



KAVILCO NEWS

DIRECT DEPOSIT

- Your money is credited to your bank account on the distribution date.
- Access your money the same day by check, ATM or debit card.
- Eliminate the risk of lost or stolen checks.
- Eliminate delays caused by relying on the mail.
- **NO COST** to sign up or receive Direct Deposit.
- Request a Direct Deposit form by calling Kavilco toll free 1-800-786-9574 or visit our website and print the form.

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35th Annual Meeting of Shareholders

The 35th Annual Shareholders Meeting is scheduled for Saturday, **November 8, 2008** at the **Best Western Landing Sunny Point Conference Center** in Ketchikan, Alaska.



L to R: Shareholders Della Coburn, Erma Lawrence and Julia Coburn at the 2007 Annual Meeting.

Registration will be from 11:00 a.m. to noon in the Reception 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 Jeane Breinig, Ramona Hamar and Marie Miller. Your 2007 Annual Report and Proxy Statement will be mailed in October. **Your vote**

is important!

The **Annual Dinner and Auction** will be held in the Sunny Point Ballroom at The Landing. Doors will open at 5:30 p.m.

Kavilco Awarded National Park Service Grant

In June 2008, Kavilco received notification that our application to the Historic Preservation Fund Grants to Indian Tribes, Alaskan Natives and Native Hawaiian Organizations was **one of nineteen selected out of 60** submitted.

The National Park Service grant in the amount of **\$36,124** will be used to move into the planning phase of Chief Son-I-Hat's Whale House restoration.

Kavilco will contract with MRV Architects of Juneau, and BBFM Engineers and HCM, Inc. of

Anchorage to provide architectural Schematic Design, Engineering Analysis, and a professional estimate to restore the Whale House.

Háw'aa to President/CEO Louis A. Thompson, KHHF, OVK, MRV Architects and Corporate Secretary Deanna Kaulay for their help in obtaining this important grant.

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.

Portfolio

The latest spike in oil prices could hardly have come at a worse time for our economy given the ongoing slide in house prices, a weakening labor market and fragile credit environment. Consumers were already under enormous pressure to retrench, and many industries, especially the auto industry, are facing a growing squeeze on profit margins. To all intents and purposes, the **economy is in recession**, and the longer that oil prices stay high, the deeper the downturn will be.

“The bear market may afford us some investment opportunities. We are looking at Exchange Traded Funds with a dedicated short bias.”

There is a major concern that headline inflation will result in the Fed increasing interest rates at the end of the year. The concern is that we will have raging inflation similar to the 1970s precipitated by the wage/price spiral. There are many important differences between now and the 1970s. The labor force is much less unionized, globalization restricts companies' pricing power (and thus ability to raise wages), and central banks have a better understanding of the inflation process. Also, according to the World Bank, 75% of food inflation, the major driver to our current inflation rate, can be attributed to ethanol production.

The global picture is not much better. **Higher oil prices are a global problem** and few countries are immune to the effects. Leading economic indicators have weakened in most regions, including the emerging world, suggesting that global activity is facing a period of slower growth.

In the first half of the year the equity market had a \$2.3 trillion loss. *Lowry's* analysis of Buying Power and Selling Pressure, our primary equity research service, has the widest spread in their 75-year history. Demand is weak or selective which does not indicate a market bottom. Not

only is *Lowry's* market analysis of the New York Stock Exchange flashing a bear market, but the world equity indices are suffering major losses. With the economic growth mediocre at best, the risks associated with the equity market are tilted decisively to the downside.

The bear market may afford us some investment opportunities. **We are looking at Exchange Traded Funds (ETFs)** with a dedicated short bias. ETFs are designed to move in the opposite direction of the markets.

There are 40 funds under review that are dedicated to short selling stock indices and various market segments.

Our money market yield is hovering around 2.55%. Until the Fed takes further action, which is not anticipated in the near future, we can anticipate our cash yield to remain at this level. Accordingly, the **corporate bond strategy is our only recourse** to offset the low money market rates.

A Bloomberg article points out that investors are demanding the highest yield in almost six years to own investment-grade corporate bonds. So far this year, we have taken advantage of these yields with \$17.4 million in purchases and an average yield of 5.84%. All purchases are in the BBB range which

affords higher yields than top rated bonds. Of course, there are more financial risks within the BBB ratings. Investments in corporate bonds are a long process because **we are dependent on brokers' inventory, lengthy research, and favorable fixed income markets**. Also, if the 30-year Treasury bond flashes a strong buy based on technical indicators or adverse market conditions we will employ our capital gains strategy.



Visit our website at www.kavilco.com

KHHF 2009 Fundraising Calendar Available



Kasaan Haida Heritage Foundation has produced its second annual full-color calendar. The **2009 calendar** features photographs and historical information about Kasaan from the past to the present. The calendar is available for an **\$18 donation**. They will be available at the Annual Meeting in November. Calendars are available online through our websites: kavilco.com or KasaanHaida.org. The **\$22 online donation** includes shipping and handling. Proceeds from calendar donations will be used to further our goal of restoring the Chief Son-I-Hat Whale House and Totem Park. **Order your calendars now—quantities are limited!**



Kasaan Haida houses in the late 1900s.
 'A preparation period spending their winter in villages to make seasonal houses built by their mistral which they were brought up to seasonal effort. Then they are especially forested to timberwork. Behind them are generations skilled in timberwork for the accomplishment of heavy tasks. The heavy timbers for their houses and totem poles were dragged long distances through the woods to the shore.'

— C.R. Snow, Construction Engineer, Civilian Conservation Corps
 Unpublished field journals, 1938-1940

January 2009
Taan Kungáay • Black Bear Moon • Dec 27-Jan 25

SUNDAY <small>The Shareholder's Calendar</small>	MONDAY <small>Shareholder's Calendar</small>	TUESDAY <small>Shareholder's Calendar</small>	WEDNESDAY <small>Shareholder's Calendar</small>	THURSDAY <small>Shareholder's Calendar</small>	FRIDAY <small>Shareholder's Calendar</small>	SATURDAY <small>Shareholder's Calendar</small>
1 2 3	4	5	6 	7 <small>New Year's Day</small>	8 9 10	11 12 13 14 15 16 17
18 19 20 21 22 23 24	25 26 27 28 29 30 31					

Important Reminders About Distributions

Shareholders are strongly encouraged to keep Kavalco informed of their most recent contact information. Prior to each distribution, there is a date on which Kavalco must close all shareholder records to further changes, as required by corporate policy. This is called a **Record Date**, and it generally falls 3-4 weeks before a distribution.

Shareholders may not change their information after the Record Date until the distribution is completed. It is important to make any changes to a shareholder record prior to the Record Date of any distribution. Payments to shareholders might be delayed for any of the following reasons:

Change of Address was not submitted prior to Record Date.

Change of Name has not been submitted to Kavalco's Shareholder Records.

Direct Deposit form contains inaccurate information.

Kavalco's website has a Frequently Asked Questions page which answers many shareholder questions and provides links to additional information. **Please keep your shareholder information current.** Contact Kavalco with any changes at our toll free number 800.786.9574.

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

National Park Service Grant.

The \$36,124 grant received from the NPS will allow Kavilco to move into the planning phase of the Whale House restoration and will include the following:

- Detailed on-site investigation of the extent of wood rot.
- Schematic architectural drawings which will describe the typical new work needed for grade beams, columns, beams, and roof structure, laying out typical column and beam requirement and illustrate key details.
- The structural analysis of the building will identify a basic

level of structural detailing needed for safe restoration.

- Architectural and engineering drawings for this phase will include demolition and shoring information describing what portions of the structure will be retained, and support strategies to preserve acceptable portions of the structure while damaged portions are replaced.
- Develop a set of design documents sufficient to perform detailed cost estimating for the construction phase of this project.

Kavilco/KHHF/OVK. 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. 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,



President/CEO

KAVILCO INCORPORATED
 (an investment company)
FINANCIAL STATEMENTS

**For the six months ended
 June 30, 2008 (unaudited)**

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Investments in securities, at market value (identified cost \$33,516,990)	\$ 33,407,963
Real estate at fair value (identified cost \$1,054,089)	3,588,815
Cash	283,736
Interest receivable	412,445
Premises and equipment, net	9,742
Prepaid expenses and other assets	23,664
Total assets	37,726,365

LIABILITIES

Accounts payable and accrued expenses	10,687
Dividends payable	79,090
Total liabilities	89,777

NET ASSETS **\$ 37,636,588**

Net assets consist of:	
Unrealized appreciation (depreciation) on Investments	\$ (363,037)
Real estate	2,534,726
Contributed capital	35,464,899

Net assets **\$ 37,636,588**

Net asset value per share of Class A and Class B common stock (\$37,636,588) divided by 12,000 shares outstanding)	\$ 3,136
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See accompanying notes (unaudited).

KAVILCO INCORPORATED
(an investment company)

For the six months ended
June 30, 2008 (unaudited)

SCHEDULE OF INVESTMENTS

	Principal amount/shares	Value
INVESTMENTS IN SECURITIES – 88.8%		
Corporate obligations – 58.2%		
Communications		
Walt Disney Co., 5.800%, 10/28/08	290,000	\$ 292,604
Verizon NE Inc., 6.500%, 09/15/11	1,000,000	1,027,810
Comcast Corp., 10.625%, 07/15/12	1,338,000	1,537,857
GCB Viacom, 4.625%, 05/15/18	2,000,000	1,680,620
Consumer, Cyclical		
Wal-Mart Stores, 6.875%, 08/10/09	1,000,000	1,036,760
Tricon Global, 8.875%, 04/15/11	1,000,000	1,080,900
Dayton Hudson, 8.600%, 01/15/12	100,000	110,667
Home Depot Inc., 5.250%, 12/16/13	1,000,000	959,110
Consumer, Non-cyclical		
Coca Cola Enterprises, 8.500%, 02/01/12	700,000	785,155
Energy		
Smith International, 6.750%, 02/15/11	500,000	517,910
Plains All American Pipeline, 6.125%, 01/15/17	1,345,000	1,321,798
XTO Energy Inc., 6.250%, 08/01/17	1,000,000	1,010,280
Transocean Sedco Forex Inc., 7.375%, 04/15/18	1,350,000	1,470,312
Financial		
General Electric Capital Corp., 8.500%, 07/24/08	1,000,000	1,002,910
Merrill Lynch, 6.375%, 10/15/08	1,000,000	999,470
Bear Stearns, 7.625%, 12/07/09	1,000,000	1,033,730
Industrial		
CSX Corp., 5.500%, 08/01/13	964,000	944,170
TYCO Intl Group, 6.000%, 11/15/13	1,245,000	1,201,312
Union Pacific Corp., 4.875%, 01/15/15	1,000,000	948,210
Technology		
Xerox Corporation, 5.500%, 05/15/12	2,000,000	1,976,880
Utilities		
Dominion Resources, 5.000%, 03/15/13	1,000,000	984,080
Total Corporate Obligations (cost \$22,168,361)		21,922,547
Common Stock – 0.27%		
Computer Software & Services – Microsoft Corp.	3,640	100,136
Total common stock (cost \$33,641)		100,136
Short-term investments – 30.3%		
Federated Prime Obligation Fund #10		
Total short-term investments (cost \$11,385,279)		11,385,279
Total investments in securities (identified cost \$33,587,281)		\$ 33,408,162

See accompanying notes (unaudited).

KAVILCO INCORPORATED
(an investment company)

STATEMENT OF OPERATIONS

**For the six months ended
June 30, 2008 (unaudited)**

INVESTMENT INCOME

Interest	\$ 381,671
Dividends	302,333
Total investment income	684,004

EXPENSES

Salaries and benefits	144,184
Directors' compensation and expenses	140,650
Legal and accounting	29,825
Custodian	9,079
Insurance expense	32,872
Office and equipment leases	28,102
General and administrative	40,453
Total expenses	425,167

Net investment income	258,837
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**REALIZED AND UNREALIZED GAIN (LOSS) ON
INVESTMENTS**

Net realized gain on investments	170,593
Net decrease in unrealized depreciation on Investments (Note 3)	(363,037)
Total realized and unrealized loss on investments	(192,444)

NET OPERATING INCOME	66,393
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OTHER INCOME	54,309
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**NET INCREASE IN NET ASSETS RESULTING FROM
OPERATIONS**

\$ 120,702

See accompanying notes (unaudited).

KAVILCO INCORPORATED
(an investment company)

STATEMENT OF CHANGES IN NET ASSETS **For the six months ended
June 30, 2008 (unaudited)**

INCREASE IN NET ASSETS FROM OPERATIONS

Net investment income	\$ 258,837
Net realized gain on investments	170,593
Net decrease in unrealized depreciation on investments	(363,037)
Other income	54,309
Net increase in net assets resulting from operations	120,702

**DIVIDENDS AND DISTRIBUTIONS
TO SHAREHOLDERS**

(300,000)

Total increase (decrease) in net assets (179,298)

NET ASSETS

Beginning of year	37,815,886
End of year	\$ 37,636,588

See accompanying notes (unaudited).

NOTES TO THE FINANCIAL STATEMENTS
For the six months ended June 30, 2008 (unaudited)

NOTE 1. SEC Compliance

The following information discussed in Notes 1 and 2 are required to be conveyed to shareholders pursuant to Section 30 of the Investment Act of 1940.

Board fees	\$29,700
Officers' compensation	\$110,484

NOTE 2. Purchases and Sales of Securities

Purchases and sales of securities for the six months ended June 30, 2008 totaled \$16,386,189 and \$7,150,413 respectively.

NOTE 3. Unrealized Loss on Investments

Unrealized gain/loss is an accounting adjustment and does not enter into the calculation of dividend payments. The \$363,037 unrealized loss is directly related to inflationary pressures and bond investors perception that the Federal Reserve Board will increase short-term interest rates. Increase in interest rates will adversely affect the value of our bond portfolio, but will afford Kavalco an opportunity to invest at higher interest rates.