The **Aleut Voice**, a shareholder advocacy newsletter

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To: The Aleut Corporation board of directors

For shareholder distribution

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Subject: AMS The Enigma. A subsidiary analysis, 2 pgs.

The Aleut Corporation (**TAC**) subsidiary Aleut Management Services (**AMS**) in the face of non-performance is an enigma to shareholders. Net income is minimal to modest including a -60.6% crash in 2012, a $21M negative income swing that exceeds the original TAC/ANF distribution. This loss distressed elders who said that this money came on the backs of our forebears and represents our heritage.

The board of directors refuses to adequately explain to shareholders why they stubbornly hang on to this company while trudging forward with revenues that trend 72% of 2006-2011 levels. Those previous revenues averaged $103M/year. Recent revenues average $95M.

From 2012-2015, AMS lost market share and could not compete to establish a backlog of repeat business. TAC/AMS were seemingly blindsided by 8a program changes. Post sequestration government handouts were fading. TAC's board knew in 2009 that the CSAJV contract would end soon. TAC's board is stuck in AMS apathy. The following tracks AMS's performance.

<u>About $1M is paid to the top officers of AMS for non-performance.</u> How was there a -$21M income swing in 2012, no one took responsibility or no one was terminated at AMS or TAC?

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenue $M	80	92.5	96.5	111.5	128	110	45.5	45.7	53.4
CSAJV	5.9M	7.0M	8.2M	9.8M	6.3M	4.26M	(3.0M)	303K	1.26M
Net Profit Contr. Rev.			2.1M	5.4M	2.3M	4.2M	-17M	303K	913K
% of revenue			2.2%	4.9%	1.8%	3.8%	-61%	.67%	1.7%

	2015	2016	2017	2018
Revenue $M	70	101	114	
Net Prof. $M	.670	4.4	5.04	
%of Rev.	.96	4.4	4.4	

TAC is the investor in AMS. An investor would ask how am I getting cash out of AMS compared to the original cash Invested plus unpaid advances?

What the CEO describes as “Impressive improvement” impresses no one except TAC management. $5M net profit at 4.4% of sales is typical for 8a work. AMS was cash strapped and needed a $2.5M cash loan from the parent company in 2016 for operations.

TAC board has a fiduciary duty of care to act in good faith and in the shareholders best interest. TAC management warned for 5 years about government contracting risks, specifically increasing competition, increased proposal costs and adverse changes to the (SBA) Small Business Administration 8(a) program. TAC board and management ignored their own red flags resulting in poor contract profits from 2008-2015. Contract income from JV partners was excellent for example CSAJV and Akima/Ki. Without JV partners TAC government contracting performance would have shifted from lackluster to abysmal. Lesson learned is we do not do it well ourselves. TAC severed its relationship with NANA and that impacted profits.

Assuming a trending scenario of 4.4% net profit going forward, it will take 7 years or more to recover past losses. Highly paid officers benefit well. Shareholders do not. Senator Claire McCaskill’s oversight report to the GAO, speaks to no native employees and benefits from the 8a program not flowing to shareholders. The Aleut Voice recommends that all shareholders and board members read GAO March, 2016 Alaska Native Corporations Oversight Weaknesses-8a.

The ebbs and flows of government contracting do not substantially add to shareholder equity. The 8a program is under increased scrutiny, for example the pending lawsuit at Aleutiq and the complaint about shell corporations being formed that violate laws governing the 8a program. Stay tuned to ADN news for the outcome of this trial. Sadly, many ANC’s hang their hat on these programs stating, “that’s all we ‘ve got”. AMS trends since 2006 indicate the next down cycle will come again.

It is difficult to assess the return on equity for government contracting because one cannot easily calculate the current equity position for AMS. AMS did not make any significant cuts while going through losses so the parent corporation (TAC) had to be carrying AMS through lean times with cash advances for operations. A snapshot look at AMS for the last two years shows a company that is generating some modest income.

When TAC choses to ignore past losses then shareholders should ask where is due diligence and oversight? In the real world, the company would be shut down managers fired or bonuses suspended. TAC does not need more deferred tax assets from losses. At 4.4% of contract revenue AMS is slogging along. If ANCs had to compete head to head in the real world without the 8a welfare program, competition would eat them alive.

I conclude that if TAC sold all of its AMS fixed assets and contracts and got out of the 8a game, then cut all of the staff and expenses associated with the 8a program including regulation compliance costs and high audit costs, shareholders would be better off even with some write-offs. Do the math, shift your focus to being more of an investment company. Shareholders will benefit. Take it from an old fart who spent 22 years in operating companies responsible for up to 600 employees, manufacturing medical, military and aerospace products that people’s lives and national security depended on and providing technical services. Capital and operating budgets and bosses who would not put up with losses and fuzzy numbers are very clear to me.