



The

National Producer

National Livestock Producers Association

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Missouri Cattle Buyers Indicted in \$166 Million "Phantom Cattle" Fraud

Kansas City, MO (U.S. Department of Justice)– Todd P. Graves, United States Attorney for the Western District of Missouri, announced that two defendants working together in a cattle investment business were indicted by a federal grand jury Nov. 7 in the largest financial fraud ever prosecuted in the Western District of Missouri – a \$166 million scheme that involved victims in several Midwestern states.

George L. Young, 72, of Grant City, Mo., and Kathleen I. McConnell, 53, of Kansas City, Mo., co-owners of United Livestock Services, LCC (formerly MFA Livestock Services, LCC) and Professional Business Services, were charged in a five-count indictment returned by a federal grand jury meeting in Kansas City.

Through their businesses, Graves explained, Young and McConnell offered to purchase cattle for their clients, to provide care and feeding of those cattle, and to sell the cattle at a profit. The federal indictment alleges that Young and McConnell did not purchase the cattle as claimed, but instead falsified records and made misrepresentations in order to defraud numerous ranchers, farmers, business associates (including MFA Livestock Association, Inc.), and federally insured financial institutions (including First National Bank of Omaha and US Bank, both located in Omaha, Nebraska).

At the time Young and McConnell ceased doing business on August 10, 2001, records indicate that the defendants had 343,937 head of cattle under their control. Instead, Graves said, only 16,946 head of cattle, valued at approximately \$9.2 million, actually existed. Graves estimated the loss suffered by the defendants' clients and lending institutions is approximately \$166 million. Graves noted that the defendants' companies' assets are now in the control of the bankruptcy trustees.

Graves said victims of the fraud included individual investors, ranchers, farmers and cattle companies who borrowed funds to buy cattle, and who then lost the collateral they had pledged to secure their loans when the defendants suddenly ceased operations in August 2001. In some cases, Graves said, the collateral pledged and lost included family farms that had been owned by the same families for over 100 years, while other individuals lost their retirement savings in the scheme. According to Graves, the defendants' scheme jeopardized the safety and soundness of at least two federally insured financial institutions that loaned money directly to the defendants, or the defendants' businesses.

BUSINESS BACKGROUND

Young began employment with MFA Livestock Association in Marshall, Mo., on September 16, 1984. Young also operated his own individually owned cattle feeding and management business with a large client base. Since the early 1990s, McConnell, doing business as Professional Business Services (PBS), provided bookkeeping and accounting services for Young. PBS was incorporated by Young and McConnell, each owning 50 percent of the company, on June 13, 1991.

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Producers Utah Adds New Sale Barn, Feedlots

Producers Livestock Marketing Association, North Salt Lake, Utah, is pleased to announce a few expansions within its organization.

This fall, Producers purchased the Oakdale Livestock Auction when the markets' previous owners retired.

Rick Lovell, Producers president and general manager, said the market is located in a strong beef area that has some dairy activity. The barn is east of Modesto and South of Sacramento, in the San Joaquin Valley of California.

Lovell said the main feeder run for the Oakdale market will be from April to June.

"We hope to run more than 50,000 head per year," he said.

Producers hired George Gookin, an Oakdale local, as the new branch manager. The auction employs two full-time employees and will add another full-time employee soon.

Producers also has a new branch manager at its Madera market. Tim Sisil recently took over the branch

when the former manager, Danny Major, moved to Prescott, Arizona. Major continues to work for Producers representing cattle in Arizona, New Mexico, and part of California.

Producers is also pleased to announce the addition of a two-part commercial feedlot as a part of its program to assist patrons in their feeding and marketing needs. The feedlots are located one mile north of Ault, Colo., and have a combined capacity of 8,000 head.

Producers' feedlot programs include the following:

- Retained Ownership
- Farmer Grain Bank
- Feeding & Grazing Finance Program
- Purchase and Contract of Local Grain & Roughage
- Risk Management Services



Mark Anderson

Mark Anderson serves as the Feedlot Manager. Mark has many years of experience in all areas of the cattle feeding industry, including risk management and marketing.

Give Russ Moss or Mark Anderson a call to learn more about Producers services to the cattle producers. Russ Moss (Branch Manager) can be reached at 970-371-0091 and Mark Anderson (Feedlot Manager) can be reached at 970-834-2176.



The National Producer

Monthly newsletter of the National Livestock Producers Association

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A shot of Producers new feedlot in Ault, Colo. Producers two new facilities have a combined capacity of 8,000 head of cattle.



Couple Leaves Producers to Enjoy Retirement

Clif and Darlean Calhoun have been a package deal for a long time. They have been married for 35 years and spent 29 of those years working together in the livestock marketing business.

They spent about 10 years working together at Atwater Auction Company and then in 1983 Clif became the branch manager at Producers Livestock Marketing Association's auction market in Madera, Calif.

"Darlean started working there the same time I did. She hauled cattle in from then dairies at first, then she dispatched and did book work in the office," Clif said. "We enjoyed the unique situation of working together. I couldn't have done it without her. I give her a lot of credit for helping build business up."

After many years of working together, the couple retired together on Sept. 9, 2002.

"We really enjoyed our jobs," Clif said. "Our retirement dinner was wonderful, but a little sad too."

Clif retired as branch manager, but he still serves Producers part-time as a video representative.

"I wanted to stay on as a video rep because I have some older customers that I want to take care of," he said.

Calhoun said that video marketing has changed the livestock marketing business the most during his involvement.



Clif and Darlean Calhoun

Calhoun developed Producers' first in-house video auction. He said the video format really changed the way cattle are sold, but it is here to stay.

"It was similar to Western and Superior's auctions," he said. "We held our first video sale at Madera in May 1990. We held an auction there every spring. At first we weren't sure it would be successful, but soon it became the biggest in the state."

"It helped a lot to have the video in-house because it really brought in the buyers. One year all of the competition showed up at the sale," he said. "After a few years we merged with Western. It was a good move for the company and Western is a good organization to work with."

The Calhouns said they are still adjusting to their retirement status. They said they look forward to spending more time working with the 150 cows on their 300-acre ranch in Raymond, Calif., but they will always enjoy their memories of working at Producers.

"We worked with a lot of fine people within our organization and the industry in general," Clif said.

NLPA To Review Livestock ID at Annual Meeting

Colorado Springs, CO (NLPA) - The National Livestock Producers Association will hold its annual board meeting, with a special focus on livestock identification, Jan. 12-14, 2003 at the Hilton Waikoloa Village in Kamuela, Hawaii.

NLPA has been involved in an effort to design a national identification system for livestock and will be reviewing a draft ID plan developed by the National Food Animal Identification Task Force, or which NLPA is a member.

NLPA's guest speaker is Steve Kay, editor of Cattlebuyers Weekly. He is recognized as an authoritative and impartial observer of the North American meat and livestock industry and is widely quoted in national and regional daily newspapers and weekly news magazines, including the Wall Street Journal, Forbes and Business Week. He grew up on a dairy, beef, sheep and hog farm on the South Island of New Zealand. After graduating from university with a Master's degree in history and a postgraduate degree in journalism, he worked for daily newspapers in New Zealand.

For more information about the meeting, please contact Scharee Atchison at 1-800-237-7193.

Missouri Cattle Buyers Indicted "Phantom Cattle" Fraud

In the early 1990s, Young purchased a one-third interest in a commercial feedlot and grazing operation, which was incorporated in the state of Kansas under the name Rio Baca, Inc. A separate corporation, Rio Timba, Inc., also one-third owned by Young, was incorporated in the state of Iowa as the company owning the land on which the Rio Baca feedlot was located. The Rio Baca/Rio Timba operation was physically located in southwest Iowa.

MFA Livestock Services, LLC, was formed as a separate business entity to purchase livestock for the clients of Young's cattle feeding and management business, separate and distinct from MFA Livestock Association. MFA Livestock Services, LLC, was 75 percent owned by MFA Livestock Association and 25 percent owned by PBS, Inc. On March 23, 2000, MFA Livestock Services, LLC's name was changed to United Livestock Services, LLC, as a result of the merger of MFA Livestock Assn. and Producers Livestock Assn.

PHANTOM CATTLE SCHEME

According to Graves, Young and McConnell, through United Livestock Services, LLC, and PBS, Inc., often paid clients rates of return far above industry averages to induce their clients to invest in the defendants' livestock operations, and to induce business associates and financial institutions to provide funding for the defendants' business operations. In reality, the indictment alleges that the defendants knew that their cattle operations were not generating the rates of return they were paying to their clients. In order to obtain funds when the cash flow was inadequate to cover the obligations of their business activities, the indictment alleges, Young and McConnell knowingly falsely represented to clients, business associates and financial institutions that their inventory of cattle was far higher than it actually was, causing clients to continue to invest money in the defendants' cattle operations and causing business associates and financial institutions to advance funds to the defendants.

In furtherance of the scheme to defraud, Graves explained, Young and McConnell would obtain money from clients to purchase cattle and have these cattle fattened for market. Rather than purchasing additional

cattle for their clients, the indictment alleges, the defendants actually used their clients' funds to cover cash shortfalls, business expenses, and to pay other clients whose cattle had supposedly matured and been sold.

According to the indictment, the phantom cattle would be carried on the defendants' books and records as inventory. Once one false document was created, Graves explained, it was necessary to create numerous additional false documents so that the original document would appear to be legitimate. Young and McConnell routinely created documents that recorded cattle transactions that did not occur, the indictment alleges, then used the fraudulently created cattle inventory as collateral to access funds from their companies' line of credit at First National Bank of Omaha.

According to the indictment, Young and McConnell knowingly provided false statements to First National Bank of Omaha and US Bank that deliberately concealed material information about the business's finances and the true number of cattle in inventory. Those fraudulent documents included false cattle inventory reports, false cattle accounts receivable reports, and false financial statements, allegedly created to conceal the fact that the cattle inventories were substantially less than those represented to clients, business associates and financial institutions. These false representations, Graves explained, were made to induce clients to invest with the defendants' businesses and to the financial institutions to continue their lending relationships with the defendants and their businesses and to obtain the maximum funding allowed by each line of credit.

On a monthly basis, McConnell provided First National Bank of Omaha a Borrowing Base Certificate that contained representations about cattle inventories and accounts receivable. According to the indictment, Young and McConnell knew those documents contained false and fraudulent representations about cattle inventories and accounts receivable. The alleged purpose of these false and fraudulent Borrowing Base Certificates was to induce First National Bank of Omaha to release funds to the defendants under United Livestock Services, LLC's line of credit at the bank. During the

pendency of the scheme, the defendants allegedly claimed that a substantial portion of the transferred funds was used to buy cattle that they did not actually purchase.

In order to protect the scheme, the indictment alleges, McConnell prevented her staff at PBS, Inc. from detecting the defendants' ongoing fraudulent activities. McConnell allegedly accomplished this by ensuring that the employees' duties did not overlap, positions did not rotate within the office, employees did not communicate among themselves about their specific tasks and did not have contact with clients, and were not aware of significant cash flow problems of the business.

Young acted as the field person for the businesses. Graves explained that Young and McConnell were careful to schedule inspection trips for clients and representatives of their financial institutions at different times. During the inspection trips, the indictment alleges, Young made false statements to clients and bankers about the number of cattle they owned or that were being used as collateral for lines of credit. In fact, according to the indictment, Young had shown the same cattle to other clients and bankers, making the same representations of ownership. Young also allegedly showed clients and bankers cattle that he did not own or control, which belonged to others, making the same representations of ownership to clients and bankers. (The cattle belonging to others were either located in the feedlots in which Young placed cattle or in feedlots and pastures in close proximity.)

FIVE-COUNT INDICTMENT

Graves explained that the various counts contained in the federal indictment identify specific actions taken by Young and McConnell in the course of the fraud scheme.

Count One of the federal indictment alleges that on September 20, 1999, Young and McConnell, aiding and abetting each other for the purpose of executing the scheme to defraud and obtain money by means of material false and fraudulent pretenses, mailed a \$1,202,381.83 check drawn on the account of MFA Livestock Services, LLC, at First National Bank of Omaha, delivered by the United States Postal Service to Farmers' National Bank, a branch of Midwest Bank, N.A., in Pilger, Nebraska, to induce an individual to continue to invest his money and funds in the defendants' cattle feeding operations.

Count Two of the federal indictment alleges that on March 14, 2000, Young and McConnell, aiding and abetting each other for the purpose of executing the scheme to defraud a financial institution, transmitted a facsimile requesting a \$336,937.28 cash transfer from a line of credit at U.S. Bank in Omaha, Nebraska, from the account of George Young, dba Young Farms, to the account of MFA Livestock Services, LLC, at First National Bank of Omaha.

Count Three of the federal indictment alleges that on July 25, 2001, Young and McConnell, aiding and abetting each other for the purpose of executing the scheme to defraud and to obtain money by means of material false and fraudulent pretenses affecting a financial institution, mailed a Borrowing Base Certificate sent and delivered by the United States Postal Service to First National Bank of Omaha, to induce First National Bank of Omaha to make a \$677,213.28 advance of funds to United Livestock Services, LLC on its \$23 million line of credit at that bank.

Count Four of the federal indictment alleges that, on August 17, 2000 Young and McConnell, aiding and abetting each other, made a material false entry in a record required to be kept by any person, partnership or corporation subject to the Packers and Stockyards Act, that is, in a combined check/memo form for a check drawn on the account of United Livestock Services, LLC, at the First National Bank of Omaha in the amount of \$105,751.96, falsely and fraudulently recorded a material fact in the "account of sale" portion of that document, the purchase of 162.75 cattle weighing 131,976 pounds, when, in fact, the defendants well knew that cattle had not been purchased with the check.

Count Five of the federal indictment contains a criminal forfeiture charge that requires the defendants to forfeit to the United States any proceeds obtained from the fraud, including \$24,539,320, representing the amount of proceeds obtained as a result of the offenses alleged in Counts One, Two and Three.

Graves cautioned that the charges contained in the indictment are simply accusations, and are not evidence of guilt. Evidence supporting the charges must be presented to a federal trial jury, whose duty is to determine guilt or innocence.

USAHA Supports National Animal Identification Work Plan

A national animal identification work plan, developed by a task force representing more than 30 livestock organizations, was accepted through a unanimous resolution at the meeting of the U.S. Animal Health Association (USAHA) Committee on Livestock Identification Oct. 23 in St. Louis.

This support by USAHA is a positive step toward the establishment of a national identification program and system for U.S. animal agriculture, according to Neil Hammerschmidt, chair of the National Food Animal Identification Task Force. "For the first time, we have a work plan that we can build from. The resolution requesting the USDA Animal and Plant Health Inspection Service (APHIS) to use the work plan as a guide for the development of a national program is significant because several species groups brought it forward as a united industry on this issue," he said.

The task force, coordinated by the National Institute for Animal Agriculture (NIAA), spent the past six months developing the "National Identification Work Plan." More than 100 representatives of animal agriculture served on the task force and contributed to its five working groups: animal disease management, marketability, standards, producer concerns and funding, authority and oversight.

The National Livestock Producers Association has been highly involved in the development of the

work plan, with a special focus on how an animal identification plan will affect the marketing sector of the industry. Markets represent an especially challenging area in the development of the work plan, given the commingling of livestock. Representing NLPA on the task force are Scott Stuart, NLPA CEO, Rick Keith, Producers Livestock Marketing Assn., Tod Fleming, Equity Cooperative Livestock Sales Assn., and Dick Jurgens, United Producers, Inc.

The task force mission is to ensure the United States has an adequate animal identification system that supports the financial viability of animal agriculture. It believes that an animal identification system is needed to maintain the health and biosecurity of the U.S. herd.

ID task force member Gary Wilson, who currently chairs the National Cattlemen's Beef Association cattle health committee, shared his producer perspective with members of the USAHA livestock identification committee. Wilson already uses individual identification with his 50-head purebred Angus herd on his Ohio farm and believes it's a valuable tool. But before livestock producers are asked to put another tag on their animals, he would like to see an identification system developed that will both accommodate the gathering of data and be industry driven.

"It's important that the national ID system evolves and moves forward," Wilson said. "It has to be accurate, it has to be effective and it

has to be affordable for producers. Within the beef industry we have a lot of issues and a number of producers who don't tattoo or tag their cattle. It will take some education to resolve these issues and move forward."

John Wortman, chair of the USAHA Livestock Identification Committee, said that, thanks to the ID task force's efforts, industry groups are ready to work more closely with the USDA-APHIS and state animal health officials to refine the animal identification systems necessary to maintain animal disease programs in the United States. USAHA is a national non-profit organization working with state and federal animal health officials, practicing veterinarians, livestock producers, and research scientists to control livestock diseases in the United States.

The USAHA resolution calls for the establishment of a joint federal and state government and industry animal identification development team by January 2003. This team is to use the work plan as a guide to develop an identification system that will enhance animal disease monitoring, surveillance, control and eradication in the United States.

The ID task force determined that a 48-hour traceback capability is the ultimate goal of a national ID system, especially in the event of a foreign animal disease outbreak in the United States. It concludes that a national ID system should have the capability to identify all premises

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Judges Give Conflicting Decisions in Pork and Beef Checkoff Cases

As the court cases progress in regard to the pork and beef checkoffs it seems that resolution is even further away. On Oct. 28th, the U.S. District Court in Michigan has ruled that the Pork Promotion, Research and Consumer Information Act is unconstitutional. However, on Nov. 1, the U.S. District Court for the District of Montana ruled that the Beef Promotion and Research Act is constitutional.

Secretary of Agriculture, Ann Veneman expressed her support of both checkoffs.

"I am pleased with the ruling from the U.S. District Court for the District of Montana that the Beef Promotion and Research Act is constitutional.

"This is very good news because the USDA regards such programs, when properly administered, as

effective tools for market enhancement. The beef promotion program has helped increase domestic and foreign demand for beef products and has strong support from beef producers.

"As the judge noted in his opinion, 'Congress has found that beef production plays a significant role in our nation's economy, and that the maintenance and expansion of existing beef markets is vital to the welfare of beef producers.'

"I am disappointed that the U.S. District Court in Michigan has ruled that the Pork Promotion, Research and Consumer Information Act is unconstitutional. The USDA regards such programs, when properly administered, as effective tools for market enhancement."

"The pork promotion has helped to increase demand for pork and

pork products and has contributed to increased U.S. pork exports. These results have led to widespread support for the program by pork producers.

"We are consulting with the U.S. Department of Justice to determine the next steps regarding this matter."

The pork checkoff ruling ordered a halt to checkoff collections starting Nov. 24th.

The Livestock Marketing Association supports the pork checkoff ruling.

"The judge in Michigan 'struck down the government claim that the pork checkoff is 'government speech,' and thus not subject to the First Amendment, according to an LMA press release. 'The government is making the same claim in the current beef checkoff.'"

Animal ID *continued from page 6*

(livestock operations, feedyards, markets, or other stops in the marketing chain) that had direct contact with a diseased animal within two days after discovery. It recommends that movement of individual animals or units of animals be recorded into a central database, or a seamlessly linked database infrastructure.

The ID task force recommends the integration of radio frequency identification (RFID) technology as the most feasible means to achieve a 48-hour traceback system.

The National Identification Work Plan outlines a phase-in program.

Phase I, for example, would implement a National Premises System. Phase II would implement individual ID, where animals would have an official tag with a unique visual animal identification number, and later progressing towards RFID. A group or lot ID number would be used for market swine identification. In phase III, a system to report animal movements would be implemented.

Industry organizations and other stakeholders will have an opportunity to review and comment on the National Identification Work Plan through March 2003.

"This will allow livestock organizations time to review the plan at their respective conventions and meetings and to gather producer feedback," Hammerschmidt said.

To request a copy of the 34-page "National Identification Work Plan," contact NLPA at 1-800-237-7193.



United Producers Awarded Value-Added Grant

Washington, D.C. (USDA) – Agriculture Secretary Ann M. Veneman announced more than \$75 million for economic development, energy and infrastructure projects to help spur investment and create new jobs in rural communities throughout the United States.

The **Rural Business-Cooperative Service Value-Added Agricultural Product Market Development** grants comprise 231 grants in 43 states and total over \$37 million and will fund a variety of agricultural ventures such as renewable energy, agri-marketing, high-value products from major crops and commodities.

United Producers, Inc., in Columbus, Ohio was awarded a grant for \$500,000 to implement a producer-owned verified beef network.

Recipients are required to obtain matching funds which will double the impact of the USDA grants. For information on applying for 2003 value-added grants visit: <http://www.rurdev.usda.gov/rbs/coops/vadg.htm>.

Jack Hanson Wins Election for Board Supervisor

On November 5th, Jack Hanson, a rancher in Susanville, Calif., defeated Everd A. McCain, in his campaign for the office of Board Supervisor, District Five. Hanson serves as the Vice Chairman of the National Livestock Producers Association and represents Tri-State Livestock Credit Corporation.

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