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Cherokee tribal councilors quiz officials on investments

By S.E. RUCKMAN World Staff Writer
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One business is said to be teetering on the edge of bankruptcy.

TAHLEQUAH -- Cherokee tribal councilors peppered their business leaders in committee Thursday with questions about investments that are costing the tribe millions.

Executive and Finance Committee Chairwoman Linda O'Leary and Co-chairman Bill John Baker pushed officials of Cherokee Nation Industries and Cherokee Nation Business about businesses that are doing questionably.

Their inquiries centered on Global Energy Group, a company purchased by CNI in 2005, and Cherokee Connex, a wireless broadband company started in 2004.

Global Energy Group is teetering on the edge of bankruptcy, said Tom Reynolds, new chief financial officer for Cherokee Nation Industries. Global Energy Group currently has no payroll, faces a large debt and pays an inventor a monthly fee on the patents it reported in SEC reports as assets, he said.

"It's (Global Energy Group) an investment I wouldn't even come close to making. . . . It's ridiculous. I wouldn't put a dime in the thing," Reynolds said. "I've already told you more than my lawyers wanted me to."

Meanwhile, Cherokee Connex has lost millions since the tribally owned entity bought the company in 2004, said newly appointed tribal Treasurer Callie Catcher, who is head of Cherokee Nation Business.

"I have never come before this council and said that this company (Connex) was doing well," she said. "If we were to shut it down, our loss would be \$2 million."

Additionally, Dave Stewart, chief executive officer of Cherokee Nation Enterprises, said that the tribe's Will Rogers Downs is struggling. He cited a poor horse racing market and called its Claremore investment more of a "long-term project."

O'Leary and Baker asked Reynolds and acting Cherokee Nation Industries CEO Brian Collins if they had been instructed to withhold information from any entity's board or the chief's administration. Both denied the question.

New Cherokee Attorney General Diane Hammons said two investigations were being conducted into the Global Energy Group acquisition, but offered no details. The council rejected a proposed executive session to discuss the matters.

"My motivation is to determine what went wrong and punish those who did it," she said. "There can be bad business decisions, but that doesn't make it illegal."

Despite the heavy questioning, tribal councilors turned down a proposed resolution that would empower their council attorney, Todd Hembree, to take action on their behalf.

Baker admonished his fellow councilors prior to the vote, saying they were willing "to stick their head in the sand," rather than protecting the Cherokee people's money.

He cited fiscal oversight authority given to them by their constitution, which allows the council to maintain scrutiny over its business and tribal entities.

Questions about Cherokee Nation Industries intensified in June after its chief executive officer, Jim Majewski, was placed on administrative leave for his part in the purchase of Global Energy Group.

Allegations about fraud and fiscal mismanagement spurred tribal councilors into federal court against Majewski, Benjamin Dixon and Cherokee Chief Chad Smith.

The allegations also have spawned a Securities and Exchange Commission investigation.

The seven councilors allege in their lawsuit that Smith, Majewski and Dixon knowingly misrepresented information about the stocks' value and lied to the CNI board about the deal in order to gain approval for it.

Smith maintains that the seven councilors acted outside of the scope of their authority in filing the federal suit. He filed a tribal lawsuit last week asking to bar payment of tribal monies for the seven councilors' legal fees.

No date has been set in federal or tribal court.

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Tom Reynolds, CFO for Cherokee Nation Industries, attributed most of the company's losses to an investment in Global Energy Group.

Teddye Snell - Tahlequah Daily Press

TAHLEQUAH — Tom Reynolds, CFO for Cherokee Nation Industries, stood before the tribe's Executive and Finance Committee Thursday afternoon and predicted a \$6.3 million write-off for the fiscal year, primarily due to the company's investment in Global Energy Group.

In August 2005, CNI purchased 51 percent controlling interest in GEG for \$2.5 million. According to Doug Evans, CPA for the tribal council and executive director of financial oversight, assets of the publicly held GEG totaled \$350,000 at the time of purchase, with the majority held in a patent also in question. In addition, GEG carried a \$5.3 million debt to its preferred stockholders.

The money for the investment was carved from a \$14 million line of credit from the Bureau of Indian Affairs. The line of credit was originally established to prevent CNI from laying off tribal employees and, according to Evans, was never earmarked for investment or venture capital.

Following an investigation by Evans, a report was submitted to the Securities and Exchange Commission for further review and CNI CEO Jim Majewski and Benny Dixon, financial adviser for the tribe, were placed on administrative leave. In June, seven tribal councilors filed a federal civil suit against Principal Chief Chad Smith, Majewski and Dixon, to reclaim the money used to make the investment, including interest and court costs.

Reynolds assumed his position at CNI in May of this year.

When giving his report concerning the year's loss, he was, at first, non-specific.

Bill John Baker, District 1 Councilor and co-chairman of the E and F committee, wanted more information.

"Tom, what exactly are these write-offs?" he asked.

Reynolds reported \$2.5 million would be for the investment in GEG, with an additional \$500,000 and \$650,000 for credit extended to the Texas-based company since the original purchase.

In addition, \$1 million in write-offs was attributed to the investment in Cherokee Idling Systems Solutions.

"The principals [executives] involved in this company are the same as GEG," said Reynolds. "We also have an additional \$650,000 in potential write-offs of GEG inventory. It has some value and we might be able to sell it."

Finally, \$1 million of the projected write-off is due to non-saleable CNI inventory.

Brian Collins, acting CEO of CNI, indicated they were currently trying to sell the GEG interest.

"But, to be honest, I wouldn't give it [sale of the company] very good odds," Reynolds said, in answer

to a question posed by Councilor Charles Hoskin. "If you look at the company's [GEG] financials, let's be honest, it's close to bankrupt."

Taylor Keen, newly appointed at-large tribal councilor and Harvard graduate, voiced his concerns in the matter.

"I am appalled at what I've seen in this business venture," he said. "I am quite qualified in mergers and acquisitions, but it doesn't take a rocket scientist to see what a bad idea this was. How this has managed to transpire for so long is beyond my comprehension." Keen asked a final question of Reynolds.

"What happened to the \$2.5 million? Where is it?"

Reynolds reported the stock had been purchased from individuals, and would be hard to trace.

Keen asked if the tribe had any recourse in the matter.

"I really don't see any unless a sale comes along," said Reynolds. "We have had some interest, but I believe the guy is more of a broker in the deal. He's one of [Majewski's] buddies."

While trying to investigate the financial matter, tribal councilors reported being refused information from CNI. Charles Hoskin asked Reynolds if he had been asked to conceal information from the council.

"To my knowledge, no," said Reynolds. "We've been told by our inside counsel to refer you request information through the Freedom of Information Act. I think it's crazy, but frankly, I've only been here a short while and it's very difficult trying to figure out which body - the council, the CNI board or the in-house lawyers - I'm supposed to answer to."

Reynolds reported CNI has currently cut off funding to GEG as well as Idling Solutions.

Adding insult to injury, since the councilors are currently involved in litigation against employees of the tribe - Majewski and Dixon - CNI's legal insurance company has declined to defend the pair.

"According to the company's by-laws, we are going to have to pay to defend both of them in the federal suit out of CNI funds," said Reynolds. "Which, since the company is reporting a loss, will be taken from the BIA line of credit."

Baker wanted to know what would happen if CNI lost its line of credit.

"We'd be insolvent," said Reynolds.

More to come . . .

Millions lost in tribal investments

By Donna Hales - Phoenix Staff Writer

TAHLEQUAH — The Cherokees are losing millions of dollars on businesses investments not connected with gaming enterprises, councilors were told Thursday. Gaming profits have financed the failed or failing ventures, records show. Cherokee Connect, one of those businesses has lost \$2 million, said Callie Catcher, CEO of Cherokee Nations Businesses and tribal treasurer.

Cherokee Nation Industries, Inc. officials confirmed \$2.5 million used to purchase what is now 49 percent of Global Energy Group stock from a group of investors is as good as gone. Related expenses and investments with the same men pushed related losses to more than \$6.3 million, said CNI's new Chief Financial Officer Tom Reynolds.

"This is an investment I would never have come close to making," Reynolds said in an Executive and Finance committee meeting of the Cherokee Nation Council on Thursday. "It's ridiculous. I wouldn't put a dime in that thing. I would have put it in the trash can. And then we loaned them \$500,000 to buy some lighting company — and that's now a \$1 million (investment)."

Reynolds was praised for being so candid.

Taylor Keen, who was recently sworn in as a Councilor-at-large, said he was "concerned for (Reynolds') professional health."

"I'm going to watch carefully what happens to him," Keen said.

The federal Securities and Exchange Commission is investigating allegations of fraud in connection with the GEG purchase.

"I'm absolutely appalled at what I've seen from everything from lack of due diligence to looking at GEG and recognizing there is no payroll, a large amount of debt and a huge amount of good will."

Keen said he was "appalled at how (the GEG purchase) happened."

CNI Chief Executive Officer Jim Majewski, who touted the stock purchase, earlier was placed on administrative leave with pay. An advisor to Cherokee Nation Businesses, Benjamin "Benny" Dixon, resigned rather than be put on administrative leave, CNI officials said Thursday.

Majewski, Dixon and Cherokee Chief Chad Smith are being sued in federal court by seven of the tribe's 17 Councilors over the GEG sale.

Reynolds informed councilors that under CNI bylaws, CNI will have to hire attorneys to represent Dixon and Majewski in the federal suit.

Cherokee Nation Attorney General Dianne Hammonds, who also serves as the administration's general counsel, asked the tribal court Friday to rule the seven Councilors who filed the federal suit were involved in a conspiracy to spend the Cherokee people's money because they had no

standing to file the suit.

That could mean the seven Councilors would have to pay their legal fees. Baker made a motion Thursday to empower the council's attorney to recoup the Cherokee people's money using any legal means necessary.

"We need to try and recoup some of this money and if it means punishing the individuals who took us on this ride — then that's what it means," Baker said. "We're the keepers of the purse — we've got the responsibility to the Cherokee people."

Nine of the 15 councilors present voted against Bill Baker's motion: Cara Cowan, Bill Johnson, Jackie Bob Martin, Phyllis Yargee, Meredith Frailey, Don Garvin, Audra Connor, Jack Baker and Taylor Keen.

Reynolds confirmed the \$2.5 million initial investment in GEG came from line of credit guaranteed by the Bureau of Indian Affairs that was not intended to be used as venture capital.

Bill Baker asked Thursday what would happen to CNI, which employs more than 160 people, if that guaranty is recalled.

"I'm afraid we wouldn't be solvent," Reynolds said.

CNI purchased Global Energy before Reynolds, a former CFO for Hudson Foods, started working for CNI.

Councilors pressed Reynolds hard Thursday for his opinion of the GEG purchase. "Just look at that company's financials," he said.

When asked if there was any hope of survival, Reynolds said: "To be honest with you, I think they're close to bankrupt."

It would take a huge amount of capital for installation and marketing and developing the product line, Reynolds said.

"It's going to require a third party to come in and buy out our shares," Reynolds said.

CNI will be taking from \$3 million to \$5 million in write-offs, Reynolds told Councilors.

GEG related losses include a \$1 million investment in Cherokee Idling Solutions, Inc., which is owned by the same investors who own the majority of the stock in GEG, Reynolds confirmed.

"I don't see us getting any money back there," he said.

Another similar investment includes a lighting company that is losing money.

Reynolds assured Councilors CNI funneling money to GEG and related companies has ceased.

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"Chad, Chad, Chad... What were you thinking - two wives." And trying to keep it a secret at that. It only makes me wonder what other secrets you are hiding.

Well it looks as though Mr. Smith is in the spotlight with all fingers pointing directly at him. And, we, the Cherokee People have a front row seat to a show that can only cause embarrassment to us all. Will justice prevail...Heaven only knows.

To the 8 tribal councilors who filed suit - WAY TO GO!!

At this time, I would like to thank Mr. Smith for representing the Cherokee People with honor and dedication...oops! I completely forgot, Mr. Smith doesn't know the meaning of honor and dedication. Much less representation.

Nevertheless, I am very proud of my Cherokee heritage and always will be. Cherokee People keep your heads held high in our time of disgrace brought on by our chief. We have come a long way since our ancestors were forced to relocate. And we have a long way to go still.

Please keep in mind: A chief doesn't make a tribe - the people do. Our chief is only a man with authority. It just so happens our chief has disgraced the people. So let the 'Great Spirit' deal with him.

For we are a tribe of MANY wonderful men and women, we can represent the Cherokee Nation with honor. As a tribe, we have the power to overcome this embarrassment and continue on our journey as Proud Cherokee People.

Wah Doh a Cherokee

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