



KAVILCO NEWS

HAPPY THANKSGIVING!

NOVEMBER 2000

Dividend Declaration

I am pleased to announce that on November 10, 2000, the Board of Directors declared a cash dividend of \$130.00 per share. This dividend will be paid to shareholders of record as of November 13, 1999. The dividend is payable on November 22, 1999. Enclosed is payment reflecting your number of shares owned.



Historical Distribution Facts

- After the 1980 timber sale to ITT Rayonier, Kavilco had a net worth (assets/liabilities) of \$22,812,918
- As of 2000, Kavilco has made \$32,744,431 in dividend payments. In twenty years we **distributed the entire net worth** of Kavilco, yet we have more money than when we started.

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	<u>15,200</u>	<u>9,120</u>
Total	\$137,980	\$82,788

Over the 11 year period, a person owning 100 shares is **\$55,192** (\$137,980 – 82,788) 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.



Annual Meeting

On the proxy ballot this year were John Campbell, Kenneth Gordon and Louis Jones, Sr. All three were re-elected with no opposition.

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.

Highlights

- Louis Jones, Sr. presented a crystal plaque to Louis A. Thompson for 25 years of service to Kavalco, Inc. The following is the speech he gave:

“On behalf of Kavalco, Inc., the Board of Directors and shareholders, it gives me great pleasure at this time to make this small presentation to Louis Thompson in recognition of his 25 years serving as President of our corporation. Louie’s involvement with Kavalco exceeds those 25 years, backing up all the way to inception. It is impossible to recap Louie’s involvement with Kavalco without recapping the history of Kavalco: Before my time I remember the forest service challenging the very existence of the village of Kasaan, claiming that Kasaan was an abandoned village. In addition to seven of our people who actually still lived in the village, we are also indebted to many of the one hundred and twenty original shareholders who were called to testify. The highlight of Louie’s 25 years has got to be the timber sale of 1979 for which Kavalco received \$25,000,000 plus 3 years interest that brought the sale’s value up to \$28,000,000 in addition to several years of scholarships to shareholders. As

some of you may recall, the dramatics of the timber sale itself was intense. ITT Rayonier came in with the minimum bid of \$18,500,000. At the last minute another timber company hand delivered what appeared to be a competing bid. ITT then increased their bid to the \$25,000,000. What appeared to be a competing bid turned out to be a letter stating that the company was not interested in bidding for our timber! Additionally, timber values dropped so fast after 1979 that the IRS questioned the numbers used for the Net Operating Loss that followed in 1987. A lot of work went into setting up the timber sale because of government agencies and the requirements of the land claims settlement act. The big question was what to do with the proceeds. The first order of business was to get money to the shareholders. That led to the \$25,000 tax free disbursement which is equal to about \$32,000 factoring in taxes. We then looked at several real estate investments such as Alder Brook Estates, Rosario Resorts, an office building in downtown Seattle and the most frightening, a failing bank located in Anchorage. Luckily, we entered the debenture program. The debenture program kept us out of other business investments because we now had an obligation to the tune of \$10,000 a year for ten years, and we wanted to do this without depleting our assets. Under Louie’s leadership we have not only held on to the principle, we have paid out \$32 million to shareholders, and still have nearly \$10 million beyond the value of the original timber sale that is working for us to this day. Without further adieu let me make this presentation at this time. Thank you Louie for a job well done.”

President’s Report

- Mr. Thompson reminded everyone that the ITT Rayonier timber contract will



close on December 31, 2001. He also said that Kavalco would be bidding on 89 acres of Rayonier's Copper Queen and Skookum Claims for \$120,000.

- Mr. Thompson announced that action will be set into motion in December of this year to submit to the State of Alaska and to the Federal Government requesting that the Totem House and Park to be named a national historical landmark.

Nominations

Mr. Thompson opened the floor for nominations for Board of Directors. Diane Demmert nominated Louis Jones, Sr., Eleanor Berger nominated Kenneth Gordon and Erma Lawrence nominated John Campbell.

Election Results

All incumbents were re-elected by unanimous consent.

Shareholder Comments:

1. Julia Coburn asked about the Permanent Fund.
2. Joann McCamy asked about the availability of the Bunkhouse.
3. Willard Jones asked about how long the sawmill will be open.
4. Julia Coburn asked about what Louis A. Thompson's job description is.
5. Julia Coburn asked where the rock came from that Louis A. Thompson was using for the barge loading facility.
6. Julia Coburn stated that shareholders were calling with lots for sale.

Kasaan Haida Heritage Foundation

Kavalco would like to congratulate the Kasaan Haida Heritage Foundation on their receipt a grant from Alaska Humanities Forum to begin the interview project entitled Kasaan Haida Elders Speak: Gasaaan Xaadaas Guusuu. The project will interview Haida elders who grew up in Kasaan.

PORTFOLIO

Recent data hints that the economy may finally be slowing down. Various National Association of Purchasing Managers' surveys reveal some softening in business conditions, optimism and capital spending. More importantly, housing activity continues to weaken, major sources of credit/bank loans, the corporate bond market, and venture capital (IPO's) are drying up. A similar downturn in these indicators in late 1994 correctly warned of the soft landing that unfolded in 1995. However, high debt levels, low savings rates and the excessive valuations in the stock market could easily make the soft landing into the hardest we've seen for a long time.

The international picture is far worse. The cooling tech sector in the U.S. has severely impacted Asian exports, which in turn has resulted in falling stock market prices. Another explosive mixture of events includes political instability in the Mideast, a rising risk of U.S. involvement, surging oil prices, and developing slowdowns in Europe and the U.S., as the effects of past monetary restraints start to bite.

The past decade enjoyed a virtuous circle as technology-fueled productivity gains, a surging stock market, wealth-inspired



consumption, a strong dollar, subdued inflation, and inflows of foreign capital all tended to reinforce each other. Now, as growth slows, some of these forces are waning or going in reverse. With the storm clouds forming overseas, there are implications that the economy is sailing into increasingly treacherous waters.

Equity investors are showing little respect for the lessons of financial history. The pervading attitude seems to be one of complacency, even though periods of major Fed restraint are almost always very bearish for stock prices. If a bear market is defined as a decline of at least 20% from the indices high point, the NASDAQ's 37.4% decline from the March 10, 2000 level (5048, to the October 30 of 3162) would certainly qualify. One of the major characteristics of the previous declines since 1987 is that the market wasted no time in carving out a bottom. The 151 market days are more than double the longest decline of past sell-offs. The price/earnings ratio for the NASDAQ 100 is still at lofty 153 and margin debt is 45% above year-ago levels. As you can see, this is not an environment that is conducive to the stock market. In economic cycles when so many negative events have created such volatility, cash is king.

Corporate bonds have not participated in the Treasury bond market rally that has taken place this year. As a matter of fact, the price behavior of corporate bonds is pointing to a deep recession. Our portfolio has exposure in the event of a recession. Recessions make it difficult for corporations to make interest and principle payments. We have invested in companies that are financially sound and should be able to withstand an economic slowdown. Our corporate bond portfolio is hedged with Treasury bonds and if an individual

company is having major financial difficulty, we will sell their bonds.

Shareholder News

Henry G. Jones

While carrying a load of 21 units at New Mexico State University, Henry has been named a Criminonson Scholar for maintaining a 3.5 grade point average. The honor brings with it several privileges within the University. Henry's parents, Page and Louis Jones, Sr. are very proud.

Apology

We would like to apologize to the family of Robert Young Sr. whose name was accidentally left off of the Memorial List in the Annual Report this year. In an effort to save Kavilco the considerable cost of designer, our Administrative Assistant put the report together this year using a new software program. The loss of Mr. Young's name from the list had to do with the juxtaposition of the text and graphic. Extra diligence will be used in the future to insure that all of the names of those original shareholders who have passed away appear on the Memorial List.

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