

NSEDC posts investment gains of \$9.7 million through Sept. 30

Subsidiary reports drop in pollock income, F/V Aleutian No. 1 profits

By Laurie McNicholas

Norton Sound Economic Development Corp.'s investments have rebounded in the past six months, Controller Rich Walicki told the NSEDC board at a quarterly meeting last week in Unalakleet. Walicki said investment increases of nearly \$9.7 million through September 30 came almost entirely from securities portfolio gains.

Previously NSEDC reported securities portfolio losses of \$5.2 million in 2007 and \$16.4 million in 2008. Walicki quoted figures indicating securities portfolio losses of \$2.8 million during the first quarter of 2009. He said losses bottomed out in March.

Chief Executive Officer Janis Ivanoff announced that on Oct. 15, Steve Rieger LLC assumed management of the NSEDC securities investments that UBS Financial Services formerly managed.

Walicki reported revenues of \$23 million and expenses of \$16.5 million through Sept. 30. He repeatedly emphasized that his income figures include several million dollars in accrued harvest revenues that are owed to NSEDC but were not due by Sept. 30. He said NSEDC's net assets have increased by \$15 million, up from \$123.6 million at the beginning of the year to \$138.6 million.

As one of six Community Development Quota groups in western Alaska, NSEDC receives allocations of the annual total allowable catch (TAC) of pollock, cod, other ground-

fish and crab in the Bering Sea/Aleutian Islands area. NSEDC has nonprofit tax-exempt status as a social welfare organization under 501c4 of the Internal Revenue Code. The company does not pay taxes on income related to its nonprofit status, such as income derived from Community Development Quota or stock market investments.

Siu Alaska Corp. report

NSEDC has determined that some of its assets are taxable and considered unrelated to its non-profit status. Its taxable assets are the company's ownership interest in Glacier Fish Co., Glacier Bay Fisheries, PS Fisheries and the F/V *Aleutian No. 1*.

NSEDC owns 37.5 percent of GFC, which owns fishing vessels that harvest and process pollock, cod and hake. GFC operates the F/T *Northern Glacier*, F/T *Pacific Glacier*, C/P *Alaska Ocean*, C/P *Glacier Bay* and C/P *Norton Bay*. When GFC acquired the 376-foot *Alaska Ocean* last year, the company's allocation of the annual Bering Sea pollock TAC increased from 3.2 percent to 6.2 percent.

Last year NSEDC established a wholly owned, for-profit subsidiary, Siu Alaska Corp., to manage the company's taxable assets. John Eckels, Siu's president and chief executive officer, provided an update on the status of the subsidiary to the NSEDC board last week.

Eckels said the reduction in pol-

lock TAC levels to 815,000 metric tons this year has adversely impacted the pollock industry, and the market has been down all year. "The income of Glacier Fish Co. is significantly lower than last year," he added.

Siu does not expect to pay taxes on income from GFC this year because the depreciation of the *Alaska Ocean* is much greater than the taxes, Eckels reported. "We have paid estimated taxes of more than \$1 million, but I suspect we will get much of it back," he said.

GFC assumed a large loan package when it acquired the *Alaska Ocean*, Eckels noted. He said the company may ask for a capital contribution to assist with its loan covenants. He expressed concern about pressures on the pollock TAC, especially if it falls below 815,000 metric tons.

"The *Northern Glacier* and *Glacier Bay* will finish the cod harvest about Dec. 1," Eckels reported. "The *Alaska Ocean* and *Pacific Glacier* have been in Seattle since the end of the pollock season. The *Norton Sound* has been tied up all year.

"Do GFC finances come from you to us or from GFC to us?" asked NSEDC board member Wilfred Katcheak of Stebbins.

"They come from Siu to you," Eckels replied.

"I would like to see the finances of our harvesting partner," Katcheak said. "When will it be made available to us?"

"It will come from Siu to the NSEDC board at the end of 2009," Eckels said.

"I would like to see quarterly figures," Katcheak said.

Aleutian No. 1 operations

NSEDC owns 50 percent of the F/V *Aleutian No. 1* (A-1), which harvests golden king crab and opilio (snow crab). "The A-1 is fishing golden king crab in the Aleutians," Eckels reported. "It's at Dutch Harbor now unloading the fifth of 6-1/2 trips. There are two other trips she'll make out west. We don't have a place to deliver. We are seeking relief through the National Marine Fisheries Service or Congressional action. If we don't get relief soon, opilio starts in January. Then if we get relief after opilio, we will get the rest of the golden king crab.

"Market prices are down for golden king crab," Eckels continued. "The last few years a big chain bought golden king crab, but not this year. We have a 1.1 million pound [catch quota]. This trip the A-1 completes [harvesting] 800,000 pounds. Another 350,000 pounds or so are in the west.

"This year I don't expect a lot of profit [from the A-1]," Eckels said. Noting that the ship received extensive repairs in a shipyard this year, he predicted at least two to three years of smooth sailing and more profitable returns in the future.

The F/V *Pacific Star* has completed a 155-day charter operation and is due to arrive in Seattle, completing its current contract, Eckels reported.

Potential investments

Eckels said the seven-member Siu board of directors is considering a major investment with another CDQ entity in Bering Sea fisheries that would involve hard assets and portions of pollock and crab quota.

He said if the deal comes together it will make more sense for NSEDC to own the quota tax free. Confidential agreements prevent him from providing details about the proposed venture, but he hopes to be able to do so in December, he added.

"We are looking at smaller investments—one in Anchorage, one in Dutch Harbor—but they don't excite us as much and are a greater risk," Eckels said. "The prices the sellers want are not appropriate for the returns."