



KAVILCO NEWS

HAPPY HOLIDAYS!

NOVEMBER 2002

Dividend Declaration

I am pleased to announce that on November 8, 2002, the Board of Directors declared a cash dividend of \$124.00 per share. This dividend will be paid to shareholders of record as of November 12, 2002. The dividend is payable on November 26, 2002. Your dividend check is enclosed with this newsletter if you did not complete the direct deposit form and return it by the October 1st deadline.



Historical Distribution Facts

- After the 1980 timber sale to ITT Rayonier, Kavilco had a net worth (assets/liabilities) of \$22,812,918
- As of 2002, Kavilco has made \$36,425,131 in dividend payments. In 23 years we **distributed the entire net worth** of Kavilco, while we increased our net asset base to \$39,218,053.

The Investment Company

Has the investment company worked? The following analysis assumes a 40% tax rate for a regular corporation versus non-taxable distributions for an investment company. In other words, a regular corporation must reduce their income by 40% before dividend distributions are made.

Year	Kavilco (an investment company) Dividends not subject to 40% corporate tax	Regular Corporation Dividends after 40% tax rate
1990	\$5,000	\$3,000
1991	9,000	5,400
1992	8,000	4,800
1993	10,120	6,072
1994	10,403	6,242
1995	14,400	8,640
1996	16,064	9,638
1997	16,600	9,960
1998	16,300	9,780
1999	16,893	10,136
2000	15,200	9,120
2001	16,100	9,660
2002	14,700	8,820
Total	\$168,780	\$101,268

Over this 12 year period, a person owning 100 shares is **\$67,512** (\$168,780 - \$101,268) richer as a result of Kavilco's shareholders electing to be an investment company.

This analysis does not include the extra protection the shareholders' have with the SEC regulations that Kavilco must adhere to, nor the fact that earnings would have decreased due to quarterly tax payments that regular corporations are subject to.



Highlights of the Annual Meeting

President's Report

- Rayonier closed out their operations, cleaning up their operations bases, camp sites and roads. There is now limited access to those areas. They have ceased operations in Alaska and the Pacific Northwest.
- Rayonier deeded property to Kavalco in lieu of \$120,000 owed per the timber contract.

CFO's Report

Mr. Burns stated that the world economy is dependent on the U.S. residential real estate market. Because interest rates are at a 40-year low more people are buying homes, keeping the housing industry afloat. Existing homeowners are refinancing their homes and using the proceeds to pay down debt and purchase goods and services (mortgage bubble?). Any breakdown in consumers' purchasing behavior will have a major impact on the world economy.

Why is the world economy in such bad shape? We are paying the price for the stock market mania years of the latter 1990's where excess credit resulted in massive business expansion. The end result of all manias is a dangerous cocktail of deflation and debt (because of competition, companies cannot raise prices to service debt). As long as U.S. consumption remains active companies will be able to make their interest payments.

Deflation is causing major turmoil in Kavalco's portfolio. Interest from our bond investments is our primary source of income. Most of our portfolio is made up of corporate bonds that yield in the 7% to 7½ % range. Over the last two years we have had over \$8

million worth of bonds mature. At the same time, interest rates on our money market funds have dropped down below 2%. This works out to a reduction in interest income of over \$480,000.

How are we going to try and make up for some of this short fall in interest income? We are going to actively trade Treasury Bonds. The goal is to capture higher interest rates than money market funds and pull down some capital gains. This is the only strategy available to us at this time when our primary concern is capital preservation.

With the exception of three companies, all our investments have held up quite well in the current deflationary environment. Early this year it was revealed that Qwest Communications fraudulently misstated earnings in 1999 and 2000. There was a period when bankruptcy seemed inevitable. However, a change in management and the sale of assets have provided the company time to clean up their balance sheet. Other fallen angels in our portfolio are Ford Motor Company and General Motors. These companies have huge pension liability issues that could effectively bankrupt them.

Corporate malfeasance, potential war with Iraq, a major bear market in stocks, and deflation has resulted in a complete seizure of the corporate bond market. Bond buyers are sitting on the sidelines waiting for resolution to the above mentioned issues. We are very defensive at this time, and that is why we are looking to the Treasury Bond market for future revenue.

Shareholder Comments:

1. Julia Coburn asked why the Terra Survey contract was not awarded to Kavalco.



Answer: Louis Thompson explained that Terra Survey inspected the building and found that it did not meet their needs for their electrical equipment and computers and there was no food service. While they did choose to go to the Country Lace Bed and Breakfast, Kavilco leased space to Country Lace for the overflow.

2. Loraine Young inquired about shareholder ability to rent rooms at the Kavilco bunkhouse.

Answer: the rent was \$25 a day and it was currently available.

3. Della Coburn requested data about renting the bunkhouse.

Answer: there was no heat, the bunks were pine and it would cost a lot to bring it up to date.

4. Julia Coburn inquired about the debris from logging.

Answer: it had been cleaned up.

5. Della Coburn wanted to know about the sawmill lease.

Answer: Louis Thompson explained that the sawmill has been leased and is being used for storage.

6. Willard Jones asked about the status of the Whale House.

Answer: Louis Thompson explained that Whale House received recognition by the Federal Registry of Historic Places. We must now to write to our Congressmen Ted Stevens and Don Young and through them start seeking appropriations. There are \$4.5 – 5 million in federal funds available as

direct appropriations that can be applied for.

7. Willard Jones asked about REITS.

Answer: Scott Burns stated that they had been looking at REITS. Currently, because of increasing vacancy rates in office buildings and retail malls, the stocks have been dropping and there has been a reduction in dividends.

8. Erma Lawrence expressed appreciation to the Board and to Scott “Dugwans” Burns. He does a lot of good.

Election Results

On the proxy ballot this year were Jeane Breinig, Ramona Hamar and Rosemarie Trambitas. All three were re-elected with no opposition and gave acceptance speeches thanking the shareholders for their continued support.

The organizational meeting of the Board of Directors following the Annual Meeting also elected the same officers from the previous year. Louis Thompson was re-elected as President, Louis Jones, Sr. as Vice President, John Campbell as Secretary and Scott Burns as Chief Financial Officer.

As always, please feel free to call me at (907) 542-2214, or our Seattle office at 1-800-786-9574.

Sincerely,

Louis A. Thompson
President/CEO