

NEBRASKA SIOUX LEAN BEEF, PART 5

In the spring of 1986, financier Scott Bates entered into a joint venture agreement with the Oglala Sioux Tribe to organize Nebraska Sioux Lean Beef, Inc. The corporation purchased a partially defunct packing plant in the nearby, but off-reservation town of Gordon, Nebraska, a move which was to provide substantial profit for the Tribe and employment opportunities for tribal members.

The purchase and incorporation deal, which was finalized in May 1988, stipulated that former plant owner Rudy Stanko, the First National Bank of Gordon, and Bates himself would provide Sioux Lean Beef with \$770,000 total operating capital. (This break down is shown and documented in Exhibit 1.) After making these arrangements, however, Scott Bates spent much of the following summer and fall seeking further operating capital for the enterprise. Apparently, the substantial capital flow required to keep a meat packing operation afloat convinced him that a larger credit base would be necessary before the company could begin to purchase cattle for slaughter.

For instance, Bates applied -- through the Tribe -- for a \$250,000 Indian Business Development Program Grant from the Bureau of Indian Affairs in the fall of 1986; he received this grant shortly thereafter. (See Exhibit 2, Bates' application to the BIA.) Receipt of this grant also allowed Mr. Bates to access a \$3 million line of credit which he had secured from the Chrysler Capital Corporation. (Exhibit 3.) With these funds in hand, Scott Bates opened the plant in late December 1986.

Several months passed, and presumably, operations progressed as planned. Yet by April of 1987, certain members of the Oglala Sioux Tribe felt that something was definitely amiss. Frank Means, Chairman of the Tribal Council's Economic Development Administration (EDA) Committee, pressed the issue at the April 30, 1987 Council meeting. Means pointed out that although the Tribe was the majority stockholder in the corporation, no report, not even the quarterly financial report, had been made to them as owners. Furthermore, Means questioned the appropriateness of this lack of information because, "There is a provision in that [corporate]

This case was written by Miriam R. Jorgensen for use at Oglala Lakota College; it was prepared under the direction of Professors Stephen Cornell and Joseph Kalt, co-directors of the Harvard Project on American Indian Economic Development. Support was provided by the Kellogg Foundation through the Managers as Warriors Program at Oglala Lakota College. This case was designed as the basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial and administrative situation. Neither is it intended as an investigative report, so certain facts may have been altered.

agreement that reports be provided to the Tribe and the provision should be adhered to." Many Council members concurred with Means, and they passed a motion "to request the presence of the Board of Directors of Nebraska Sioux Lean Beef to give a progress report at the next Tribal Council meeting." (12 for, 0 against, 1 not voting.)

Despite the Tribal Council request, neither Scott Bates, nor any other Nebraska Sioux Lean Beef representatives appeared at the next meeting. In fact, several meetings passed before word was heard in the Council chambers about Sioux Lean Beef; further, the little that eventually was heard was not informative. At the July 14, 1987 meeting Frank Means merely reported that "Officials from Nebraska Sioux Lean Beef were waiting around to make their report to the Tribal Council, but they had to leave." Means then asked that the issue be placed on the agenda for the next day; this plan went awry, however, as the delegation did not appear.

Finally on October 21, a full six months after the initial request for a report, Scott Bates did appear before the Tribal Council. He was accompanied by Bernard Cuny, an enrolled member of the Tribe who was an assistant manager at the plant. The kick-off portion of Bates' report addressed some legal complaints which had recently been made against him and the possibility that he might have been involved in criminal activities. In particular, the Council minutes report these as Bates very first words and actions upon taking the floor:

[He] stated he would like to enlighten the Tribal Council on the subject of a complaint that was filed against himself by an ex-partner in regards to a company which he previously owned quite some time ago. He stated there was absolutely no basis on which the complaint was filed. By this he meant the first part of the question was non-payment of some livestock. "[My ex-partner] decided one day it was takeover time and he decided to takeover. And I wasn't about to be taken over, so I decided to stand my ground." Bates added, to sum things up, [that] they ended up in court, and approximately seven or eight months ago, they settled out of court. [Secondary allegations concerned his] cheating on some weights of livestock; he stated some weights of animals differed greatly than others. He further stated his partner was involved with drugs; he was lied to and cheated to. Bates continued by saying that his partner eventually moved on to another job, and in essence, everything turned out okay. Bates said it was a civil matter.

While these matters were certainly of concern to the Tribe, they were not the object of their request.

Soon, however, the discussion did turn to the more specific interests of Council members. While he did not mention any profit, Bates gave gross sales figures for the plant. He also estimated that out of a \$1.4 million monthly payroll, \$70,000 went to Native American

families. In response to a question by Frank Means, Bates stated that 99% of the Native American employees at Nebraska Sioux Lean Beef were Oglala Sioux. During this effusion of assurances, the minutes also record Bates' statement that, "Virtually the Tribe -- one way or another -- is getting paid back the money they put into Nebraska Sioux Lean Beef for the first ten months of operation."

Other issues which had been boiling under the surface arose, too, many of them in the comments of Councilman Wayne Tapio. Tapio brought up the idea of accountability and asked why NSLB Board members (especially Council-appointed ones) did not attend Tribal Council meetings more often. Addressing Mr. Cuny's recent elevation to board membership, he mentioned that the Council "should not have that come to us from somebody else." He questioned the continued requests from Sioux Lean Beef for Council-acquired funds, including the most recent request that they apply for another grant to "reimburse whoever made some improvement on the rendering plant or something like that." Tapio concluded by noting that another concern was employment, and implied that the Indian employees' jobs involved hard and dangerous work.

Bates' answers were neither direct nor clear. Immediately after Tapio's incisive comments,

Bates stated that the OST Treasurer has access to all the books, she has all the information. He stated they (NSLB) have never turned anybody down. Bates continued by saying this is a very highly competitive business and right now, there's all kinds of people out there with a hatchet pack and that it's a cutthroat business out there. He states as far as communication, there's no trouble there and that any time anyone has any question, they can ask and they will answer the questions.

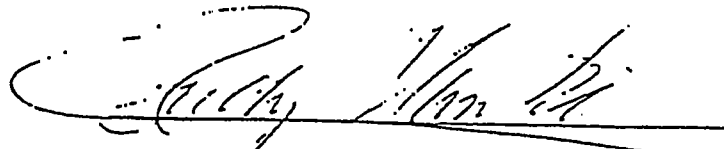
Bates stated the cattle market is in a great deal of demand and the cattle that they had to get were from seven or eight different states. He stated no one knows what could happen to the cattle market any day as it could collapse like the stock market. [Just a few days earlier, in mid-October 1987, the stock market had sustained its largest drop in history.]

Bates stated he was never aware that the board members were supposed to report to the Tribal Council on a timely basis, with the exception of the Annual Report and that's the way it's written right now. He stated if the Tribal Council wanted quarterly reports from NSLB, it'll be no problem with him.

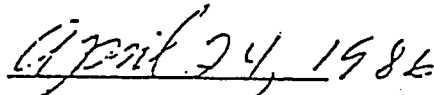
Source	Private Equity (Scott Bates)	Gordon Bank	Rudy Stanko (present owner)	Equity (Ogjala Sioux) HUD	State of NE. COBG	TOTAL
Building Acquisition		\$400,000	\$ 30,000	\$370,000		\$ 800,000
Renovation		\$ 25,000			\$330,000	\$ 355,000
Fixed Equipment				\$ 95,000	\$ 95,000
Working Capital	\$100,000	\$400,000	\$270,000			\$ 770,000
TOTAL	\$100,000	\$825,000	\$300,000	\$370,000	\$425,000	\$2,020,000

LETTER OF COMMITMENT

This is a Letter of Commitment contingent upon the Small City Block Grant being approved, at which time I will provide the following financing to Sioux-Braska Lean Beef Packer, Inc. \$300,000 new 2nd Deed of Trust secured against Land, Building, and Existing Equipment. No payments or interest for the first two years then interest only at Seven (7) Per Cent paid Quarterly for a ten (10) year period with a balloon payment at the end of the ten (10) year period.



Rudy Stanko



Date

The First National Bank of Gordon

Gordon, Nebr.

LETTER OF COMMITMENT

April 29, 1986

TO WHOM IT MAY CONCERN:

The undersigned, R.E. Connealy, President of the First National Bank of Gordon, Nebraska, does issue this letter of commitment to NEBRASKA SIOUX LEAN BEEF, INC., a Nebraska corporation, an entity formed by the Oglala Sioux Tribe and Scott Bates.

This bank will furnish \$425,000.00* of long term financing for the purchase by Nebraska Sioux Lean Beef, Inc. of the packing plant located in Gordon, Nebraska from Rudolph R. Stancko and Nebraska Beef Packers, Inc. To secure itself the bank will require a first deed of trust against the land, improvements and equipment currently in that packing plant. The loan will be repaid at a fixed rate of not more than 11% and amortized over twenty years with monthly payments of principal and interest. Interest will be adjusted annually to the bank's prime rate on the anniversary date of the loan. The interest will not, however, exceed 11% at any time during the twenty year term.

In addition, this bank will furnish an operating line of credit to the new corporation, Nebraska Sioux Lean Beef, Inc., of \$400,000.00*

FIRST NATIONAL BANK OF
GORDON, NEBRASKA

By: *R. E. Connealy*

R.E. CONNEALY
President

* Both are contingent upon the investment of monies by both Scott Bates and the Oglala Sioux Tribe in Nebraska Sioux Lean Beef, Inc. as presently contemplated.

THE FIRST NATIONAL BANK

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

GORDON, NEBRASKA 69343

October 9, 1986

* To Whom It May Concern: *

* *

This letter is to verify that the following funds have been deposited into the Nebraska Sioux Lean Beef Account.

\$100,000.00 was received from Scott Bates and \$370,000.00 from the HUD Grant for the Oglala Sioux Tribe.

Sincerely,
R.E. Connealy
R.E. Connealy
President

INDIAN BUSINESS DEVELOPMENT PROGRAM

GRANT APPLICATION AND APPROVAL

A. APPLICANT INFORMATION

1. Name of Applicant Nebraska Sioux Lean Beef, Inc.		3. Applicant's Telephone Number Home _____ Business 605/867-5771 308/282-0855	
2. Home Address (Number, street, P.O. Box or Rural Route) P.O. Box 190 <i>(City or town, State and ZIP code)</i> Gordon, Nebraska 69343		4. Applicant's Agency Pine Ridge Agency, South Dakota	
		5. Applicant's Tribe Oglala	6. Enrollment No. _____

7. Compliance with applicable requirements of the Flood Disaster Protection Act of 1973 (P.L. 93-234), the National Environmental Policy Act (P.L. 91-190), 42 U.S.C. 4321, and preservation of historical and archeological data (P.L. 93-291) must be indicated.

B. PROJECT DESCRIPTION - 1. Describe the proposed project including type of business (use additional sheets if required):

Cattle Slaughtering and Processing Plant

Indicate: a. New Business _____ b. Expansion _____ c. Purchase of business XX

2. Give breakdown of how grant funds will be used:

For the purpose of livestock inventory and general working capital.

3. Location of Business: Gordon, Nebraska	4. Address of Business: P.O. Box 190 City _____ County _____ State _____ Gordon, Sheridan, Nebraska
5. When will operations start? November 10, 1986	6. When will full operation be reached? December 15, 1986

C. FINANCIAL DATA. SOURCE: See Exhibit A

1. Applicant Equity:	Cash \$ _____	Assets \$ _____	Total \$ _____
2. Loans	_____		\$ _____
	_____		\$ _____
3. Other Grants	_____		\$ _____
	_____		\$ _____
4. New Equity	_____		\$ _____
	_____		\$ _____
5. Total Capital Available.....			\$ _____
6. Total Capital Required			\$ _____
7. Amount of Grant Requested.....			\$ 250,000.00

D. ANTICIPATED INCOME

	First Year	Second Year
1. Profit or Retained Earnings	\$ <u>See exhibit Z</u>	\$ _____
2. Income to Tribe	\$ <u>#8,9,10,11</u>	\$ _____
3. Other Income to Indians (List)	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____
4. Other Income to non-Indians	\$ _____	\$ _____

EXHIBIT 2, page 2 of 2

for a grant under section 402(a) of the Indian Financing Act of 1974, as amended. This information will be used to rate applicants according to priority listed at 25 CFR 286.8. Response to this request is required to obtain a

EMPLOYMENT AND PAYROLL DATA

1. Permanent	Number	Benefit.		Number	Second Year	
		First Year Man Years	Payroll		Man Years	Payroll
Total	85	35	546,000.00	115	45	894,000.00
Indian	50	50	636,000.00	70	70	900,000.00
2. Seasonal						
Total	21	3 mos.	27,300.00			
Indian	13	3 mos.	16,900.00			
	106		1,226,200.00	115	115	1,794,000.00
3. Total						
Total	85					
Indian	50					

4. Will secondary income of employment result from project? Yes
 If so, explain Employment in trucking, feedlot, buyers, sales rep. and rendering.

F. PROJECT MANAGEMENT

- Organization Form of Business Corporation See Exhibit G
- Attach evidence of legal entitlement to do business USDA Est. No. 13240
- Ownership of Business Scott Bates and Oglala Sioux Tribe
 - Name _____ Address _____
 - Name _____ Address _____
 - Name _____ Address _____
- Chief Executive or Manager
 Name Scott Bates Address Elk Grove, California
- Attach resume of education and experience. See Exhibit H

G. ACCOUNTING DATA

- Attach the following information:
 - Balance Sheets.
 - Profit and Loss Statements.
 - Cash Flow Statement
- Accounting data prepared by: Name CPA.-Ken Varner Address 1491 Bridge Street Yuba City, Calif. 95991

H. MARKETING DATA

- Market Area: Nation wide
- Estimated Market Share-Sales - First Year See Exhibit Z Number #9 Second Year's Number #10
- Sales estimate prepared by: Name Ken Varner Address Same as above.

I. FEASIBILITY STUDIES

- Has a feasibility study been completed? No Is a copy available? No
- Is a feasibility study required? NO Date required _____
 By whom? Name _____ Address _____

J. REPORTS

- First Semi-annual report will be submitted August 1, 1987
- Annual reports will be submitted as of March 1, during the 3rd, 4th and 5th years of operation.

K. SIGNATURE

ATTEST: _____
 Seal: _____
 For: _____
 _____ *Carl J. Davis* 10-15-86
(Signature) (Date)
 _____ Stephen Hughes, General Mgr.
(Type or print name and title)

L. APPROVED _____ TENTATIVELY APPROVED _____ DISAPPROVED _____
(Signature) (Date) IDDP No. _____
 AMOUNT APPROVED \$ _____



CHRYSLER
CAPITAL CORPORATION

Greenwich Office Park 1, Greenwich, Connecticut 06836-6900 (203) 629-3000

October 7, 1986

Mr. Scott G. Bates
President
Nebraska Sioux Lean Beef, Inc.
930 Alhambra Blvd. - Suite 200
Sacramento, CA 96816

Dear Scott:

This letter is written to describe the line of credit which Chrysler Capital ("CC") proposed in our letter dated October 1, 1986, to extend to Nebraska Sioux Lean Beef, Inc. ("NSLB") in order provide working capital for operation of the Gordon, Nebraska plant. We understand that this letter will be used to support NSLB's application for a Bureau of Indian Affairs grant.

CC has proposed to extend a revolving line of credit of up to Three Million Dollars (\$3,000,000). The credit line will be contingent upon NSLB receiving the above mentioned Bureau of Indian Affairs grant or other non-debt cash infusion in the minimum amount of Two Hundred Fifty Thousand Dollars (\$250,000) to provide necessary start-up capital, and complying with the other terms of the October 1 formal proposal letter.

To calculate availability under the credit line, CC proposes to establish a loan value of up to eighty-five percent (85%) of eligible accounts receivable. The final eligibility formula will be determined upon completion of our audit.

All loans and advances made by CC will be secured by a first and continuing security interest in all accounts receivable, inventory, and all other unencumbered assets of NSLB. Loans and advances on all collateral will be cross-collateralized.

In order to protect CC from possible claims under the Packers and Stockyards Act of 1921 ("P & S"), CC will require proof of issuance of a bond or letter of credit in the amount of Two Hundred Thousand Dollars (\$200,000) pursuant to P & S requirements. CC will also establish procedures to monitor NSLB's cattle buying, to be determined upon completion of our audit. In addition, CC will require the personal guarantee of Scott G. Bates, President of NSLB.

The foregoing assumes a contract length of five (5) years. Legal and filing expenses related to the credit line will be for the account of the borrower.

EXHIBIT 3, page 2 of 2

Page 2

Mr. Scott G. Bates
October 7, 1986

This proposed financing is subject to CC's standard due diligence procedures, which include approval by the appropriate approving authority within CC.

Sincerely,



Mary N. Young
Region Sales Manager

MNY/cv

✓ cc: Steve Hughes

RESOLUTION OF THE OGLALA SIOUX TRIBAL COUNCIL
OF THE OGLALA SIOUX TRIBE
(An Unincorporated Tribe)

RESOLUTION OF THE OGLALA SIOUX TRIBAL COUNCIL AUTHORIZING AND SUPPORTING 8 (a) APPLICATION OF NEBRASKA SIOUX LEAN BEEF.

WHEREAS, the Oglala Sioux Tribal Council is a partner in Nebraska Sioux Lean Beef Inc., and

WHEREAS, it is in the best interest of the Nebraska Sioux Lean Beef Inc. to achieve 8 (a) status, and

WHEREAS, such 8 (a) status would allow Nebraska Sioux Lean Beef to obtain military contracts, and

WHEREAS, the Oglala Sioux Tribal Council has during a Regular Session on October 21, 1987, voted to continue strong support of Nebraska Sioux Lean Beef, now

BE IT FURTHER RESOLVED, that the Oglala Sioux Tribal Council does hereby authorize, endorse and support the SBA 8 (a) application of Nebraska Sioux Lean Beef.

C-E-R-T-I-F-I-C-A-T-I-O-N

I, as undersigned, Secretary of the Oglala Sioux Tribal Council, hereby certify that this resolution was adopted by the vote of 12 for; 0 against; and 0 not voting, during a REGULAR Session held on the 21st day of OCTOBER, 1987.

Nancy S. Hussman

NANCY S. HUSSMAN
Secretary
Oglala Sioux Tribe

ATTEST:

Joe American Horse

JOE AMERICAN HORSE
President
Oglala Sioux Tribe

