



# KAVILCO NEWS

MARCH 2003



## Dividend Declaration

I am pleased to announce that on March 7, 2003, the Board of Directors declared a cash dividend of \$26.00 per share. This dividend will be paid to shareholders of record as of March 10, 2003. The dividend is payable on March 25, 2003. Enclosed is payment or information reflecting the number of shares you own.

This dividend represents undistributed earnings from 2002. As you know a Registered Investment Company (RIC) must distribute at least 90% of their earnings to avoid being subject to a 40% Federal Income Tax rate. For shareholders with 100 shares your dividend is \$2,600. If Kavalco was not a RIC and had to pay income tax, your dividend after tax would be \$1,560. Therefore, you receive an additional \$1,040 because Kavalco does not have to pay Federal Income Tax. This is another testimony to the advantages of being a registered investment company.

We had a pretty good year in 2002. A combination of securities sales and a one-time payment for rent increased our income by \$280,000. This is going to be an uphill task to make up for this decline in revenue in the face of a major bear market in stocks and interest rates hitting a 40 year low. For an expanded discussion see the Portfolio section in this newsletter.

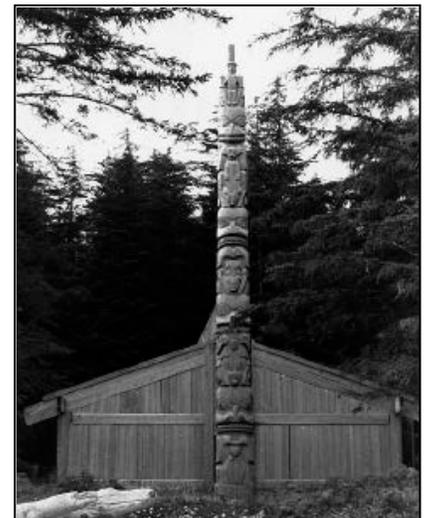
## Sign up for Direct Deposit



As many of Kavalco's shareholders already know, with Direct Deposit your money is ***in your bank account on the date of distribution***. No more worries about when that envelope will arrive in the mail. Some of you have asked that Kavalco send your check to your bank for you, but that still relies on the U.S. mail to deliver your dividends to your bank, which can take days. Direct Deposit is faster, safer, more reliable and FREE. Sign up today! A Direct Deposit Authorization form is attached to this newsletter.

## Totem House Update

We will be writing a letter to Senator Lisa Murkowski, Senator Ted Stevens and Congressman Don Young appealing for a \$5 million appropriation to



## Totem House continued

repair Chief Son-I-Hat's Whale House and restore the Totem Park. The site was listed in the National Register of Historical Places on June 11, 2002. Once the repairs and renovations are complete, Kavalco hopes to be able to open the park to the public, creating a tourist attraction showing Kasaan's Haida heritage.



## PORTFOLIO



### THIS COULD BE THE TOUGHEST YEAR EVER FOR THE PORTFOLIO

Since our last newsletter in November, the economy has deteriorated further. The common economic wisdom holds that once the Iraq conflict is resolved, the economy will surge head. Unfortunately, the economic indicators are *still* pointing to an economy that is *still* laboring under imbalances that grew out to the late-1990's boom.

Remember that it was homegrown cyclical forces, not geopolitical risks that triggered the 2001 recession. Other major headwinds in the economy are higher energy costs that are crimping household budgets and a stagnant job market which is raising pessimism.

How are these economic conditions impacting our portfolio? We feel that this secular bear market in stocks has a long way to run. Accordingly, most of our stock strategies have been put on hold. On the bond front, interest rates continue to decline, which in turn has made it more difficult to make money. As pointed out in our last newsletter, we have a huge short fall in earnings due to a substantial drop in interest

rates over the past two years. Currently, we have employed a highly speculative bond strategy to try and make up the projected shortfall in earnings this year. In other words, there could be a substantial decline in dividends this year.

As far as our fallen angels in our corporate bond portfolio are concerned, Qwest Communications averted bankruptcy for the time being by restructuring their debt. Also, several mid-level managers were indicted for accounting irregularities. This is just the start of the criminal complaints that were laced with fraudulent accounting activities. Ford Motor Company still has its problems associated with pension liabilities and excess capacity. General Motors may be in the same boat very shortly.

### IF THE PROPOSED TAX LEGISLATION IS PASSED, WILL YOUR DIVIDENDS FROM Kavalco BE TAX-FREE?



One of the provisions of the tax bill being debated in Congress involves the double taxation of corporate dividends. Simply put, corporations base their dividends on after tax income. When a shareholder receives their dividend, they are subject to federal income tax. Hence, double taxation. The proposed legislation currently being debated in Congress would eliminate the tax shareholders pay on their dividends.

## Tax-free? continued

As the proposed legislation now stands, only dividends from tax paying corporations would be subject to the income exclusion. Kavilco is an investment company that is not subject to federal income tax providing we are in compliance with applicable tax law.

Accordingly, your Kavilco dividends would still be subject to individual income tax.

## 7(i) Dividend Distributions

7(i) is a provision in the Alaska Native Claims Settlement Act that requires certain native corporations to retain a portion of their earnings from sales of natural resources. This income is turned over to regional corporations to distribute on a per capita basis to the shareholders in their region. Regional corporations distribute at least 50% of the 7(i) funds to at-large shareholders (shareholders who are not members of a village corporation) and village corporations. In turn, village corporations have the option to either retain the 7(i) funds for corporate purposes or distribute to shareholders in the form of a dividend.

All 7(i) revenue that Kavilco has ever received has been included in our dividend payments to you.

## IN KASAAN

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### CEMETERY CLEAN-UP

Kavilco will employ local individuals to perform the maintenance again this year on an as-needed basis.

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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