be able to write off for the race team as part of their sponsorship rights;

J. There is a bank account at Wachovia, f/k/a First Union Bank in New York that SCHMIDT described as a non-depleting account. SCHMIDT has also mentioned on several occasions, having a non-depleting custodial account for CAPITAL HOLDINGS at the Deutsche Bank Germany, with locations operating in New York. These accounts may be under the names of SCHMIDT, MONARCH or CAPITAL HOLDINGS. SCHMIDT also has bank accounts at the Wells Fargo Bank, the US Bank, the Northern Trust Bank, Keybank and Bear-Stearns under the names - SCHMIDT, MONARCH or CAPITAL. The account number is unknown for the CAPITAL HOLDINGS bank account at Northern Trust Bank located at **1400 16th Street, Denver, CO.** The account number is 760640008073 at Keybank for Capital Holdings located at **250 East 54th**

Avenue. Denver. CO

K. Prior to the January 15, 2003 distributions to investors, check were written and wire transfer were prepared. LEWIS instructed his son, M.LEWIS to deliver the drafted wire transfer instructions to SCHMIDT on January 14, 2003, as SCHMIDT was the only individual associated with CAPITAL HOLDINGS who had the authority to issue wire transfer instructions. LEWIS advised he closed his MILOKA account on January 11, 2003 at US Bank because his checkbook had been stolen. LEWIS was to open a new account at US Bank. LEWIS had bank accounts under the name MILOKA at both Wells Fargo and US Bank. On January 17, 2003, CI advised LEWIS has been telling people his personal trust account, MILOKA, reflecting his earnings with the CAPITAL HOLDINGS investment program has a balance of $17 million. LEWIS' bank account at US Bank under the name **MILOKA is account number 153553955870**. LEWIS pays the office staff in Denver from his MILOKA trust account. He is not allowed to pay any unemployment insurance from his trust account, therefore the staff are treated as contract laborers. The Denver office has no payroll system. Review of bank records from the US Bank account for MILOKA disclosed that total funds deposited into the MILOKA account for the period beginning July 2002 through December 2002 was approximately $177,000 and the total funds disbursed from this MILOKA bank account for the same period of time was approximately $176,000.

L. On January 15, 2003, 180 checks were written for disbursements, however per SCHMIDT'S instructions, they were not released that day. SCHMIDT is given the amount needed for disbursements and then transfers money into the CAPITAL HOLDINGS account. The CAPITAL HOLDINGS account receives monies from investors and withdrawals are made from the account for disbursements. SCHMIDT wires money into the account as needed, but SCHMIDT was not sure as of January 15, 2003, that the money he had wired had arrived in the CAPITAL HOLDINGS account. During the month of January, $1.4 million was deposited into the Wells Fargo CAPITAL HOLDINGS account.

M. On January 30, 2003, LEWIS said the program does not allow anyone from Nebraska to do business with CAPITAL HOLDINGS. They currently have one client from Nebraska, LEWIS' ex-wife, Winifred Jane Lewis (hereinafter "W.LEWIS"), P.O. Box 362, Harrison, Nebraska. Her account was initially started by LEWIS in the amount of $5000 and she has since added to it. They are not allowed to take any contracts from anyone in NE. [See paragraph 35, supra regarding the Cease and Desist Order in NE.]

N. CAPITAL HOLDINGS began to experience banking difficulties after January 31, 2003 when Wells Fargo bank closed all of their account. [Paragraph 37, supra regarding SAR from Wells Fargo Bank] Subsequent to the account closing at Wells Fargo, Schmidt opened an account at US Bank. Soon after the US Bank account was opened, SCHMIDT began to experience more difficulties because US Bank had red flagged his accounts and had put a fraud alert on his account. All deposits into his US Bank accounts were held for 7-10 days. SCHMIDT, during this time period, traveled to New York to opened accounts with Bear Stearns. On February 8, 2003, SCHMIDT and LEWIS made changes in procedures as to the acceptance of investors into the program. All clients will now be asked to provide cashiers checks made out to CAPITAL HOLDINGS and the Denver office will no longer accept investments under $100,000. SCHMIDT advised the contract will be changed to reflect a 45 day waiting period instead of the current 10 waiting period. SCHMIDT said his reason for changing the waiting period was it takes time to place the investment, when in fact the real reason was probably the difficulties CAPITAL HOLDINGS was experiencing with their bank accounts.

i. LEWIS and SCHMIDT are planning to purchase the Hardin castle located in Bailey, CO, for $3.0 million. They plan to make the castle the corporate headquarters for CAPITAL HOLDINGS.

ii. SCHMIDT'S attorney is Gary N. Herbert (hereinafter "HERBERT"). HERBERT'S business office was located at 2150 West 29th Avenue, Suite 130, Denver, Colorado 80211 and the telephone number was (303) 480-5195;

iii. Mike Young (hereinafter "YOUNG") operates an office which solicits clients for CAPITAL HOLDINGS's investment program. Location is unknown at this time. LORENZEN is a solicitor for

the CAPITAL HOLDINGS investment program and operates T E & L Estates (hereinafter "TE&L ESTATES").

iv. An individual named Doug Greenspan (hereinafter "GREENSPAN") is a computer consultant hired to upgrade the Denver CAPITAL HOLDINGS, **1400 16th Street, Suite 4015, Denver, CO,** office computers. GREENSPAN's business is named The GREENSPAN, PO Box 4656, Boulder, Colorado 80306, telephone numbers 1-800-327-8429 and (303) 673-0090.

v. HARTE's name has been mentioned several times at the CAPITAL HOLDINGS office. SCHMIDT says HARTE is a friend and he (HARTE) occasionally helps them out with some things.

O. SCHMIDT operates his investment business from an office located at Smitty's Motor Sport's Shop (hereinafter **"SMITTY'S MOTORSPORTS"), 5850 East 58th Avenue, Commerce City, Colorado.** SCHMIDT also occupies a building directly in front of 5850 East 58th Avenue. SCHMIDT maintains records at SMITTY'S MOTORSPORTS and his girlfriend MCLAIN keeps the books. The NASCAR race cars are stored at SMITTY'S MOTORSPORTS. SCHMIDT spends most of his time at SMITTY'S MOTORSPORTS, **5850 East 58th Avenue, Commerce City, CO**. SCHMIDT receives faxes at telephone number 303-291-1901 from the Spokane, Sacramento and Denver offices. Furthermore, SCHMIDT receives telephone calls at SMITTY'S MOTORSPORTS.

i. SCHMIDT recently finished remodeling a large conference room at SMITTY'S MOTORSPORTS. The purpose of this conference room is to meet high dollar investors. Individuals who travel to Denver to meet with SCHMIDT are often taken to SMITTY'S MOTORSPORTS to see the race cars and to meet S. SCHMIDT and the two other race car drivers.

ii. On January 17, 2003, M.LEWIS and SCHMIDT were at SMITTY'S MOTORSPORTS and SCHMIDT gave M.LEWIS a copy of instructions for customer wire transfers.

P. SCHMIDT had a second business office located in his plastics plant. CI provided the address as **250 East 54th Avenue, Denver, CO 80216.** Jan (LNU) who your Affiant has more fully identified as MCLAIN, works at that location. MCLAIN may handle the CAPITAL HOLDINGS books and may also be the accountant for MONARCH.

Q. Additional offices selling the CAPITAL HOLDINGS "investment program" are located in **Sacramento**, CA, **Spokane**, WA, **Palos Hills**, IL, **Stoddard**, WI and **Independence**, OH. The Denver CAPITAL HOLDINGS office, which includes investment dollars received from the Spokane and Sacramento offices receives approximately $3.5 to $5 million dollars of new investor money per month. CAPITAL HOLDINGS investor money is also received at the Denver office from other CAPITAL HOLDINGS branch sales offices.

i. The office located in Sacramento is run by an individual named Valdemar Bough (hereinafter "BOUGH") and named VGB , Inc (hereinafter "VGB"), f/k/a Income Innovators, Inc., **2020 Hurley Way, Suite 390, Sacramento, CA**. Another office operated by BOUGH is located at **2987 Fulton Avenue, Sacramento, CA,** telephone number (916) 971-2490. BOUGH was in Hawaii shortly before November 24, 2002 setting up another office to sell the CAPITAL HOLDINGS "investment program." BOUGH receives an 11% payout from SCHMIDT and LEWIS, the principals of CAPITAL HOLDINGS, on all money he brings into the CAPITAL HOLDINGS "investment program." According to BOUGH, the Sacramento sales office investment account had 8 - 9 million dollars. BOUGH has a bank account at Bank of America under the name Bella Vista Associates (hereinafter "BELLA VISTA") account number 4961979616.

a. BOUGH has agents working under him to solicit clients. Carol Costa-Smith (hereinafter "C. SMITH") and William Della Penna (hereinafter "DELLAPENNA") called the Denver office and wanted LEWIS to explain something regarding the insurance policy for a new client's investment. The new client was Bud Shaterley (hereinafter "SHATERLEY") who was expected to invest $500,000 into "the CAPITAL

HOLDINGS program." SHATERLEY had concerns regarding the Certificate of Insurance purportedly offered by Superior Guaranty Insurance Company of Vermont (hereinafter "SUPERIOR INSURANCE").

b. Two wires were sent for December disbursements to the Sacramento office in January totaled $361,000. SCHMIDT signed the investor contract documents from the Sacramento, California office and he is the only person in the CAPITAL HOLDINGS Denver office who could authorize the sending of these two wire transfers to the Sacramento office for December disbursements to BOUGH, his sales agents and his CAPITAL HOLDINGS investors.

c. BOUGH requested documents from CAPITAL HOLDINGS in Denver, CO be Fed Ex'd to his home address at 780 Watt Avenue, Sacramento, CA.

ii. The office in Spokane is operated by Mike SMITH. He operates his investment program under the names NATIONAL MARKETING and NORTHWEST. SMITH receives a 12% payout on all money he brings into the CAPITAL HOLDINGS "investment program" from the Denver CAPITAL HOLDINGS office. This 12% includes override payable to SMITH for operating the NORTHWEST sales office, the commissions payable to SMITH's sales agents, and the profit earned by the CAPITAL HOLDINGS investors who were brought into the CAPITAL HOLDINGS "investment program" through the NORTHWEST sales office. This office is operated from SMITH'S personal residence, located on **Gem Street, Colbert, WA**. The basement of SMITH'S home is used as office space and has numerous file cabinets and eight computers. John Schlabach's (hereinafter " SCHLABACH") office is also located in SMITH'S basement. Additional offices are located on the main floor.

a. SMITH has accounts under the names MJR HOLDINGS and ASSET HOLDINGS. SCHLABACH forms trusts for individuals who invest in the CAPITAL HOLDINGS "investment program" so the individuals can make investments through the name of their trust. According to SMITH, the Spokane sales office investment account has 13 million dollars. SMITH'S business address was identified as 9986 North Newport Highway, #191, Spokane, WA, telephone number (509) 464-1350 and SCHLABACH'S telephone number was (509) 464-4551. [Investigation has determined the 9986 North Newport Highway, #191 in Spokane is a Mail Box Etc.] [An application obtained from the mail box drop establishment revealed SMITH provided a home address of **505 East Gem Lane, Colbert, WA**]

b. SMITH held a Christmas party for his staff and investors at the Coeur d'Alene Resort. All rooms at the resort were registered under the name NATIONAL MARKETING.

c. SMITH also operates his health and life insurance businesses under NATIONAL MARKETING. SMITH had printed pamphlets with the name NATIONAL MARKETING as well as business cards advertising for insurance salesman.

d. The CAPITAL HOLDINGS "investment program" being sold through the Spokane office prefer investors start a trust, however it is not mandatory. Investors must then sign a confidentiality agreement prior to being provided any information regarding the CAPITAL HOLDINGS "investment program." The trustees for trust accounts are either SCHLABACH, SMITH and/or an individual named Tammy Goulet. SCHLABACH charges a fee of $6,000 to set up a trust fund. According to SMITH, many people want to move their money from their 401(k) or IRA accounts into these trust accounts.

e. In mid December, 2002, SMITH was to receive a $162,000 disbursement from the CAPITAL HOLDINGS operating bank account in Denver, Colorado.

f. SMITH also has agents working for him to solicit new clients for the investment program. Agents working for NORTHWEST are Jeff Mitchell (hereinafter "MITCHELL"), Rick Hayes (hereinafter "HAYES"), Scott LNU, an agent known only as "Rocky", and one female agent. Robert D. Wommack (hereinafter "R. WOMMACK"), 16810 Butter Oak Drive, Spring, TX is also an agent for SMITH. R.

WOMMACK'S wife is Linda L. Wommack (hereinafter "L. WOMMACK). R. WOMMACK faxed a beneficiary form and a monthly disbursement and placement form to the CAPITAL HOLDINGS office. **1400 16th Street, Suite 4015, Denver, CO**. On January 28, 2003, R. WOMMACK was served a subpoena from the U.S. Securities and Exchange Commission (SEC) Regional Office located in Fort Worth, TX. The subpoena was requesting information regarding CAPITAL HOLDINGS. LEWIS and SCHMIDT decided to delete R. WOMMACK and all of his clients from the program to alleviate the problem. His clients will then have been made whole and R.WOMMACK will be able to deny any knowledge of CAPITAL HOLDINGS.

g. Sterling Lipscomb (hereinafter "LIPSCOMB") who FBI CI identified as a high ranking US Bank employee, personally manages all of SMITH'S bank accounts at US Bank for the "investment program" located in Spokane, Washington. Investigation revealed that when the US Bank account in Denver, Colorado was closed, the Spokane office was able to keep their US Bank accounts open because of the relationship between LIPSCOMB and SMITH. US Bank in Denver, Colorado issued SCHMIDT a 2.5 million dollar cashiers check upon closing his US Bank account. SCHMIDT sent this check via Fed Ex to SMITH in Spokane, Washington who was able to negotiate this cashier's check through his US Bank account in Spokane, Washington after a few days hold because of the relationship between LIPSCOMB and SMITH.

h. On January 21, 2003, SMITH confirmed the receipt of their wire transfer to the NORTHWEST account for $850,000. SMITH borrowed against his house and put over $800,000 into the investment program. The contract from SMITH was put into his trust account called P.G.&G.

i. On January 24, 2003, the CAPITAL HOLDINGS Denver office, **1400 16th Street, Suite 4015, Denver, CO**, received a large Federal Express envelope from NORTHWEST containing over $670,000 in new contracts to be invested in the program.

iii. The Palos Hills office is run by VALLONE who operates under the names CAMBRIDGE and Regency Ventures (hereinafter "REGENCY") [**11022 Southwest Highway, Palos Hills, IL**]

a. A document signed by VALLONE, Director of CAMBRIDGE on December 18, 2002, and SCHMIDT on December 20, 2002, identified SCHMIDT'S title as CEO of CAPITAL HOLDINGS. The address on the document showed **11022 Southwest Highway, Palos Hills, IL**. On the same date another document produced by VALLONE listed him as Executive Director of Heritage America (hereinafter "HERITAGE") and Aegis Company (hereinafter "AEGIS"). The document appeared to be written to clients of HERITAGE discussing a law suit that had been filed again and provided instructions on what to do if subpoenaed. Also on same date, VALLONE wired $300,000 from CAMBRIDGE into the Wells Fargo account for CAPITAL HOLDINGS. The $300,000 came from VALLONE'S bank account in Belize.

b. On January 17, 2003, the Chicago office received a wire transfer from the CAPITAL HOLDINGS Wells Fargo account (amount of wire was unknown).

c. During January and February 2003, the Ft. Collins FBI office received documents obtained from the trash located at business address of CAMBRIDGE VENTURES, **11022 Southwest Highway, Palos Hills, IL**, and from VALLONE'S home address located at **11901 Brookside Drive, Orland Park, IL.** The "trash" documents were obtained from the trash at both identified addresses by Special Agents of the Internal Revenue Service - Criminal Investigations ("IRS-CI"). Some of the "trash" documents obtained are substantially summarized as follows:

- A nine page document printed from internet cite www.quatloos.com.stkscams hyips.htm was a document that warned investors that the types of fraudulent investment schemes being sold by the principals of RFT, SMITHY'S, and CAPITAL HOLDINGS known as "prime bank notes", "prime bank debentures" and "medium term bank notes" do not exist and that world wide governmental agencies such as the US Securities and Exchange Commission, the International Chamber of Commerce, the US Federal Reserve Board, the FBI, the US Department of the Treasury, the International Monetary Fund, and the World Bank have all issued warnings to investors to stay clear of such scams. This documents has a

printing date on the bottom of August 9, 2002, thus indicating that VALLONE had possession of this document on or about that date.

- A one page document containing hand written notes with the name Joe Pavela and his phone number written on it, as well as the name Howard Griffith. (NOTE: Investigative activity has revealed that Howard Griffith is a CAPITAL HOLDINGS investor, that PAVELA would occasionally telephone the CAPITAL HOLDINGS Denver office to request why his monetary disbursement had not been sent and that PAVELA had received approximately $22,000 from CAPITAL HOLDINGS controlled bank accounts.)

- A two page document titled EXECUTIVE SUMMARY in which it is outlined that CAMBRIDGE VENTURES through an affiliated company known as Cambridge Enterprises, LLC facilitates the placement of CAMBRIDGE VENTURE'S funds into investment programs which engage in the purchase and sale of financial instruments and commercial paper around the globe. The investment programs are administered through a Colorado Limited Liability Company. CAMBRIDGE VENTURES requires that its investments be fully insured against loss from fraud, theft, errors, etc. and this requirement is met by placing funds in non-depleting custodial trust accounts at a major US bank. CAMBRIDGE VENTURES said it had obtained an opinion from a US attorney regarding this insurance coverage of CAMBRIDGE VENTURES investment funds.

- A three page letter purportedly signed by Gary N. Herbert ("HERBERT"), Attorney at Law, dated June 21, 2002 and addressed to Mr. VALLONE, Manager, CAMBRIDGE Enterprises, LLC. The first sentence of this letter states, "You have asked me to review the insurance protection surrounding a deposit of your monies into a non-depleting Custodial Trust Account held by Capital Holdings, LLC." The letter goes on to say, "...the nature of a non-depleting Custodial Trust Account... means just what it says - the account is never depleted." (NOTE: HARTE, during a deposition in which he was the deponent, stated under oath that HERBERT was the attorney for RFT, see paragraph 22 supra. FBI CI stated that HERBERT is also the attorney for CAPITAL HOLDINGS.)

- A blank two page ASSIGNMENT AGREEMENT wherein it is stated that CAPITAL HOLDINGS and CAMBRIDGE VENTURES are parties to an agreement whereby CAMBRIDGE VENTURES will invest money into a CAPITAL HOLDINGS "investment program" that will sell and exchange commercial paper and that CAPITAL HOLDINGS will assign all of its right, title and interest in certain not fully identified insurance coverage to CAMBRIDGE VENTURES covering the CAMBRIDGE VENTURES investment money from various types of loss.

- A one page report on CAPITAL HOLDINGS letterhead for the period November 1 through November 30, 2002 purportedly signed by SCHMIDT with what appears to be the use of a signature stamp. This report identified CAMBRIDGE VENTURES as a Client [investor] of CAPITAL HOLDINGS that had originally placed $1,172,500 with CAPITAL HOLDINGS, that CAMBRIDGE had placed additional funds with CAPITAL HOLDINGS totaling $348,895 during this report period, and that the CAMBRIDGE VENTURES account with CAPITAL HOLDINGS had earned a total of $127,369 during this reporting period.

- A one page report on CAPITAL HOLDINGS letterhead for the period December 1 through December 31, 2002 purportedly signed by VALLONE and SCHMIDT, again with what appears to be a signature stamp for SCHMIDT. This report identified CAMBRIDGE VENTURES as a Client [investor] of CAPITAL HOLDINGS that had earned a total of $138,155.81 during this reporting period and that had requested a disbursement of $105,155.81 from CAPITAL HOLDINGS. (NOTE: FBI CI advised that SCHMIDT allows employees at the Denver CAPITAL HOLDINGS office to use a signature stamp to sign documents for him and that SCHMIDT also allows employees in some of the CAPITAL HOLDINGS branch sales offices to use his signature stamp to sign investment contracts.)

- A four page document titled OFFSHORE RENEWALS 2002 that was a spread sheet containing the names, address, and trust names, among other items of information, for

individuals who had off shore trusts through CAMBRIDGE VENTURES. This document identified SCHMIDT as owning an off shore trust under the name Capital Strategies with a mailing address of **250 E. 54th Ave., Ste. C, Denver, CO** and LEWIS as owning an off shore trust in the name of Summit Ventures, Ltd with a mailing address of **1400 Sixteenth St., Ste 400, Denver, CO.** NOTE: FBI CI advised that the suite number for the Denver CAPITAL HOLDINGS office changed from 400 to 4105.)

iv. An individual named Joseph Pavela (hereinafter "PAVELA") operates a sales office in Wisconsin. PAVELA is operating under the business name Prosperity Unlimited (hereinafter "PROSPERITY"), **300 Evergreen Court, Stoddard, WI**. Telephone numbers for the office were (800) 566-9949, a Facsimile number of (608) 457-2914, a home telephone number of (608) 547-2911, and a cell phone number of (303) 888-7741. PAVELA, received approximately $22,000 from CAPITAL HOLDINGS during 2002. FBI CI advised that PAVELA had called the Denver CAPITAL HOLDINGS office requesting when he would receive his disbursements. On February 24, 2003, two checks were cut for PAVELA. One was made payable to PAVELA and one was made payable to PROSPERITY, PAVELA'S dba.

- FBI CI advised that PAVELA regularly receives two disbursement checks from CAPITAL HOLDINGS through the Spokane, Washington branch sales office on a regular basis. One of these check is made payable to PAVELA'S business named PROSPERITY and one disbursement check is made payable to PAVELA. FBI CI also said that on occasion, when PAVELA has not received his disbursements checks in a timely manner, PAVELA has called the CAPITAL HOLDINGS Denver office to request when he would be receiving his disbursement checks.

- FBI CI reported that SCHMIDT has complained that PAVELA and VALLONE make to much money on their [CAPITAL HOLDINGS] clients/investors.

v. On January 2, 2003, FBI CI advised that an individual identified only by a first name of George and a last name that began with a "B" was operating another office in Cleveland, Ohio which is run similar to the Denver CAPITAL HOLDINGS office. FBI CI later advised the address of the Cleveland, Ohio office was **5005 Rocklike, Suite 900, Independence, OH.** Investigation by the FBI in Cleveland, OH revealed that **5005 Rocklike, Suite 900, Independence, OH** has a marque outside Suite 900 listing Capitol Holdings Int'l, LLC (hereinafter "CAPITOL HOLDINGS INT'L") and Monarch Capitol Holding, LLC (hereinafter "MONARCH CAPITOL HOLDING"). On December 31, 2003, SCHMIDT faxed paperwork to the Denver office regarding two checks ($5000 and $10,000) that had been returned for non-payment to the Wells Fargo account. It was later determined by SCHMIDT, the individuals who wrote the checks were clients from the Cleveland office.

a. On January 27, 2003, BEROS, from the Cleveland office, **5005 Rocklike, Suite 900, Independence, OH,** advised he was interested in being involved with the sponsorship program of the race team with M.LEWIS.

b. On January 29, 2003, LEWIS said SCHMIDT'S clients were handled by BEROS' accounting firm.

c. FBI CI also advised that SCHMIDT and BEROS own a penthouse together that they plan to sell because SCHMIDT is building a new home in Del Camino, Colorado. Investigative activity has disclosed that both BEROS and SCHMIDT have used the address at 550 E. 12th Avenue, Denver, CO on various business documents they have filed with such government agencies as the Colorado Secretary of State's office

d. FBI CI further advised that during February 2003, LEWIS had wanted to fax something to Phoenix, Arizona, but none of the information needed by LEWIS was located in the CAPITAL HOLDINGS Denver office. LEWIS stated he could get copies of contracts from BEROS' CAPITAL HOLDINGS Company.

e. SCHMIDT and LEWIS provided FBI UC with BEROS' fax and cell

numbers in order to contact BEROS, who was identified as the CFO of MONARCH HOLDINGS located in Cleveland, Ohio for the purpose investing. The FBI CO-7326 CW-WC was to fax their (the FBI UC and CW'S) investment contract to BEROS.

R. On or after January 28, 2003, an Excel sheet was produced at the CAPITAL HOLDINGS office for disbursements. SMITH in Spokane received two wire transfers, BOUGH in Sacramento received one wire transfer and VALLONE in Chicago received four wire transfers, one of which went to his account in Belize.

S. The following individuals are clients who have invested money into the program:

i. Barbara G. Clark-Lahey (hereinafter "LAHEY") d.b.a. C&L Trust, P.O. Box 155, Morro Bay, CA is an investor with CAPITAL HOLDINGS "investment program" through the Spokane, Washington sales office, **505 East Gem Lane, Colbert, Washington**. LAHEY banks at Tier One Bank, 1235 North Street, Lincoln, NE and at Midstate Bank and Trust, 2276 Broad Street, San Luis Obispo, CA. LAHEY invested $225,000 from her personal account. With earnings, her current account balance is over $300,000. LAHEY has never withdrawn any money from her investment account and on statements it appears her investment is growing quickly, as she is earning 10% monthly.

ii. Lyman and Marilyn Dewell (hereinafter "DEWELLS") 865 Golden Hills Road, Colorado Springs, CO, invested $425,000 in the CAPITAL HOLDINGS "investment program" through NORTHWEST the Spokane, Washington sales office, **505 East Gem Lane, Colbert, Washington** and have received earning disbursements. DEWELLS initially invested $200,000, then subsequently invested other monies. Recently, DEWELLS withdrew $200,000 plus their earnings. On January 24, 2003, they executed a new contract for $100,000 under a new trust name, Lyman and Marilyn Dewells' Living Trust. DEWELLS receive their earnings from NORTHWEST. Money to fund these monthly investor payments is transferred to the NORTHWEST bank account in Spokane, Washington from the CAPITAL HOLDINGS bank account at Wells Fargo Bank in Colorado. These monthly wire transfers are authorized by SCHMIDT and/or LEWIS, who control the Denver, Colorado CAPITAL HOLDINGS office.

iii. Erik J. Melling, (hereinafter "E. MELLING), 350 South River Road, Unit F2, New Hope, Pennsylvania, was an investor with NORTHWEST in Spokane. E. MELLING'S brother also is invested in the program.

iv. Current Bronco football player, Dan Neil (hereinafter "NEIL"), 9472 South Shadow Hill, Littleton, CO, and retired Bronco player Howard Griffith (hereinafter "GRIFFITH") have invested heavily into the program. GRIFFITH'S dad, Huie Griffith (hereinafter "H. GRIFFITH"), 9152 South Clyde Avenue, Chicago, IL, is also invested in the program.

v. Mike Jones (hereinafter "JONES") borrowed $350, 000 to invest in the program. JONES is involved with Heaven's Haven, an orphanage he started and takes his monthly disbursements to make the payments on the loan. JONES is Eric Veve's (hereinafter "VEVE") father-in-law. VEVE is invested in the program.

vi. Warren Mee (hereinafter "MEE") d.b.a. as Quantum Equity (hereinafter "QUANTUM") and Royal Pacific Holdings (hereinafter "ROYAL PACIFIC") is an investor. His disbursements have been via Federal Express to 10487 North 113th, Scottsdale, AZ.

41. On October 2, 2002, Jack Deon (hereinafter "DEON") introduced K.LEWIS to Pat Dowling (hereinafter "DOWLING"). K.LEWIS told DOWLING that SCHMIDT (not further identified by K.LEWIS) was the "trader" for the CAPITAL HOLDINGS investment program. The money from investors was deposited into a non-depleting custodial trust account. K.LEWIS provided a brochure on How to make the spread on your money earnings fees - Fannie Mae's Bundled Mortgage Loans as an example. DOWLING was given a letter addressed to

Mr. SCHMIDT, CAPITAL HOLDINGS , **550 East 12th Avenue, Suite 1805, Denver, CO**, from WEED d.b.a. Weed Insurance, Inc. **504 Public Square, Benton, Illinois**, explaining the non-depleting investment trust account was insured by the Federal Securities Investor Protection Corporation (SPIC) as well as Private Insurance. Additionally, K.LEWIS provided a letter addressed to VALLONE, d.b.a. CAMBRIDGE, **11022 Southwest Highway, Palos Hills, Illinois**, from Gary N. Herbert (hereinafter "HERBERT"), Attorney at Law, 2150 West 29th Avenue, Suite 130, Denver, CO. The letter was written as an overview of the insurance provisions of the program. The letter refers to WEED, who represents of Lloyd's London in the investment transactions.

42. On February 5, 2003, Mark S. Massey contacted the Colorado Division of Securities Office on behalf of Edward A. and Lois Creager (hereinafter "CREAGER"), 401 North Maple Street, Maroa, IL, regarding an investment with CAPITAL HOLDINGS, **1400 Sixteenth Street, Suite 4015, Denver, CO**. On December 9, 2002, the CREAGER's invested $10,000.00 with CAPITAL HOLDINGS. A letter from CAPITAL HOLDINGS was sent confirming receipt of their investment, the letter was signed by SCHMIDT. The CREAGER's were faxed a certificate of insurance from Marsh USA Inc, 333 South 7th Street, Suite 1600, Minneapolis, MN. Companies affording coverage were Superior Guaranty Insurance Company of Vermont and Reinsured by Lloyds of London. The certificate holder was listed as WEED d.b.a. CAPITAL HOLDINGS, **550 East 12th Avenue, Suite 1805, Denver, CO**. The CREAGER's executed a Private Contract Agreement number 121902B which referred to Party A as CAPITAL HOLDINGS located at **1400 Sixteenth Street, Suite 400, Denver, CO**, Telephone number (720) 932-8035. Party A projected yield of 10% per month on the CREAGER'S investment. Documents provided by MASSY included the Private Contract Agreement signed by CREAGER. (Attachment E).

43. Pursuant to a Federal Grand Jury Subpoena, Wells Fargo Bank West provided bank records for the CAPITAL HOLDINGS, **250 East 54th Avenue, Suite C, Denver, CO**. Bank records for account #101-1330204 were reviewed by an FBI Financial Analyst and the following information was obtained:

A. This account was opened on July 22, 2002 with the deposit of a check in the amount of $239,000. Additional deposited were made on July 25, 2002, in the amount of $274,232.50, on July 31, 2002, in the amount of $241,590.83, and on August 5, 2002, in the amount of $167,700.

B. On August 6, 2002, $500,000 was transferred from this account into the CAPITAL HOLDINGS trust account at Wells Fargo, account number 020806 70601400. At the time of this transfer, all monies on deposit in this account had been obtained from investors who had invested in the CAPITAL HOLDINGS "investment program."

C. During the period beginning July 22, 2002 through November 14, 2002, the following deposits were made into this account via wire transfers, checks and cash:

i. Francis T. Bough (hereinafter "FRANCIS BOUGH"):
- On October 18, 2002, $390,464.39 was deposited into this account. Of that amount, $15,000 came from FRANCES BOUGH.

TOTAL: $15,000.00

ii. BOUGH:
- On October 18, 2002, $390,464.39 was deposited into this account. Of that amount, $4,000 came from BOUGH.

TOTAL: $ 4,000.00

iii. CAMBRIDGE:
- On October 31, 2002, $48,895 from CAMBRIDGE was deposited into this account,
- On November 12, 2002, $300,000 from CAMBRIDGE was deposited into

this account.

TOTAL: **$348,895.00**

iv. CAPITAL HOLDINGS:
- On September 16, 2002 intra bank transfer of $35,192.00

TOTAL: **$ 35,192.00**

v. LAHEY:
- On September 24, 2002, $227,500 was deposited into this account. Of that deposit amount, $160,000 came from LAHEY,
- On October 28, 2002, $20,000 from LAHEY was deposited into this account.

TOTAL: **$180,000.00**

vi. DEON:
- On September 11, 2002, $298,625.94 was deposited into this account. Of that deposit amount, $1,000 came from DEON,
-(Note: On January 11, 2003, CI advised that a person she knew as Jack Deon invested in the program and was heavily involved in soliciting new investors for the program.)

TOTAL: **$1,000.00**

vii . Domson, Inc. (hereinafter "DOMSON"):
- On October 2, 2002, $145,000 was deposited into this account. Of that deposit amount, $100,000 came from DOMSON,
- On October 8, 2002, $493,049.99 was deposited into this account. Of that amount, $115,992.51 came from DOMSON or Trig A. Domson,

TOTAL: **$215,992.51**

viii. Eyemed, LLC (hereinafter "EYEMED"):
- On September 5, 2002, $70,000 was deposited into this account. Of that deposit amount $50,000 came from EYEMED,
- On October 31, 2002, $498,257 was deposited into this account. Of that amount, $25,000 was from EYEMED,
-(Note: On January 6, 2003, CI advised a check which was written for $75,000 in December to be returned to Eric Melling (hereinafter "E. MELLING) d.b.a. EYEMED but the check had been voided. On January 6, 2003 a check was written made payable to EYEMED and E. MELLING was the authorized signer on that account. The check amount reflected most of E. MELLING'S initial investment. E. MELLING said the money was needed for his business, but advised he would reinvest it at a later date.)

TOTAL: **$ 75,000.00**

ix. Bly E. Haugen (hereinafter "HAUGEN"):
- On July 31, 2002, $274,232.50 was deposited into this account. Of that deposit amount, $26,000 came from HAUGEN,
- (Note: On January 16, 2003 FBI CI advised that HAUGEN and other

HAUGEN family members were clients of CAPITAL HOLDINGS.)
-(Note: On January 20, 2003, the CI advised a Bly Haugan was in the Denver office to pick up his disbursement check. Haugan said LEWIS was making a lot of investors very nervous. Haugan may take "his people" out of the program even though he was a friend of LEWIS'.

TOTAL: **$26,000.00**

x. LEWIS:
- On October 18, 2002, $390,464.39 was deposited into this account. Of that amount, $1464.39 came from LEWIS,

TOTAL: **$1,464.39**

xi. W.LEWIS:
- On September 9, 2002, $38,500 was deposited into this account. Of that deposit amount, $5,000 came from W.LEWIS.

TOTAL: **$ 5,000.00**

xii. MEE:
- On October 2, 2002, $145,000 was deposited into this account. Of that deposit amount, $10,000 came from MEE,
- On October 8, 2002, $493,049.99 was deposited into this account. Of that deposit amount, MEE deposited $150,000 through his business QUANTUM,

TOTAL: **$160,000.00**

xiii. Kenneth A Melling (hereinafter "K. MELLING"):
- On October 22, 2002, $50,000 was deposited into this account. Of that deposit amount, $15,000 came from MELLING,
- On November 6, 2002, $90,143 was deposited into this account. Of that deposit amount, $20,000 came from MELLING,
-(Note: On January 23, 2003, the CI advised E. MELLING'S brother was invested in the program)

TOTAL: **$35,000.00**

iv. NEIL:
- On October 18, 2002, $390,464.39 was deposited into this account. Of that amount, $44,000 came from NEIL,
-(Note: On January 23, 2003, CI advised NEIL invested another $100,000 into the program. Previous to the $100,000 investment, NEIL put $22,000 into the program for each of his two children. According to the CI, NEIL plays for the Denver Broncos. NEIL'S total investment in the program as of January 23, 2003 was $550,000.)

TOTAL: **$44,000.00**

xv. Rich Rieger (hereinafter "RIEGER")
- On September 4, 2002, $230,800 was deposited into this account. Of that deposit amount, $10,000 came from RIEGER.

- On October 24, 2002, $41,300 was deposited into this account. Of that deposit amount, $10,000 came from RIEGER.
-(Note: On January 20, 2003, CI advised Richard Rieger was a Denver CAPITAL HOLDINGS client who was requesting a 1099 form so he could show his income on his earnings of $8,000 for the year.)

TOTAL: $20,000.00

xvi. SMITTY'S:
- On August 15, 2002, $100,000 was transferred into this account from SMITTY'S Wells Fargo Bank West account No. 057-8140956,

TOTAL: $100,000.00

xvii. L.WOMMACK:
- On September 4, 2002, $230,800 was deposited into this account. Of that deposit amount, $10,000 was from L.WOMMACK.

TOTAL: $10,000.00

xviii. On February 3, 2003, FBI CI advised as of January 31, 2003 the balance of the CAPITAL HOLDINGS account at the Wells Fargo bank was $5.5 million. SCHMIDT continues to hold all deposits into the US Bank account, now totaling $300,000. The **US Bank account number for Capital Holding Int'l, LLC is 103658613387**. The February 2, 2003 deposit of $68,000 was also held. Because of the bank problems at Wells Fargo and US Bank, LEWIS believed they may need to run all their investors' money through their attorney's trust account. On February 2, SCHMIDT advised the CAPITAL HOLDINGS account at US Bank had been closed. On February 8, 2003, SCHMIDT advised he had opened another account with Northern Trust Bank opened by HERBERT for SCHMIDT under the name CAPITAL HOLDINGS, located in the same building that houses CAPITAL HOLDINGS.

D. During the period July 22, 2002 through November 14, 2002 the following disbursements via wire transfer and checks were made from this account: (Note: Information provided by an FBI CI disclosed the NORTHWEST bank account was located in Spokane, Washington, CAMBRIDGE bank account was located in Palos Heights, Illinois, and the Vallone Assets Management (hereinafter "VALLONE ASSETS MGMT") bank account was located in the Chicago, Illinois area.)

i. BOUGH:
- On September 25, 2002, Check No. 1088 in the amount of $40,578.52 ,
- On October 21, 2002, Check No. 7605 in the amount of $3,600,

TOTAL: $44,178.52

ii. CAMBRIDGE:
- On August 15, 2002, a wire transfer in the amount of $15,000 was wired to an account at Bank One.

TOTAL: $15,000.00

iii. CAPITAL HOLDINGS, LLC Trust:
- On August 6, 2002, intra bank transfer of $500,000,
- On August 15, 2002, intra bank transfer of $500,000,
- On August 29, 2002, intra bank transfer of $500,000

TOTAL: **$ 1,500,000.00**

iv. HAUGEN:
- On September 19, 2002, Check No. 1039 in the amount of $10,000,
- On October 21, 2002, Check No. 7611 in the amount of $3,000, that was made payable to Carl Haugen, Jr..

TOTAL: **$13,000.00**

v. Hemisphere National Bank (hereinafter "HEMISPHERE BANK"):
- On September 16, 2002, $38,252.00 was wire transferred to a bank account at HEMISPHERE BANK.
On September 16, 2002, $3,000 was wire transferred to a bank account at HEMISPHERE BANK.
- On October 16, 2002, a wire transfer in the amount of $63,150.00
- On October 16, 2002, a wire transfer in the amount of $4,538.06.
- (Note: FBI CI advised on March 4, 2003, that VALLONE had a bank account at the HEMISPHERE BANK under the name CAMBRIDGE or REGENCY.)
- On November 14, 2002, a wire transfer in the amount of $14,510.42

TOTAL: **$ 120,450.48**

v. Stephen Hnat (hereinafter "HNAT"):
- On November 4, 2002, Check No. 7631 in the amount of $4,053.10,
- (Note FBI CI advise HNAT was a Denver CAPITAL HOLDINGS client.)

TOTAL: **$ 4,053.10**

vi. LEWIS:
- On August 15, 2002, Check No. 1031 in the amount of $55,000,
- On September 16, 2002, Check No. 1086 in the amount of $20,000,
- On September 25, 2002, Check No. 1060 in the amount of $9,000,

TOTAL: **$ 84,000.00**

vii. K.LEWIS:
- On August 15, 2002, Check No. 1011 K.LEWIS in the amount of $9,000,
- On September 23, 2002, Check No. 1043 in the amount of $8,900
- (NOTE: Notation on deposit slip reflects earnings.)

TOTAL: **$17,900.00**

viii. M.LEWIS:
- On August 19, 2002, Check No. 1012 in the amount of $2,000,
- On October 25, 2002, Check No. 7655 in the amount of $5,000

TOTAL: **$7,000.00**

ix. W.LEWIS:
- On August 19, 2002, Check No. 1024 in the amount of $750,

- On September 17, 2002, Check No. 1044 in the amount of $2,000,
- On September 24, 2002, Check No. 1042 in the amount of $1,000,
- On October 29, 2002, Check No. 7639 in the amount of $1,000,

TOTAL: $4,750.00

x. MILOKA HOLDINGS:
- On September 17, 2002, Check No. 1087 in the amount of $30,000,

TOTAL: $30,000.00

xi. MONARCH:
- On August 29, 2002, intra bank transfer of $500,000,
- On September 25, 2002, $2,000,000 was wire transferred to Wells Fargo bank trust 020925 70616800,

TOTAL: $2,500,000.00

xii. NORTHWEST:
- On August 15, 2002, a wire transfer in the amount of $219,703.41 to a US Bank account,
- On September 16, 2002, a wire transfer in the amount of$298,523.06 to a US Bank account,
- On October 11, 2002, a wire transfer in the amount of$286,292.40.
-(Note: The FBI CI advised NORTHWEST was operated and controlled by SMITH. The FBI CI also advised that large amounts of money were wire transferred to the NORTHWEST on a monthly basis so SMITH could make disbursements to his clients brought into the CAPITAL HOLDINGS "investment program" through the sales agents of the NORTHWEST).

TOTAL: $804,518.87

xiii. DEWELLS:
- On September 18, 2002, Check No. 1081 in the amount of $7,419.35,
- On October 17, 2002, Check No. 7609 in the amount of $10,000,

TOTAL: $17,419.35

xiv. PAVELA:
- On October 21, 2002, Check No. 7614 in the amount of $3,000
-(Note: FBI CI advised PAVELA d.b.a. PROSPERITY, operates his business from **300 Evergreen Court, Stoddard, WI**)

TOTAL: $3,000.00

xv. PERREAULT:
- On November 14, 2002, Check No. 7699 in the amount of $50,000,

TOTAL: $50,000.00

xvi. PLAYERS:
- On October 17, 2002, Check No. 7650 in the amount of $50,000,

TOTAL: **$50.000.00**

xvii. Playside Trust (hereinafter "PLAYSIDE TRUST"):
- On August 15, 2002, Check No. 1025 in the amount of $90,000.
- On September 16, 2002, Check No. 1082 in the amount of $50,000.

TOTAL: **$140,000.00**

xviii. PROSPERITY:
- On September 18, 2002, Check No. 1077 in the amount of $10,711.69.
- On October 18, 2002, Check No. 7617 in the amount of $8,111.29.

TOTAL: **$18,822.98**

xix. SIS ASSOCIATES:
- On September 16, 2002, $49,522.32 was wire transferred to SIS ASSOCIATES.
- (Note: FBI CI advised that SIS ASSOCIATES was operated by BOUGH.)

TOTAL: **$49,522.32**

xx. TE&L ESTATES:
- On August 15, 2002, Check No. 1026 in the amount of $28,571.78.
- On September 17, 2002, Check No. 1061 in the amount of $35,533.70,
- On October 18, 2002, Check No. 7652 in the amount of $20,756.25,
-(Note: On December 12, 2002, the FBI CI advised that LORENZEN was a solicitor for the investment program and operated TE&L ESTATES.)

TOTAL: **$ 84,861.73**

xxi. TRJ Holdings:
- On October 16, 2002, $67,500 was wire transferred to a Bank Account,

TOTAL: **$67,500.00**

xxii. VALLONE ASSET MGMT:
- On August 15, 2002, $2,000 was wire transferred to VALLONE ASSET MGMT Bank One account number 02081504897,

TOTAL: **$2,000.00**

xxiii. VEVE:
- On August 15, 2002, Check No. 1020 in the amount of $1,600,
- On September 16, 2002, Check No. 1055 in the amount of $11,900,
- On October 22, 2002, Check No. 7644 in the amount of $2,295.52,

TOTAL: **$15,795.52**

E. The following is a synopsis of monthly deposits and withdrawals for the CAPITAL HOLDINGS Wells Fargo account:

07 22-08 13 02	Beginning Balance:	$	0.00
	Deposits:	$	1,279,523.33
	Withdrawals:	$	500,000.00
	Ending Balance:	$	779,521.33
08/13-09/13/02	Beginning Balance:	$	779,521.33
	Deposits:	$	2,760,675.77
	Withdrawals:	$	2,061,173.28
	Balance:	$	1,479,023.82
09/13-10/11/02	Beginning Balance:	$	1,479,023.82
	Deposits:	$	4,105,804.99
	Withdrawal:	$	3,395,629.96
	Balance:	$	2,189,198.85
10/11-11/14/02	Beginning Balance:	$	2,189,198.85
	Deposits:	$	5,683,666.76
	Withdrawal:	$	1,429,953.07
	Balance:	$	6,442,912.54

During the period beginning July 22, 2002 through November 14, 2002, the total amount deposited into this account was $ 13,829,670.85 and the total amount withdrawn from this account was $7,386,758.31.

44. On or about November 6, 2002, Wells Fargo Bank was served a Federal Grand Jury Subpoena and provided such records to Special Agents of the FBI regarding entities and individuals identified in paragraph four of this affidavit. Follow up subpoenas have been served upon Wells Fargo for additional accounts that were identified during ongoing investigative efforts.

45. On January 28, 2003, Dr. Abel Dinobile (hereinafter "DINOBILE") was interviewed by the FBI in Miami, FL. During the interview, DINOBILE admitted being familiar with SCHMIDT. DINOBILE provided THE interviewing Agent with a business card for SCHMIDT'S NASCAR racing business. DINOBILE knew SCHMIDT lived in Denver, CO, and further advised HARTE may have been the speaker at a conference in New York. DINOBILE was introduced to TRINGHAM and DUNN while in New York.

A. Prior to the interview scheduled for January 27 with the FBI, 2003, DINOBILE contacted an associate of SCHMIDT'S named BEROS and told him about the upcoming interview because he was concerned about BEROS being involved with a fraud. BEROS became concerned and told DINOBILE to have the FBI contact him directly following the interview. BEROS claimed he and SCHMIDT were not to be at all affiliated with RFT. DINOBILE knew BEROS operated MONARCH CAPITOL HOLDING and worked with SCHMIDT. DINOBILE provided a telephone number for BEROS, 216-272-5778.

46. None of the investment contract documents signed by investor/victims interviewed who invested in the "investment programs" of RFT, SMITTY'S, and/or CAPITAL HOLDINGS disclosed to the investor/victims prior to their investment decision that the individual's who made the sales presentation to them, as well as other individuals identified in Attachment B, would be paid a commission that would be funded by the money the investor/victims thought they were investing in the RFT, SMITTY'S, and/or CAPITAL HOLDINGS "Prime Bank "investment programs."

47. REINHARDT advised he researched the Central Registration Depository ("CRD") data base maintained by the National Association of Securities Dealers ("NASD"). This research disclosed that none of the individuals and/or business entities identified in Attachment B, currently have or had a Federal or State license to sell securities during the period June 1, 1998 through February 25, 2003.

48. Research revealed that the only corporation registered with the Colorado Secretary of State as Capital Holdings, LLC is a Wyoming corporation which has no known affiliation or relationship with the CAPITAL HOLDINGS entity being operated by SCHMIDT and LEWIS. As such, CAPITAL HOLDINGS is not a legally formed entity and is in fact only the alter ego of SCHMIDT and LEWIS.

49. Based upon interviews conducted during the course of this investigation, several victims, included in this affidavit, stated none of the monies invested were invested in the manner described in the agreement described in Attachments C, D, E, and F. SCHMIDT, LEWIS, SMITH, SCHLABACH, VALLONE, WASSON, BOUGH, PAVELA, BEROS and their agents did not make disclosures of material facts during the sale of the investment. The crimes were facilitated by the use of mails and commercial carriers, wire transfers of monies and the usage of telephone and fax lines.

50. On February 19, 2003, SCHMIDT and LEWIS flew to Chicago and met with CO-7326 CW-WC (hereinafter "CW") and an FBI Undercover Agent (hereinafter "FBI UC"). SCHMIDT and LEWIS were to explain their investment program to the CW and FBI UC who were acting as prospective investors. The meeting was videotaped and recorded.

A. During the meeting SCHMIDT and LEWIS provided numerous documents relating to their investment program, to include an insurance coverage letter from WEED, WEED AGENCY to SCHMIDT instructing that total insurance coverage is dependant on the investor and SCHMIDT having joint signatory authority of an investors CAPITAL HOLDINGS investment account, blank documents entitled Sworn Statement and Funds Affidavit, Non-Solicitation Statement, Letter of Intent Request for Assistance, and a Client Evaluation Summary, and numerous E-Mails and written notes between LEWIS and Mike Miller, President, Advisory & Consulting Invitational Group, Inc. that discussed an investment opportunity and the fact that BEROS is the number two individual below SCHMIDT. The undercover agent was provided a blank "Letter of Intent" regarding a Private Placement Opportunity for MONARCH. (Attachment F).

B. SCHMIDT provided a business card listing himself as CEO of Capital Holdings, LLC (CAPITAL HOLDINGS), at **1400 Sixteenth Street, Suite 400, Denver, CO**, telephone number 720-932-8035 and fax number 720-932-8335.

C. LEWIS provided a business card listing himself as a NASCAR TEAM MEMBER, Public Relations, **5850 East 58th Avenue, Unit E, Commerce City, CO**, Telephone numbers 720-932-8235, Cell number 303-210-1001, and Fax number 720-283-8335. Card has a photograph of NASCAR # 52 with SMITTY'S written across the car as a sponsor of the car and a photograph of S. SCHMIDT as the driver.

D. SCHMIDT explained that they had a CFO who was a banker, that CW and FBI UC would be able to talk to this individual, that this individual has had four mortgage companies, that he was 35 years old, that he is in the Cleveland , Ohio area, and that he has to approve of every transaction in the "investment program" that SCHMIDT and LEWIS were offering to the CW and the FBI UC. SCHMIDT went on to say that his company was named CAPITAL HOLDINGS and that the trading company who handled the trades for CAPITAL HOLDINGS investment company was a company named MONARCH CAPITAL HOLDINGS. Investigative activity has disclosed that BEROS is approximately 35 years old, that he has received income from at least three mortgage companies in the past four years, that he is from the Cleveland, Ohio area and that he operates a business named MONARCH CAPITAL HOLDINGS located at 5005 Rocklike, Suite 900, Independence, OH.

51. State of Colorado Investigator REINHARDT provided the partial results of his review of a book titled *The Myth of Prime Bank Investment Scams*, authored by Professor James E. Byrne, J.D., a faculty member at George Mason University School of Law and the Director of the Institute of International Banking Law & Practice, Inc. In this publication, Professor Byrne identified some common characteristics that make Prime Bank Investment Programs readily identifiable as unlawful schemes and which distinguish them from legitimate programs and opportunities for investments. These common characteristics include, but are not limited to the following:

A. There is no economic basis for the transaction or creditable explanation of how the investment can generate the promised returns;

B. The promised returns on the investments are disproportionate to the risk;

C. The commercial basis for the transaction is frequently obscure and it is often unclear whether it involves finance, trading in instruments, or commercial activity;

D. The schemes often rely upon trading activity conducted by mysterious individuals on mysterious and secretive markets for profits;

E. Technical terms used in the scheme are misused and the definitions of these terms are distorted from their meaning in customary financial/commercial transactions;

F. The schemes are surrounded by an aura of secrecy and an almost conspiratorial sense by the frequent use of non-circumvention and non-disclosure agreements that unwary investors must sign to participate in the investment opportunity;

G. The schemes are typically clouded in unnecessary complexity, layered transactions, and, confusion;

H. The schemes use well-known banks and state that investor funds are placed in escrow, non-depleting accounts and similarly named accounts to confuse investors into thinking their money is safely deposited and it cannot be removed unless certain conditions are met;

I. Any fees and commissions to be paid to the promoters of the schemes are usually not identified as the promoters convince investors the promoters are simply sharing part of their profit from the scheme with the investors; and

J. A typical feature of these schemes is that the funds are used for purposes that have no relationship to the transaction. Rather, the funds are spent by the promoters, sales people and other individuals involved with the furtherance of the scheme on personal expenses for travel, the purchase of homes and automobiles, vacations , and general living expenses without this type of use of investor's funds being disclosed to investors prior to their investment in the scheme.

In the instant matter, investigative activity to date has disclosed that the various "investment programs" being offered and sold by the principals and sales agents of RFT, SMITTY'S, and CAPITAL HOLDINGS as identified in Attachment B have elements of all of the above general characteristics of Prime Bank Investment Scams (hereinafter "PBIS") and fraudulent Prime Bank investment schemes as described by Professor Byrne.

52. On March 4, 2003, KERR, supra paragraph 26, was again contacted and asked to review CPPAs and other offering documents from RFT, SMITTY'S, and CAPITAL HOLDINGS. KERR reviewed such documents and offered the following opinion: The CPPA'S and other offering documents as provided to investors by the principals, sales office managers, and sales agents of RFT, SMITTY'S and CAPITAL HOLDINGS had numerous similarities, such as the use of non-circumvention/non-disclosure requirements, the promise of high rates of return as high as 50% monthly, and the attempt to describe what appears to be highly sophisticated investment transactions that are usually found in High Yield Investment Scams. The purported insurance coverage, while possibly protecting investment money that had been deposited into whatever bank account that was purportedly protected, does nothing to protect the investment transaction that is allegedly going to provide the investor with the high rates of return.. The documents reviewed typify classic High Yield Investment Scams that are created solely for the purposes to perpetuate an investment fraud through an aura of a sophisticated or a series of sophisticated transactions.

53. An FBI Paralegal Specialist caused a search of the Colorado Department of Labor and Employment ("CDOLE") records for the period beginning January 1, 2000 through February 20, 2003 to determine if wages had been reported as being paid to the individuals identified in Attachment B, which search disclosed the following:

A. The following individuals did not have wages reported for them during the period January 1, 2000 through February 20, 2003:

i. M.LEWIS,
ii. Peter Richard Moss ("R.MOSS"), son of MOSS,
iii. BERGMAN,
iv. C.LEWIS,
v. BOUGH,
vi. Glenda F. Bough ("G.BOUGH"),
vii. HARTE,
viii. PAVELA,
ix. PERREAULT,
x. SCHLABACH,
xi. SCHMIDT,
xii. S.SCHMIDT,
xiii. SMITH,
xiv. VALLONE,
xv. WEED, and
xvi. Alice Weed ("A.WEED").

B. The following individuals had wages reported for them during the period of January 1, 2000 through February 20, 2003 itemized as follows:

i. K.LEWIS - 1st quarter 2001 in the amount of $3,180 and 2nd quarter of 2001 in the amount of $3,345 as paid by KDB Homes, 15070 Bolling Drive, Denver, CO,

ii. DOMSON - 4th quarter of 2001 in the amount of $20,000 as paid by DOMSON, Inc., PO Box 907, Torrington, WY, and $9,000 each quarter for the 1st, 2nd, and 3rd quarter of 2002 as paid by Rosebud Concrete, Inc., 31341 US Highway 18, Winner, SD,

iii. BEROS - 3rd quarter 2001 in the amount of $10,904.25 and the 4th quarter 2001 in the amount of $12,527.69 as paid by Lakeside Mortgage, Inc., 16600 Sprague Road, 130, Middleburg, OH and during the 1st quarter 2002 in the amount of $12,462.43, 2nd quarter 2002 in the amount of $15,686.50 and the 3rd quarter 2002 in the amount of $11,581.93 as paid by Lakeside Mortgage, Inc.,

iv. MCLAIN - 4th quarter 2000 in the amount of $1,829.00, 1st quarter 2001 in the amount of $1,086.00, and the 2nd quarter 2001 in the amount of $688.00 as paid by Bayada Nurses, Inc., 101 Executive Dr., #3-4T, Moorsetown, NJ 08057,

v. Vicky PERREAULT - 4th quarter 2001 in the amount of $1,510.64 as paid by Employer's Unity, Inc., 7903 Allison Way, Aurora, CO 80005 and the 4th quarter 2001 in the amount of $60.00 as paid by Ultimate Staffing Service, dba Accounting Alliance Staffing Services, 1200 17th St., Suite 1410, Denver, CO, and

vi. WASSON - 3rd and 4th quarters 2001 and for each quarter of calendar year 2002 in the amount $5,200.00 per quarter as paid by Jays Lobby Shop, Inc., 1 N. Franklin Street, Chicago, IL and the 1st quarter 2002 in the amount of $769.23, the 2nd quarter 2002 in the amount of $4,615.38, the 3rd quarter 2002 in the amount of $5,037.61, and the 4th quarter 2002 in the amount of $2,388.92 as paid by Midwest Medical Services, LLC., 4280 Blue Strem Road, Charleston, IL.

54. The facts and circumstances stated in this affidavit support the premise that RFT, SMITTY'S, and CAPITAL HOLDINGS, through their principals, HARTE, SCHMIDT, and LEWIS, as well as the branch sales offices of CAPITAL HOLDINGS in Spokane, Washington, Sacramento, California, Palos Hills, Illinois, Cleveland,

Ohio, and Stoddard, Wisconsin operated by SMITH, BOUGH, VALLONE, BEROS, and PAVELA have operated a ponzi investment scheme that has survived at least three business name changes and a host of business name derivatives all more fully identified on Attachment B and within this affidavit. This ongoing fraudulent investment scheme offered individuals an opportunity to invest in fictitious investment vehicles variously described as "Prime Bank Notes," "Prime Bank Debentures," "Medium Term Bank Notes," and "High Yield Investment Programs," referred to in this affidavit as the "investment program." Prior to making their investment decisions, investors were told by the principals and sales agents of RFT, SMITTY'S, CAPITAL HOLDINGS, and the branch sales offices of CAPITAL HOLDINGS, among other information, that their investment funds would earn profits from 10% to as high as 400% a month, that there was no risk to such an investment because their investment funds were insured against loss by insurance companies such as St Paul Fire and Marine and Lloyds of London, that they were investing in an "investment program" the government and large financial institutions did not want them to discover so the government and large financial institutions could keep this enormous profit to themselves, that they had to keep their principal investment funds in the "investment program" for at least one year and twenty-one days, that their funds would be deposited into non-depleting investment accounts, and that they could begin to receive monthly distribution of the profits earned from their investment into the various "investment programs"within forty-five (45) days from the date of their investment or the investor could roll all of their earned profit back into the "investment program" each month and receive one lump sum payment at the end of the year and twenty-one day time period of their investment.

Investigative activity disclosed that WEED was the individual responsible for providing RFT, SMITTY'S, and CAPITAL HOLDINGS investors certificates and other evidences of the purported insurance coverage of an investors original investment. In the opinion of KERR an expert in the analysis of the type of ongoing fraudulent investment scheme described herein, the offering documents of the RFT, SMITTY'S, and CAPITAL HOLDINGS "investment programs" were similar in nature and typified classic High Yield Investment Scams that are created solely for the purpose to perpetuate an investment fraud through an aura of a sophisticated or a series of sophisticated transactions.

Investigative activity has shown that bank account records available and reviewed to date into which investor's funds were deposited virtually did not have a source of income other than from investor funds and that disbursements were made for the benefit of the principals of RFT, SMITTY'S, and CAPITAL HOLDINGS and others identified in this affidavit by the purchase of a 6.3 million historical castle in Redstone, Colorado, the purchase of NASCAR race cars and all the equipment necessary to support a NASCAR race team, the daily life style expenses of the principals of RFT, SMITTY'S and CAPITAL HOLDINGS, the business expenses of RFT, SMITTY'S and CAPITAL HOLDINGS and other business entities to include office leases, office furniture, office supplies, and staff salaries. The bank records of RFT, SMITTY'S, and CAPITAL HOLDINGS also consistently show there was no investment into any legitimate investment vehicle in legitimate financial markets in the United States and/or abroad. These bank records also consistently show the payments to investors of purportedly earned profits and the occasional payments of original investment principal to an investor. The source of the funds to make the purported earned profit payments and the occasional payments of original investment principal to investors was from funds received by RFT, SMITTY'S, and CAPITAL HOLDINGS from subsequent investors.

Proceeds obtained via the operation of the ongoing fraudulent investment scheme were ultimately laundered through various companies bank accounts and into other assets as previously described in this paragraph 55, to include but not be limited to the purchase of luxury vehicles for personal use, the payment of foreign travel expenses and the life style expenses of the principals herein identified. Proceeds were also laundered to promote the ongoing fraudulent investment scheme as evidenced by the payment of business expenses and the "ponzi" payments made to RFT, SMITTY'S and/or CAPITAL HOLDINGS investors.

None of the disbursements from the RFT, SMITTY'S and/or CAPITAL HOLDINGS bank accounts referenced in this paragraph 55 were disclosed to investors by principals of RFT, SMITTY'S, and CAPITAL HOLDINGS prior to these investors making their decisions to invest in a RFT, SMITTY'S and/or CAPITAL HOLDINGS "investment program." None of the RFT, SMITTY'S and/or CAPITAL HOLDINGS bank accounts were established as or operated as non-depleting bank accounts. The fact that none of the bank accounts utilized

during the ongoing fraudulent investment scheme described in this affidavit were non-depleting bank accounts was also not disclosed to RFT. SMITTY'S. and or CAPITAL HOLDINGS investors interviewed to date prior to their decision to invest in a RFT. SMITTY'S. and or CAPITAL HOLDINGS "investment program."

The FBI CI. a concerned citizen and a person in a position to know the inner workings of the business. financial decisions made. and methods of operation of CAPITAL HOLDINGS. The CI explained how LEWIS. with the approval of SCHMIDT would direct the operation of the Denver CAPITAL HOLDINGS office at 1400 16th Street. Suite 4015. Denver. Colorado to include the depositing of investor money received from CAPITAL HOLDINGS branch sales offices into bank accounts controlled by the principals of CAPITAL HOLDINGS. SCHMIDT had to approve all disbursements via check and or wire transfer of funds from these CAPITAL HOLDINGS bank account back to bank accounts controlled by the CAPITAL HOLDINGS branch sales offices. Review of the CAPITAL HOLDINGS controlled bank accounts by an FBI Financial Analyst corroborated the information from the FBI CI regarding the monthly wire transfers of investor money between accounts controlled by CAPITAL HOLDINGS and their branch sales offices located in states other than Colorado.

The FBI CI also identified that SCHMIDT. while operating out of the SMITTY'S MOTOR SPORTS office in Denver. Colorado. met with high dollar investors at the SMITTY'S MOTOR SPORTS location. During these meetings he represented himself as operating a business named Monarch Capital Holdings. MCLAIN handled the financial and business books and for this SCHMIDT controlled business entity at the MOTOR SPORTS business office in Denver, Colorado.

Review of records maintained by the CDOLE disclosed that HARTE. SCHMIDT. BERGMAN. BOUGH, VALLONE. PAVELA. SMITH. WEED. and LEWIS. among other individuals identified as part of this ongoing fraudulent investment scheme, have not had earned income reported since at least 1998.

55. Based on the facts and circumstances stated above. your affiant has probable cause to believe that the articles described as property to be seized (Attachment B) in the attached warrant are being maintained and secreted at the location described in Attachment A. Further. that the items sought to be seized are fruits and instrumentalities and evidence of crimes involving violations of Title 18. United States Code. Sections 371. 1341. 1343. 1956. and 1957 and Title 15 United States Code. Sections. 77q(a) and 77x and sections 78j(b) and 78ff.

Stephanie Ann Hahn

Stephanie Ann Hahn

City and County of Denver)
)ss.
State of Colorado)

The foregoing was signed and sworn to before me this 6th day of March, 2003 by Federal Bureau of Investigation Special Agent Stephanie Ann Hahn.

Notary Public

My commission expires: 2/2/2004