



Kavilco Incorporated

KAVILCO NEWS

Volume 4, Issue 2

August 2009

DIRECT DEPOSIT

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36th Annual Meeting of Shareholders



Board of Directors L to R: John Campbell, Secretary, Louis Jones, Sr., Vice President, Louis A. Thompson, President/CEO, Marie Miller, Melanie Locklear, Kenneth Gordon, Jeane Breinig at the 2008 Annual Meeting. Photo courtesy of Laird A. Jones.

The 36th Annual Shareholders Meeting is scheduled for Saturday, **November 7, 2009** at **Cape Fox Lodge** in Ketchikan, Alaska.

Registration will be from 11:00 a.m. to noon in the **Shaa Hit Room**. The meeting will begin at 1:00 p.m. and end at 3:00 p.m. The primary items of business are the approval of the Corporation's independent public accountants and the election of Directors. The Directors whose terms expire this year are John Campbell, Kenneth Gordon and Louis Jones, Sr.

Your 2008 Annual Report and Proxy Statement will be mailed in October. We urge you to attend the Annual Meeting if possible. Attendance at our shareholder meetings helps maintain good communications and understanding. **Your vote is important!** Even if you are unable to attend the Annual Meeting we hope you will vote your proxy as soon as possible.

The **Annual Dinner and Auction** will also be held in the Shaa Hit room at Cape Fox Lodge. Doors will open at 5:30 p.m.

Inside this issue:

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2008 Annual Meeting. First row: Julie Coburn. Second row L-R: Ron Hadden, Mary Jones. Back row L-R: Nettie McDaniel, unidentified, Eleanor Hadden, Diane Demmert, Paige Jones, Michael Dalton. Photo courtesy of Laird A. Jones.



Portfolio

Following is an overview of the economic issues we discussed at the last Board Meeting in July. The *Beige Book* summary of economic conditions in the 12 Federal Reserve districts begins: "Economic conditions remained weak or deteriorated further during the period from mid-April through May." Loan demand is weak and credit is tightening in all districts. Residential construction has stabilized at very low levels. Commercial real estate weakened in all districts with prices falling everywhere. The unemployment claims have been above 600,000 for an unprecedented 22 weeks. Given the foregoing, we can safely say there is **no indication of an economic recovery**.

On the housing front, the Mortgage Bankers Association noted that a record 12%, or one in eight homeowners are now behind on their payments or in foreclosure. **The foreclosure rate on prime fixed-rate loans has doubled in the last year**, and for the first time since the rapid growth of subprime lending, prime fixed-rate loans now represent the largest share of new foreclosures. For those who think the end of the recession will be like past recessions, the problems in the housing market should make for serious concern.

The debt and the amounts of money spent after 1971, the last time we had double-digit inflation and prime interest rate peaked at 21.5%, were almost miniscule compared to the amounts being spent today. The **monetary response** by the Fed and current administration to the recession has been three times more (adjusted to today's dollars) than the U.S. spent to fight World War II. It is 12 times more (relative to the GDP) than the total committed to fight the Great Depression.

Milton Freidman is considered one of the most highly influential economist political commentators and essayists of the century. In his prophetic book *Money Mischief: Episodes in Monetary History*, written two decades ago, Mr. Friedman showed how, facing massive deficits, the U.S. government would

dramatically increase the money supply; why foreign countries would stop buying our debt; how the Fed would start buying our Treasury bills; and **why this would cause massive inflation**. This is basically what is taking place now.

The bond vigilantes, who demanded higher Treasury bond yields from the late 1970s to the early 1980s because of inflation, vanished earlier in the decade amid the credit mania. But they appear to be returning with a vengeance now that the Congress and the Fed have flooded the world with dollars to beat the recession. The Obama administration's **epic spending spree** means the Treasury will have to float trillions of dollars in new debt in the next two to three years alone.

With the government's borrowing needs soaring, there have been some concerns that foreign interest in holding U.S. debt might falter causing interest rates to rise. So, the bond vigilantes' concern that the only way to pay off this debt is to inflate away its value coupled with a major increase in Treasury bond supply, will ultimately put **upward pressure on interest rates** on the long end of the yield curve.

In response to the **threat of higher interest rates** what capital we have will be used to purchase short-term corporate bonds. To offset our money market interest rate of 0.34%, we have been purchasing dividend yielding stocks. The average yield on our stocks and bonds is 7.03% and 5.64%, respectively.

"...what capital we have will be used to purchase short-term corporate bonds."



IN MEMORIAM

Elaine M. Privett

Original shareholder Elaine M. Privett passed away on July 19, 2009 in Anchorage, Alaska. She was born on May 17, 1933. Our sincere condolences to Elaine's family and friends.

Kavilco Incorporated

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Kavilco
INCORPORATED

We're on the web!

www.kavilco.com

The Kavilco Incorporated name was created with much thought. KA came from Kasaan, VIL represents the Indian Village of Kasaan and CO represents the Company.

The Kavilco plaque reads "Hale Alaska Indian Descendants All," which stands for HAIDA. Also on the plaque is a picture of mountains, long house, totem and water. The mountains represent future revenues, as well as the hunting areas. The long house and totem represent the past. The blue water is the fishing area around the Village of Kasaan from which our ancestors gathered their food and made a living.

Kavilco's mission statement is to honor the vision and unselfish actions of our Kasaan Haida ancestors and elders; the goals of Kavilco Incorporated are to provide dividends and to preserve the assets for all generations.

In Kasaan

Whale House Update. The Board of Directors reviewed the final report on the Whale House from MRV Architects, BBFM Engineers and HMS, Inc.

The architects' report included a Schematic Analysis, Work Summary, and Recommendations in addition to detailed drawings of the site. BBFM Engineers provided a detailed structural report on the current condition of the Whale House. HMS, Inc. provided a Schematic Design Submittal Construction Cost Estimate.

The estimate is for the Whale House only and the total project cost is in the range of \$2 million.

The package of Schematic materials will be used as a basis for grant requests/funding to cover costs for the final design and construction work.

This material is based upon work assisted by a grant from the Department of the Interior, National Park Service. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the views of the Department of the Interior.

Grants/Funding Partnership. Kavilco, Kasaan Haida Heritage Foundation (KHHF) and the Organized Village of Kasaan (OVK) have partnered to seek grants towards the restoration of the Whale House. Kavilco, KHHF and OVK are in the

process of writing a Memorandum of Understanding to begin the process of applying for grants and funding to restore the Whale House. OVK employs a grant-writer and has been successful at procuring large grants.

Please feel free to call me at the Field Office in Kasaan, 907-542-2214 or toll free at our Seattle office, 800-786-9574.

Sincerely,



Louis A. Thompson
President/CEO

KAVILCO INCORPORATED
(An Investment Company)
FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES **For the six months ended
June 30, 2009 (unaudited)**

ASSETS

| | |
|--|-------------------|
| Investments in securities, at market value (identified cost \$32,692,381) | \$ 33,486,834 |
| Real estate at fair value (identified cost \$1,054,089) | 3,588,815 |
| Cash and cash equivalents | 978,253 |
| Interest receivable | 564,462 |
| Premises and equipment, net | 5,785 |
| Prepaid expenses and other assets | <u>25,902</u> |
| Total assets | <u>38,650,051</u> |

LIABILITIES

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | 21,671 |
| Dividends payable | <u>97,446</u> |
| Total liabilities | <u>119,117</u> |

NET ASSETS**\$ 38,530,934**

Net assets consist of:

| | |
|---|-------------------|
| Unrealized appreciation on Investments | \$ 2,551,008 |
| Real estate | 2,534,726 |
| Contributed capital | <u>33,445,200</u> |

Net assets **\$ 38,530,934**

Net asset value per share of Class A and Class B
common stock (\$38,530,934) divided by 12,000
shares outstanding)

\$ 3,211

See accompanying notes (unaudited).

KAVILCO INCORPORATED
(An Investment Company)

**For the six months ended
June 30, 2009 (unaudited)**

SCHEDULE OF INVESTMENTS

| | Principal amount/shares | Fair Value |
|--|----------------------------|------------------|
| INVESTMENTS IN SECURITIES – 86.9% | | |
| U.S. Corporate Obligations – 85.5% | | |
| Chemical Industry – 4.1% | | |
| E.I. Du Pont de Nemour, 5.250%, due 12/15/16 | 1,519,000 | \$ 1,581,208 |
| Communications – 15.3% | | |
| Deutsch Telecom Int. Fin., 8.500%, due 06/15/10 | 450,000 | 473,249 |
| Verizon NE Inc., 6.500%, due 09/15/11 | 1,000,000 | 1,064,419 |
| Comcast Corp., 10.625%, due 07/15/12 | 1,338,000 | 1,565,460 |
| AT&T, 5.100%, due 09/15/14 | 1,250,000 | 1,298,485 |
| CBS Corporation, 4.625%, due 05/15/18 | 2,000,000 | 1,486,344 |
| Total Communications | | <u>5,887,957</u> |
| Consumer, Cyclical – 11.7% | | |
| Wal-Mart Stores, 6.875%, due 08/10/09 | 1,000,000 | 1,006,098 |
| Dayton Hudson, 8.600%, due 01/15/12 | 100,000 | 112,341 |
| Home Depot Inc., due 5.250%, 12/16/13 | 1,000,000 | 1,027,448 |
| Safeway Inc., 5.625%, due 08/15/14 | 1,229,000 | 1,289,335 |
| Target Corp., 5.875%, due 07/15/16 | 1,000,000 | 1,082,590 |
| Total Consumer, Cyclical | | <u>4,517,812</u> |
| Consumer, Non-cyclical – 9.0% | | |
| Clorox Company, 6.125%, due 02/01/11 | 1,000,000 | 1,042,795 |
| Yum! Brands Inc., 8.875%, due 04/15/11 | 1,000,000 | 1,091,588 |
| Coca Cola Enterprises, 8.500%, due 02/01/12 | 700,000 | 798,720 |
| McDonald's Corp., 5.300%, due 03/15/17 | 500,000 | 524,568 |
| Total Consumer, Non-cyclical | | <u>3,457,671</u> |
| Energy – 11.3% | | |
| Smith International, 6.750%, due 02/15/11 | 500,000 | 514,704 |
| Plains All American Pipeline, 6.125%, due 01/15/17 | 1,345,000 | 1,296,904 |
| XTO Energy Inc., 6.250%, due 08/01/17 | 1,000,000 | 1,052,289 |
| Transocean Sedco Forex Inc., 7.375%, due 04/15/18 | 1,350,000 | 1,492,738 |
| Total Energy | | <u>4,356,635</u> |
| Financial – 5.4% | | |
| Bear Stearns, 7.625%, due 12/07/09 | 1,000,000 | 1,025,326 |
| John Deere Capital Corp., 3.500%, due 10/15/10 | 500,000 | 500,141 |
| Boeing Capital Corp., 6.500%, due 02/15/12 | 500,000 | 548,649 |
| Total Financial | | <u>2,074,116</u> |
| Industrial – 9.6% | | |
| CSX Corp., 6.750%, due 03/15/11 | 450,000 | 472,391 |
| CSX Corp., 5.500%, due 08/01/13 | 964,000 | 981,157 |
| TYCO Intl Group, 6.000%, due 11/15/13 | 1,245,000 | 1,265,938 |
| Union Pacific Corp., 4.875%, due 01/15/15 | 1,000,000 | 1,005,494 |
| Total Industrial | | <u>3,724,980</u> |

SCHEDULE OF INVESTMENTS (continued)

| | | |
|--|-----------|-------------------|
| Technology – 7.8% | | |
| Xerox Corporation, 5.500%, due 05/15/12 | 2,000,000 | 1,994,526 |
| Cisco Systems Inc., 5.500%, due 02/22/16 | 960,000 | 1,017,015 |
| Total Technology | | <u>3,011,541</u> |
| Utilities – 11.3% | | |
| American Electric Power, 5.375%, due 03/15/10 | 1,475,000 | 1,508,763 |
| Dominion Resources, 5.000%, due 03/15/13 | 1,000,000 | 1,023,324 |
| Potomac Electric Power, 4.650%, due 04/15/14 | 600,000 | 607,442 |
| Southern Power Company, 4.875%, due 07/15/15 | 1,250,000 | 1,209,066 |
| Total Utilities | | <u>4,348,595</u> |
| Total U.S. Corporate Obligations (cost \$32,221,454) | | <u>32,960,515</u> |
| Common Stock – 1.4% | | |
| Chemicals-Specialty – less than 1% | | |
| Terra Nitrogen Company LP | 100 | <u>10,078</u> |
| Computer Software & Services – 0.2% | | |
| Microsoft Corp. | 3,640 | <u>86,523</u> |
| Drug Industry – less than 1% | | |
| Sanofi-Aventis-ADR | 600 | <u>17,694</u> |
| Electric Utility – 0.3% | | |
| Consolidated Edison Inc. | 600 | 22,452 |
| Duke Energy Corp. | 700 | 10,213 |
| NSTAR | 600 | 19,266 |
| Progress Energy Inc. | 600 | 22,698 |
| Scana Corp. | 700 | 22,729 |
| Southern Company | 600 | 18,696 |
| Total Electric Utility | | <u>116,054</u> |
| Exchange Trade Funds – 0.1% | | |
| iShares Investment Grade Corp. Bonds | 200 | 20,056 |
| SPDR Gold Trust | 250 | 22,795 |
| Total Exchange Traded Funds | | <u>42,851</u> |
| Food Processing – less than 1% | | |
| Unilever PLC | 800 | <u>18,800</u> |
| Natural Gas (Diversified) – less than 1% | | |
| ONEOK Inc. | 600 | <u>17,694</u> |
| Oil/Gas Distribution – 0.3% | | |
| Buckeye Partners LP | 500 | 21,415 |
| Energy Transfer Partners LP | 600 | 24,294 |
| Kinder Morgan Energy Partners | 500 | 25,560 |
| Plains All American Pipeline | 400 | 17,020 |
| Suburban Propane Partners LP | 400 | 16,868 |
| Total Oil/Gas Distribution | | <u>105,157</u> |
| Petroleum Industry – less than 1% | | |
| Royal Dutch Shell PLC | 930 | <u>20,076</u> |

SCHEDULE OF INVESTMENTS (continued)

| | | |
|--|-----|----------------------|
| Real Estate Investment Trust – 0.1% | | |
| AvalonBay Communities, Inc. | 400 | <u>22,376</u> |
| Telecommunication Services – 0.2% | | |
| AT&T | 800 | 19,872 |
| CenturyTel Inc. | 800 | 24,560 |
| Verizon Communications | 800 | 24,584 |
| Total Telecommunication Services | | <u>69,016</u> |
| Total Common Stock (cost \$467,392) | | <u>526,319</u> |
| Total Investments in Securities (identified cost \$32,692,381) | | <u>\$ 33,486,834</u> |

See accompanying notes (unaudited).

KAVILCO INCORPORATED
(An Investment Company)

For the six months ended
June 30, 2009 (unaudited)

STATEMENT OF OPERATIONS

INVESTMENT INCOME

| | |
|-------------------------|----------------|
| Interest | \$ 900,588 |
| Dividends | 18,264 |
| Total investment income | <u>918,852</u> |

EXPENSES

| | |
|--------------------------------------|----------------|
| Salaries and benefits | 144,026 |
| Directors' compensation and expenses | 133,237 |
| Legal and accounting | 35,714 |
| Custodian | 8,783 |
| Insurance expense | 35,171 |
| Office and equipment leases | 33,256 |
| General and administrative | 54,508 |
| Total expenses | <u>444,695</u> |

| | |
|-----------------------|----------------|
| Net investment income | <u>474,157</u> |
|-----------------------|----------------|

REALIZED AND UNREALIZED GAIN ON INVESTMENTS

| | |
|---|------------------|
| Net increase in unrealized appreciation on Investments (Note 4) | <u>2,551,008</u> |
| Total realized and unrealized gain on investments | <u>2,551,008</u> |

| | |
|-----------------------------|-----------|
| NET OPERATING INCOME | 3,025,165 |
|-----------------------------|-----------|

| | |
|---------------------|----------------|
| OTHER INCOME | <u>118,299</u> |
|---------------------|----------------|

| | |
|---|---------------------|
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | <u>\$ 3,143,464</u> |
|---|---------------------|

See accompanying notes (unaudited).

KAVILCO INCORPORATED
(An Investment Company)

STATEMENT OF CHANGES IN NET ASSETS

**For the six months ended
June 30, 2009 (unaudited)**

INCREASE IN NET ASSETS FROM OPERATIONS

| | |
|---|------------------|
| Net investment income | \$ 474,157 |
| Net increase in unrealized appreciation on investments | 2,551,008 |
| Other income | 118,299 |
| Net increase in net assets resulting from operations | <u>3,143,464</u> |

**DIVIDENDS AND DISTRIBUTIONS
TO SHAREHOLDERS**

(300,000)

Total increase in net assets

2,843,464

NET ASSETS

Beginning of year 35,687,470

Six months ended \$ 38,530,934

See accompanying notes (unaudited).

NOTES TO THE FINANCIAL STATEMENTS
For the six months ended June 30, 2009 (unaudited)

NOTE 1. SEC Compliance

The following information discussed in Notes 1 and 3 are required to be conveyed to shareholders pursuant to Section 30 of the Investment Act of 1940.

| | |
|------------------------|-----------|
| Board fees | \$28,600 |
| Officers' compensation | \$110,691 |

NOTE 2. Financial Accounting Standards No. 157

The Company adopted the provisions of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data from sources independent of the Company. Unobservable inputs reflect the Company's own assumption about the assumptions that market participants would use in pricing the asset or liability developed on the best information available in the circumstance. The three-tier hierarchy of inputs is summarized below.

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Company's investments by the above fair value hierarchy levels as of June 30, 2009.

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of June 30, 2009 |
|----------------------------|--|---|--|--------------------------------|
| ASSETS | | | | |
| Common Stock | \$ 506,243 | \$ - | \$ - | \$ 506,243 |
| U.S. Corporate Obligations | - | \$ 32,960,515 | - | 32,960,515 |
| Real Estate | - | - | 3,588,815 | 3,588,815 |
| | <u>\$ 506,243</u> | <u>\$ 32,960,515</u> | <u>\$ 3,588,815</u> | <u>\$ 37,055,573</u> |

NOTE 3. Purchases and Sales of Securities

Purchases and sales of securities for the six months ended June 30, 2009 totaled \$23,880,025 and \$0 respectively.

NOTE 4. Unrealized Gain on Investments

Unrealized gain/loss is an accounting adjustment and does not enter into the calculation of dividend payments. The \$2,551,008 unrealized gain is directly related to a drop in corporate bond interest rates over the past six months ended June 30, 2009.