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OFFICE OF THE UNITED STATES ATTORNEY
WESTERN DISTRICT OF MISSOURI

TODD P. GRAVES

Contact Don Ledford, Public Affairs ● (816) 426-4220 ● 400 East Ninth Street, Room 5510 ● Kansas City, MO 64106
www.usdoj.gov/usao/mow

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(NOTE: Comments from U.S. Attorney Todd P. Graves will be available to download as an MP3 digital audio file from the district's Web site, www.usdoj.gov/usao/mow)

CATTLE BUYERS PLEAD GUILTY TO $160 MILLION 'PHANTOM CATTLE' SCHEME

KANSAS CITY, Mo. – Todd P. Graves, United States Attorney for the Western District of Missouri, announced that two defendants working together in a cattle investment business pleaded guilty in federal court today to the largest financial fraud ever prosecuted in the Western District of Missouri. The $160 million "Phantom Cattle Scheme" involved victims in several Midwestern states.

George L. Young, 72, of Grant City, Mo., and **Kathleen I. McConnell**, 54, of Kansas City, Mo., co-owners of United Livestock Services, LCC and Professional Business Services, pleaded guilty before U.S. District Judge Fernando J. Gaitan, Jr., this morning to all five counts of an indictment returned by a federal grand jury in Kansas City on Nov. 7, 2002.

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. **Young** and **McConnell** admitted today that they 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).

"These were phantom cattle that never existed and were never purchased or sold," Graves said. "The defendants used their clients' money to pay off other investors and cover cash shortfalls, rather than to buy real cattle."

Although **Young** and **McConnell** paid clients rates of return far above industry averages, Graves said, those payments were not generated by the livestock operations. Instead, they were generated by other clients, who were also told that their money was being used to purchase cattle and have them fattened for market.

"**Young** and **McConnell** claimed that their companies had the expertise, financial capacity, and industry contacts to generate higher profits for their clients," Graves said. "In reality, their livestock operation was losing money and had to be subsidized by this massive fraud."

Graves estimated the loss suffered by the defendants' clients and lending institutions is approximately $160 million. At the time **Young** and **McConnell** ceased doing business on August 10, 2001, records indicate that the defendants had nearly 344,000 head of cattle under their control. Instead, Graves said, less than 17,000 head of cattle actually existed.

"Ninety-five percent of their cattle existed only on paper," Graves said. "These phantom cattle would be carried on the defendants' books and records as inventory, which made it seem that their inventory of cattle was far higher than it actually was."

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, then used the fraudulently created cattle inventory as collateral to access funds from their companies' line of credit at First National Bank of Omaha.

The defendants admitted that they made false representations and concealed material facts from financial institutions such as First National Bank of Omaha and U.S. Bank, by falsely representing in financial documents submitted to those financial institutions that cattle inventories were much higher than they actually were.

The defendants also admitted that Young deliberately misled clients and representatives of their financial institutions who attempted to inspect the cattle. "They were careful to schedule these inspections at different times," Graves explained. "Young conducted the inspections, telling clients and bankers that they were viewing the cattle they had supposedly purchased or that were used as collateral. In fact, **Young** was showing the same cattle over and over to different clients."

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 three federally insured financial institutions that loaned money to investors who were victims of the fraud.

Graves noted that the defendants' companies' assets are now in the control of the bankruptcy trustees. "With their admission of guilt," Graves said, "the bankruptcy court can begin the process of providing at least some measure of restitution to those victims."

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. The defendants each pleaded guilty to two counts of mail fraud, one count of wire fraud, and one count of making a false statement.

Count One of the federal indictment alleges that on September 20, 1999, the defendants 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, the defendants 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, the defendants 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 the defendants 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.

As a result of today's guilty plea, **Young** and **McConnell** could each be subject to a sentence of up to 68 years in federal prison without parole, plus a fine up to $2,255,000 or twice the gain or loss, and an order of restitution. Their sentences will be determined according to the

United States Sentencing Guidelines. Sentencing hearings will be scheduled after the completion of presentence investigations by the United States Probation Office.

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.

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 Association and Producers Livestock Association.

The case is being prosecuted by Assistant U.S. Attorneys Dan Stewart and Kenneth E. Weinfurt. It was investigated by the Federal Bureau of Investigation, the U.S. Department of Agriculture – Grain Inspectors, Packers & Stockyards Administration, and the U.S. Department of Agriculture, Office of the Inspector General.

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