

KONIAG, INC.

**1981
ANNUAL REPORT**

KONIAG, INC.

THE HARBORVIEW BUILDING

P.O. BOX 746

(907) 486-4147

KODIAK, ALASKA 99615



CONSOLIDATED ANNUAL REPORT



KONIAG, INC.

HARBOR VIEW COMPLEX

P.O. Box 746

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KODIAK, ALASKA 99615

Dear Shareholders:

I have been a board member of Koniag since its formation and Chairman for the last eight years. I also served as President for six years. In the years that I have been a part of this corporation, many changes have taken place. We have taken great strides in the areas of corporation affairs, (Board of Directors), Land Selection, Legislation (State and National), Native Affairs (State and National), and of course business affairs.

Our President, J. F. Morse, will brief you on the past year's business activities. I am confident that he will make you aware of our present economic situation. My topic for discussion this year is a situation which has developed this past year that deals with you, our shareholders, and our village corporations.

When our corporation was formed, the Board of Director's first priority was to find all of our shareholders and this we did to the best of our ability. In our search for our shareholders and the battle we had enrolling them, we also had the task of assisting in the formation of our village corporations. We held many meetings and training sessions and ultimately met with the majority of our shareholders. Through this process of enrollment and incorporation, a feeling of unity developed among the shareholders we came in contact with.

In the ensuing years we dealt with problems in many areas and attempted to resolve them. Our most prominent goal was to become a profitable corporation. Our biggest obstacle was the Federal Government, reacting to the needs of our corporation so slowly it was paralyzing our efforts to achieve our immediate goals and objectives. We finally managed to start moving forward in the business world and our future looked promising, at this point in time I started taking a critical look at our villages.

In a study done by Robert Nathan and Associates in 1972, they concluded that 80% of the village corporations formed under the settlement act would fail. Only the large corporations properly managed could succeed. I attended a meeting in Anchorage in 1972 when that statement was made and their solution was mergers. Four years ago I began advocating the concept of mergers between villages. Villages in other regions had merged and their prospects for survival looked much better. Villages in our region started talking about merger seriously and ultimately two villages merged.

I looked at a region in which villages had merged with their region and this looked like the ultimate answer to protecting our villages and their lands.

Two years ago I approached the villages in our region with this concept and the response was overwhelming, all but one responded positively.

We were not forceful in our efforts to merge but provided assistance in all areas when asked; the Alaskan Native Foundation provided invaluable assistance in these efforts. Finally, all the paperwork was finished and the shareholders of the village corporations and our corporation voted over-whelmingly to merge. The strength of our corporation was enhanced, our village lands protected, and most of all, we had UNITY!

Since that time, a suit has been filed by a shareholder effectively stopping one village from merging with us. This suit has cost our corporation dearly both in money and time.

At the present time, unless a settlement is achieved, this situation could exist for a number of years. I believe that in a situation such as this, there are no winners. In this instance all parties lose regardless of who prevails because we are all stockholders of Koniag, and we lose because we give up the decision making process as to our destiny in certain areas to persons outside of our corporation.

I do not deny that a stockholder has the right to file a suit against our corporation, I defend that right. My concern is that, if a stockholder has to file a suit, there is a lack of communication. If a stockholder has exhausted every form of communication and cannot get satisfaction, stronger measures must be taken.

In the future, I would hope that shareholders who have a problem would try diligently to resolve the conflict before going to any extremes. I think it is irresponsible for a shareholder to file suit without fully realizing the consequences of such an action. It is my fervent hope that we can continue into the future in unity and resolve our conflicts among ourselves.

Sincerely,

Jack Wick
Chairman, Board of Directors



KONIAG, INC.

HARBOR VIEW COMPLEX

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Dear Koniag Stockholder:

This annual report reflects the December 1980 mergers of Akhiok-Kaguyak, Karluk, Leisnoi, Nu-Nachk Pit, and Old Harbor with Koniag. These financial statements consolidate and adopt the Koniag fiscal year for all merged units.

In April 1981, Koniag purchased Swiftsure Fisheries, of Seattle, Washington, a fish marketing and brokering organization. We acquired a management team with an excellent operational and marketing record. Swiftsure's operations should be a major source of revenues for your Corporation. The Kodiak Swiftsure plant, acquired in April 1980, had a successful operating season.

The Phoenix Refinery project, announced in September, offers an exciting and potentially profitable future for Koniag shareholders. Production startup is planned for late 1984 - early 1985. The refinery has a capacity of 50,000 barrels per day and is strategically located in one of the U.S.'s fastest growing areas, Phoenix, Arizona. Marketing arrangements for its output are already in place. Engineering design is underway. Major financing is expected to be provided by a New Zealand group. The cost of the project is estimated at \$360 million. The 1982 budget is approximately \$17 million.

"Commercial quantities" of oil have been discovered on one of your Beaufort Sea leases with Sohio. Eight other leases are still to be explored. This investment is believed to offer significant future earnings potential.

The "D-2" legislation was enacted on December 2, 1980. Koniag officials were key participants in that memorable event, wherein we acquired 279,000 acres of timber lands on Afognak Island. The great economic benefit that this legislation extended to our shareholders remains unfulfilled because a Joint Venture mandated in the bill is not yet formed. No timber was cut or sold in this past season, and will not be until the JV is operational. The Corporation and all its shareholders are, therefore, precluded from any economic benefits.

Land Surveying Services, Inc. was activated in August 1981, and will undertake to do general land survey projects on Kodiak Island and throughout Alaska. This company is 80% owned by Koniag.

The overall real estate holdings of Koniag do not fit into our long range objectives, as these continue to be only marginally profitable. Accordingly, many of these properties remain for sale in an enormously difficult real estate market.

Shelikof Net has been unable to attain our profitability goal. The results for the past year were again disappointing at both Kodiak and Dutch Harbor. A resolution is being actively pursued.

KISI constitutes a significant drain on the assets of your Corporation and its future prospects are dim. KISI is a high cost operation that must be corrected, and alternatives are being explored very vigorously.

The Alaska peninsula oil well drilled by Chevron at Yantarni Bay failed to locate hydrocarbons and was abandoned.

Your Board of Directors approved a change to March 31 of Koniag's fiscal year (from June 30) in order to more completely reflect your company's current emphasis on fisheries. Therefore the 1981-82 fiscal year will be a nine month year.

The Arnold A. Olsen litigation has proved extremely encumbering to your Corporation and has prevented an orderly conduct of your company's affairs. Your Corporation would have had its first ever operating profit except for the Arnold A. Olsen lawsuit.

Your management continues to look for acquisition or business opportunities for Koniag that will improve the profitability of your Company. Too, we will attempt to dispose of those assets that do not adequately contribute to earnings.

We believe that Koniag's major accomplishment this year was not just the mergers or the turnaround of earnings, though these were very important, but rather the steps taken by your Board and management to assure a future. The progress of this year was made possible by accomplishments of years past.

Respectfully submitted,

J. F. Morse
President & Chief Executive Officer

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

The Board of Directors
and Stockholders
Koniag, Inc.
Kodiak, Alaska

We have examined the consolidated balance sheets of Koniag, Inc. and its subsidiaries as of June 30, 1981 and 1980 (restated for a pooling), and the related consolidated statements of operations, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The outcome of certain matters create the following uncertainties which are indeterminable as to amount and could significantly affect the accompanying consolidated financial statements:

- . As more fully discussed in Note 12 to the financial statements, the Company is a co-defendant to litigation challenging the consummation of the merger of certain Alaska Native village corporations with the Company. The ultimate liability for litigation costs and other effects, if any, on the financial statements resulting from this matter cannot be reasonably estimated.
- . As discussed in Note 8, term loans of a subsidiary company aggregating \$1,806,134 at June 30, 1981 are technically in default (although current installments have been paid to date as they became due) as certain covenants of the loan agreement have not been met. However, the bank has informed the company it will postpone its right to demand payment in full pending the performance of the subsidiary on a quarterly basis through December 31, 1981. Accordingly, classification of such liabilities as between current and noncurrent is based on the terms of the underlying notes and continued forbearance by the bank postponing its right to demand payment in full.

In our opinion, subject to the effects on the financial statements of adjustments which might have been required had the ultimate outcome of the matters discussed in the preceding paragraph been known, the aforementioned financial statements present fairly the consolidated financial position of Koniag, Inc. and its subsidiaries at June 30, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis as restated (Note 1).

Coopers & Lybrand

Anchorage, Alaska
September 30, 1981, except for
matters discussed in Note 8
for which the date is
October 12, 1981.

KONIAG, INC.

CONSOLIDATED BALANCE SHEETS, June 30, 1981 and 1980

ASSETS	1981	1980 (Note 1)
Current:		
Cash	\$ 427,459	\$ 672,038
Investments in securities, at cost (approximates market) (Note 4)	3,291,945	12,048,618
Receivables:		
Alaska Native Fund (Note 2)	69,523	865,826
Notes (Note 8)	50,551	50,399
Village corporations	47,439	28,178
Trade, less allowance, \$108,800 (1981) and \$58,834 (1980) (Notes 7 and 8)	4,034,717	846,187
Advances to fishermen	1,117,842	203,388
Other	548,116	218,951
Inventories (Notes 1, 7 and 8)	3,442,575	4,095,251
Other current assets	210,449	208,538
Total current assets	13,240,616	19,237,374
Alaska Native Fund receivable, noncurrent portion (Note 2)		867,289
Notes receivable (Note 8)	281,301	335,443
Property and equipment, at depreciated cost (Notes 1, 5, 7 and 8)	9,003,747	8,456,841
Other assets:		
Investment in oil, gas and hydrocarbon leases (Note 3)	1,552,072	1,287,700
Investment in and advances to Cape Chiniak Impact Center Joint Venture (Note 3)	889,747	871,701
Land selection costs (Note 1)	1,174,929	1,092,566
Deferred exploration costs (Note 6)	49,093	49,093
Miscellaneous investments and other	178,139	211,143
Excess of cost over net assets of acquired business less \$10,328 amortization (Note 1) S.F.	2,468,398	
Assets in amounts to be determined (Notes 2 and 6)		
	<u>\$28,838,042</u>	<u>\$32,409,150</u>

LIABILITIES	1981	1980 (Note 1)
Current:		
Notes payable (Note 7)	\$ 2,972,463	\$ 3,802,726
Current portion of long-term debt	311,025	1,658,687
Business purchase contract payable (Note 1)	393,024	
Accounts payable	3,152,038	1,379,226
Due to fishermen	287,150	306,307
Customer deposits	32,535	38,824
Natural resource revenues payable (Note 6)	974,047	602,736
Accrued expenses:		
Payroll, pension and payroll taxes	247,600	237,366
Property and other taxes	427,005	228,646
Interest	168,812	191,527
Other	66,399	44,683
Total current liabilities	9,032,098	8,490,728
Long-term:		
Long-term debt (Note 8)	3,018,854	4,068,014
Excess of equity in losses (and cash distributions) in Koncor joint venture (Note 3)	335,548	216,644
Minority interest in subsidiary	3,818	4,773
Total liabilities	12,390,318	12,780,159
Commitments and contingencies (Notes 3, 6, 12 and 15)		
STOCKHOLDERS' EQUITY		
Common stock (Note 9):		
Authorized:		
5,000,000 common shares in two classes, A and B		
Issued and outstanding:		
Class A, 1 cent par value; 225,200 shares	2,252	2,252
Class B, 1 cent par value; 225,400 shares in 1981; 224,600 shares in 1980	2,254	2,246
Contributed capital (Notes 1, 2 and 9)	23,967,737	26,903,655
Accumulated deficit	(7,524,519)	(7,279,162)
	<u>16,447,724</u>	<u>19,628,991</u>
	<u>\$28,838,042</u>	<u>\$32,409,150</u>

The accompanying notes are a part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

for the years ended June 30, 1981 and 1980

	Common Stock				Contributed Capital	Accumulated Deficit
	Class A Shares	Amount	Class B Shares	Amount		
Balance, June 30, 1979, as previously reported	224,500	\$2,245	103,400	\$1,034	\$19,415,906	\$(3,201,318)
Restatement for 1981 merger of Village Corporations accounted for as a pooling of interests (Note 1):						
To record issuance of stock and net assets acquired			116,700	1,167	6,973,586	(2,011,085)
To conform accounting policies for land selection costs (\$187,409) and investment in Cape Chiniak Joint Venture (\$38,469)						225,878
Balance, June 30, 1979, as restated	224,500	2,245	220,100	2,201	26,389,492	(4,986,525)
Adjustment for changes in enrollment (Note 9)	700	7	4,500	45	514,163	
Net loss						(2,292,637)
Balance, June 30, 1980	225,200	2,252	224,600	2,246	26,903,655	(7,279,162)
Cash distributions to former merged Village Corporation shareholders, \$2,100 per 100 (Class B) shares (Note 9)					(2,450,700)	
Cash distributions to successor village nonprofit organizations (Note 9)					(226,282)	
Adjustment for changes in enrollment (Note 9)			800	8	(253,891)	
Adjustment resulting from a capital transaction of a consolidated subsidiary					(45)	
Net loss						(245,357)
Balance, June 30, 1981	225,200	\$2,252	225,400	\$2,254	\$23,967,737	\$(7,524,519)

The accompanying notes are a part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended June 30, 1981 and 1980

	1981	1980 (Note 1)
Revenues:		
Seafood sales	\$26,179,538	\$ 7,517,954
Merchandise sales	1,436,644	1,801,140
Rentals	479,704	445,880
Interest and investment income	812,796	363,330
Natural resource revenues (Note 6)	176,133	336,951
Gain on sales of property and equipment	94,435	197,909
Other	54,717	69,484
	<u>29,233,967</u>	<u>10,732,648</u>
Costs and expenses:		
Cost of seafood sales	22,584,872	7,231,026
Cost of merchandise sales	1,148,674	1,352,515
Selling expenses	1,565,399	1,180,545
General and administrative expenses (including direct costs of rental properties)	2,554,836	2,245,748
Interest	1,088,172	1,097,591
Equity in loss of joint ventures, net	23,763	17,709
	<u>28,965,716</u>	<u>13,125,134</u>
Income (loss) before merger costs	268,251	(2,392,486)
Merger (\$186,873) and related litigation (\$326,735) costs	513,608	
	<u>(245,357)</u>	<u>(2,392,486)</u>
Loss before extraordinary credit	(245,357)	(2,392,486)
Extraordinary credit - gain on fire damage (\$.22 per share)		99,849
Net loss (\$.54 and \$5.10 per share)	<u>\$ (245,357)</u>	<u>\$(2,292,637)</u>

The accompanying notes are a part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended June 30, 1981 and 1980

	<u>1981</u>	<u>1980</u> (Note 1)
Sources of funds:		
Operations:		
Loss before extraordinary credit	\$ (245,357)	\$ (2,392,486)
Depreciation and amortization	625,559	398,065
Equity in loss of Koncor Joint Venture	35,704	22,975
Gain on sale of property and equipment	<u>(94,435)</u>	<u>(197,909)</u>
Working capital provided from (used in) operations before extraordinary item	321,471	(2,169,355)
Extraordinary credit - gain on fire damage	<u> </u>	<u>99,849</u>
Working capital provided from (used in) operations	321,471	(2,069,506)
Collection and current maturities of noncurrent receivables:		
Alaska Native Fund	867,289	7,431,867
Notes	125,963	31,542
Sales of property and equipment	186,307	445,661
Insurance proceeds (\$425,077) net of extraordinary credit on fire damage		325,228
Cash distribution from Koncor Joint Venture	83,200	81,225
Decrease in investment and advances to Cape Chiniak Joint Venture		168,282
Contributed capital (\$514,163) and common stock (\$52) adjustments (Note 9)		514,215
Other	<u>42,939</u>	<u>4,773</u>
Total sources	<u>1,627,169</u>	<u>6,933,287</u>
Uses of funds:		
Payments and current maturities of long-term debt	1,057,762	1,656,797
Issuance of long-term notes receivable	71,821	287,636
Additions to property and equipment	394,896	440,527
Acquired businesses:		
Property and equipment	850,356	3,363,021
Goodwill	2,478,726	
Other assets	18,692	
Long-term obligations	(8,602)	(2,073,312)
Investment in oil, gas and hydrocarbon leases	264,372	1,287,700
Land selection costs	82,363	108,743
Contributed capital and common stock (Note 9):		
Cash distribution to shareholders	2,450,700	
Cash distributions to successor village nonprofit organizations	226,282	
Adjustment for changes in enrollment	258,883	
Other	<u>19,046</u>	<u>35,445</u>
Total uses	<u>8,165,297</u>	<u>5,105,557</u>
Increase (decrease) in working capital	<u>\$ (6,538,128)</u>	<u>\$ 1,827,730</u>

Continued

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION, Continued

for the years ended June 30, 1981 and 1980

	<u>1981</u>	<u>1980</u> (Note 1)
Changes in components which increased (decreased) working capital:		
Current assets:		
Cash	\$ (244,579)	\$ 303,120
Investment in securities	(8,756,673)	10,853,121
Receivables	3,655,259	(5,751,172)
Inventories	(652,676)	363,631
Other current assets	<u>1,911</u>	<u>27,879</u>
	<u>(5,996,758)</u>	<u>5,796,579</u>
Current liabilities:		
Notes payable and current portion of long-term debt	2,177,925	(4,591,640)
Business purchase contract payable	(393,024)	
Accounts payable and customer deposits	(1,747,366)	996,636
Natural resource revenues payable	(371,311)	116,602
Accrued expenses	<u>(207,594)</u>	<u>(490,447)</u>
	<u>(541,370)</u>	<u>(3,968,849)</u>
Increase (decrease) in working capital	<u>\$ (6,538,128)</u>	<u>\$ 1,827,730</u>

The accompanying notes are a part of the consolidated financial statements.

1. Incorporation and Significant Accounting Policies:

Koniag, Inc., a Regional Native Corporation, was incorporated on June 23, 1972 under provisions of the Alaska Native Claims Settlement Act (the Act).

Alaska Native Claims Settlement Act:

The Act entitles Alaska Natives to 44 million acres of land and monies totaling \$962,500,000. The monies were deposited in the Alaska Native Fund, \$462,500,000 by the Federal government and \$500,000,000 from royalties and lease sales of minerals owned by the State of Alaska and the Federal government in Alaska.

The Act provides for division of the State of Alaska into twelve regional areas, each of which is represented by a regional corporation. Further, a thirteenth regional corporation was established for those Alaska Natives residing outside of Alaska. Each regional area has, in turn, a number of village corporations which were also established by the Act.

Enrollees to regional and village corporations become stockholders of such corporations and are required to be Alaska Natives as defined in the Act. Monies provided by the Act are distributed from the Alaska Native Fund to regional corporations based on enrollment percentages. Land provided by the Act is allocated to regional areas based on a formula which includes both enrollment and land area. All subsurface rights to land will vest with the regional corporations, while surface rights will be allocated between regional and village corporations.

Section 7(i) of the Act provides that 70 percent of revenues received by each regional corporation from timber resources and subsurface estate patented to it under the Act shall be divided annually among the twelve Alaskan regional corporations in proportion to the number of enrollees in each (see Note 6).

Section 7(j) of the Act requires that each regional corporation distribute certain portions of funds received by the regional corporation:

- (a) from the Alaska Native Fund, and
- (b) under Section 7(i) of the Act.

Not less than 50% of the funds, in the above two categories which are received after December 18, 1976 must be distributed to the village corporations in the region and to "at-large"

1. Incorporation and Significant Accounting Policies, Continued:

Alaska Native Claims Settlement Act, Continued

stockholders (those stockholders not also stockholders in a village corporation). Prior to December 18, 1976, a different basis of distribution was applicable.

Significant Accounting Policies:

The following is a summary of significant accounting policies adopted by the Company:

Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries - The Kazim Company, Kodiak Swiftsure Corporation, Kodiak Island Seafoods, Inc. (KISI), Shelikof Net Company (owned by The Kazim Company), and Cook Inlet Constructors, Inc. (owned by The Kazim Company and currently inactive); and a 80% owned subsidiary, Land Surveying Services, Inc.

The Company is engaged in the businesses of general investments, seafood processing and marketing, commercial and residential real property management, and fishing supply merchandise sales.

Seafood processing is conducted by Kodiak Swiftsure Corporation and KISI and seafood marketing by the Swiftsure Division of KISI. Fishing supply sales are conducted by Shelikof Net Company. Transactions are conducted in the normal course of Shelikof's, KISI's and Kodiak Swiftsure's business with stockholders, directors and officers of the Company.

Investments in affiliates 20% to 50% owned are recorded at cost, adjusted for Koniag's equity in undistributed earnings or losses since acquisition. Investments in companies in which the ownership interest is less than 20% are carried at cost.

See Note 3 with respect to the Company's joint venture operations.

Business Acquisitions and Mergers

Effective December 10, 1980, five village corporations within the Koniag region (Akhiok-Kaguyak, Inc, Karluk Native Corporation, Leisnoi, Inc., Nu-Nachk-Pit, Inc. and Old Harbor Native Corporation) were merged with Koniag, Inc. in exchange for 116,700 shares of the Company's Class B common stock. This merger has been accounted for as a pooling of interests and,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Incorporation and Significant Accounting Policies, Continued:

Business Acquisitions and Mergers, Continued

accordingly, all financial data for periods prior to the merger have been restated to combine the operations of the merged Village Corporations and the Company. As a result of the merger, Kodiak Island Seafoods, Inc. (previously 76.46% owned by the Village Corporations and 23.54% by the Company, and accounted for on the equity method) became a wholly-owned consolidated subsidiary.

Net revenues and net income (loss) of the Company, combined merged Village Corporations and KISI for the periods preceding the combination date (July 1 - December 10, 1980, and fiscal 1980) were:

	<u>Koniag</u>	<u>Combined Village Corporations</u>	<u>KISI</u>	<u>Eliminations (a)</u>	<u>Combined</u>
Interim period July 1 through December 10, 1980:					
Revenues	\$8,738,684	\$199,498	\$9,657,500		\$18,595,682
Income (loss) before extraordinary tax credit	(3,465)	316,679	334,776	\$ (329,496)	318,494
Net income (loss)	(3,465)	329,679	577,776	(329,496)	574,494
Fiscal year ended June 30, 1980:					
Revenues	\$3,204,848	\$258,263	\$7,269,537		\$10,732,648
Income (loss) before extraordinary credit	(1,243,862)	(948,310)	(1,362,765)	\$1,162,451	(2,392,486)
Net income (loss)	(1,243,862)	(848,461)	(1,362,765)	1,162,451	(2,292,637)

(a) Elimination of equity in (income) loss of KISI recorded by Koniag and combined Village Corporations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Incorporation and Significant Accounting Policies, Continued:

Business Acquisitions and Mergers, Continued

On April 30, 1981, the Company's wholly-owned subsidiary, Kodiak Island Seafoods, Inc., acquired the net assets and business of Swiftsure Fisheries, Inc., a seafood marketing, brokering and exporting firm for a cash purchase price of \$2,600,302 (\$393,024 unpaid at June 30, 1981, due by February 1, 1982).

The purchase price exceeded the fair market value of net assets acquired by \$2,478,726, which excess cost will be amortized over a 40 year period on a straight-line basis.

The acquisition has been accounted for as a purchase and Swiftsure Fisheries is being operated as a division of KISI, with the results of Swiftsure Fisheries operations included in the Company's consolidated operating results since May 1, 1981. Pro forma combined results of operations for fiscal years 1981 and 1980, adjusted for the amortization of excess purchase price, depreciation, interest, and appropriate eliminations, as though the acquisition had occurred July 1, 1979 are as follows:

	<u>1981</u>	<u>1980</u>
Revenues	\$57,090,642	\$38,886,665
Loss before extra- ordinary credit	736,719	4,433,339
Net loss	736,719	4,333,490

On March 28, 1980, the Company acquired the Kodiak Swiftsure Corporation seafood processing plant and related net operating assets from Swiftsure Alaska, Inc., then a subsidiary of Swiftsure Fisheries, Inc. (see above), for \$3,426,473, in an acquisition accounted for as a purchase.

The purchase price was paid by cash of \$1,353,161 and notes of \$2,073,312 (\$1,270,663 assumed and \$802,649 due in annual installments of \$175,876, plus interest at 12%, to March 28, 1987).

Receipts from Alaska Native Fund

The Company's share of receipts and estimated future receipts of monies from the Alaska Native Fund under provisions of the Act are recorded as contributed capital.

1. Incorporation and Significant Accounting Policies, Continued:

Inventories

Inventories are priced at the lower of cost (first-in, first-out) or market.

Land Selection Costs

The Company has elected to defer expenses incurred for land selection. Such deferred costs will be allocated to real property interests as they are conveyed to the Company (see Note 2).

Depreciation and Amortization

Depreciation and amortization of property and equipment is provided by the straight-line method over the estimated useful lives of the assets (or terms of related leases for leasehold improvements, if shorter). Gains and losses from asset disposals are included in operating results.

Investment Tax Credits

Investment tax credits will be accounted for as a reduction of income tax expense in periods allowable as credits to taxes payable (the "flow-through method").

2. Alaska Native Fund Monies, and Land Received and to be Received as a Result of the Act:

The Company's share of Alaska Native Fund monies has been included in the financial statements on the assumption that the Koniag region will receive 4.248 percent of \$962,500,000 (see Note 1). This is the percentage of enrollment in the Koniag region to the total enrollment of all 13 regions (3,339 to 78,602). This is subject to change pending results of an extension of the enrollment process which closed December, 1976. Such extension allowed Alaska Natives who had not previously enrolled to do so. The Bureau of Indian Affairs has not yet certified the final enrollment. Management does not expect that the Company's share will change materially as a result of final determination of such enrollment.

It is presently estimated that the Company will receive the balance of monies from the Alaska Native Fund in fiscal year 1982.

2. Alaska Native Fund Monies, and Land Received and to be Received as a Result of the Act, Continued:

In addition to the monies discussed above, the Company is entitled to receive subsurface rights and/or surface ownership in certain lands.

In 1980, Congress approved as a part of PL 96-487 certain modifications in the selection by the Company and village corporations of both surface and subsurface lands whereby entitlements to surface and/or subsurface estate on the Alaska Peninsula are to be exchanged for surface and subsurface estate in lands located on Afognak Island. One of the provisions of the exchange is the formation of a Joint Venture to accept ownership of the exchange lands on Afognak Island. When this Joint Venture is formed, the Company estimates that it will own surface estate of approximately 360,000 acres, approximately 1,094,000 acres of subsurface estate, of which approximately 393,000 acres will be oil and gas rights only, and a fractional interest in the land ownership and timber joint venture on Afognak Island (the other venturers being the village corporations) based upon the Company's entitlement of approximately 204,000 acres.

Prior to the passage of the land selection modifications, the Company estimated that it would receive the surface estate to 564,000 acres and subsurface rights to a minimum of approximately 1,101,000 acres of land, of which approximately 185,000 acres was restricted to oil and gas rights, and of which approximately an additional 68,438 acres would be for the time being, restricted to oil and gas. Surface rights not owned by the Company would be owned by village corporations in the region.

Because of the significant amount of land and subsurface rights and the lack of comparable market data, it is not practical to determine the value of the lands and the subsurface rights in the foreseeable future through independent appraisals or by other means subject to verification. Because of this, the Company has adopted the accounting policy that the value of the land and subsurface rights conveyed under the Act will not be recorded unless the value can be determined by independent appraisals, or by other means subject to verification, at the date of conveyance.

The value of land and subsurface rights, and revenues which will ultimately be realized therefrom, are considered by management to be material to the financial statements. Amounts ultimately recorded for surface and subsurface rights, less previously recorded land selection costs, will increase contributed capital.

3. Investments in Joint Venture Operations:

Investment in Oil, Gas and Hydrocarbon Leases

In November, 1979, Koniag, Inc. entered into a joint venture agreement with Sohio Natural Resources Company (Sohio), BP Alaska Exploration Inc. (BP) and three other investors to bid on leases of certain parcels of land in the Beaufort Sea area. These parcels were offered for lease in December 1979 during the joint Federal/State government, Beaufort Sea Oil and Gas Lease Sale. Koniag, Inc. had a 1% participating interest in this agreement which called for the payment of 1% of all bidding and shared information costs.

The joint venture's bids were successful on several tracts. On March 13, 1980, the venturers entered into operating agreements for the purpose of exploration, development and operation of the tracts of land covered by the leases. Sohio and BP are the primary participants, holding 96% to 97% combined interest (depending on tracts leased), with Sohio designated as the operator. The Company has a 1% participating interest in these agreements which provides for payment of 1% of all costs and ownership of 1% of all production and assets acquired. There has been limited exploration and no development work conducted through June 30, 1981. The Company's share of costs incurred to date (lease bid/acquisition costs of \$1,287,149 and exploration costs of \$264,923) have been capitalized.

The joint venture agreement is in effect to February 1, 1990 and so long thereafter as any lease or lease extension, or renewal is in force, unless terminated by unanimous consent. At its election, the Company may suspend payment of its 1% share of costs incurred relating to any or all of the leased tracts. If this election is exercised, the Company's participating interest is accordingly reduced.

Cape Chiniak Impact Center Joint Venture

The Company selected, for a village corporation in its area, under Section 12(b) of the Act, certain lands located on Cape Chiniak, Alaska. Situated on the lands are commercial quantities of timber, numerous buildings, and some personal property. The village corporation entered into a joint venture agreement with certain other village corporations in the regional area and the Company to develop a use for the land and buildings. The Company has been retained by the joint venture to manage the properties. From February 1, 1979 to September 30, 1980, the joint venture leased a portion of the facilities to the U.S. Department of Labor, Job Corps for operation of a Job Corps Center.

The Company has 79 percent income interest in the joint venture and its properties, except for rentals of real property, in

3. Investments in Joint Venture Operations, Continued:

Cape Chiniak Impact Center Joint Venture, Continued

which it has a 50% income interest. Through June 30, 1981, the Company has advanced funds in its management function for the maintenance of the facility which have been capitalized by the joint venture as deferred charges. The Company's share of the joint venture net expenditures are carried as an investment.

The balance of the Company's investment in and advances to Cape Chiniak Joint Venture at June 30, 1981 and 1980, and its equity in the Joint Venture's earnings for the years then ended were as follows:

	1981	1980
Investment	\$820,934	\$825,602
Advances receivable	68,813	46,099
	<u>\$889,747</u>	<u>\$871,701</u>
Equity in earnings	<u>\$11,941</u>	<u>\$5,266</u>

Koncor Forest Resource Management Company Joint Venture

In 1977, Leisnoi, Inc., through its wholly-owned subsidiary, WUF-1, entered into a joint venture agreement with wholly-owned subsidiaries of Ouzinkie Native Corporation and Natives of Kodiak, Inc. In April 1979, YAK, Inc. a wholly-owned subsidiary of Yak-Tat-Kwaan, Inc. was admitted to the joint venture. Koncor was formed for the purpose of managing, harvesting and growing timber on lands owned or to be owned by the venturers. The venture agreement provides for the initial contributions from the venturers to consist of assignments of timber rights on specified lands received or to be received under the terms of the Act.

As of December 31, 1980, the other venturers (Yak-Tat-Kwaan, Inc., Natives of Kodiak, Inc. and Ouzinkie Native Corporation) had assigned timber rights to the joint venture valued at approximately \$190,800,000, which was based upon an initial, tentative estimated value of \$3,000 per forested acre and is subject to revision. To date, Leisnoi has not received title to any lands specified in the joint venture agreement, see Note 12. Accordingly, the Company has not currently recorded any investment for its potential interest in Koncor pending receipt of subject lands. However, the joint venture agreement provides for an "as if" computation and an estimate has been prepared as to the tentative value of such timber rights to be received by the Company and assigned to the joint venture (approximately 9,800 forested acres). Based on this estimate, the Company annually recognizes its portion of the joint venture's losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. Investments in Joint Venture Operations, Continued:

Koncor Forest Resource Management Company Joint Venture,
Continued

The Company's equity in the losses of Koncor, and cash distributions received (which are subject to refund), based on the Company's assumed ownership interest (currently 12.8%), were as follows:

<u>Company's Fiscal Year</u>	<u>Equity in Koncor Losses</u>	<u>Cash Distributions</u>	<u>Total</u>
1978	\$10,920		
1979	21,524	\$ 80,000	
1980	22,975	81,225	
1981	<u>35,704</u>	<u>33,200</u>	
Totals	<u>\$91,123</u>	<u>\$244,425</u>	<u>\$335,548</u>

The joint venture is to conduct a timber cruise to establish a more detailed and accurate timber inventory and a revised valuation of timber rights assigned by each owner company. A final determination of such valuation will require substantial additional information about the inventories and markets. This valuation is to be used to retroactively adjust, to January 1, 1977, the related venturer's equity accounts.

4. Investments in Securities:

Investments consist of the Company's financial interest in the net assets of a joint investment account.

Joint investments at June 30, 1981 consist of the following:

Superior Oil Corporation, 16-3/8% commercial paper due July 7, 1981	\$2,442,200
Dreyfus Money Market Fund, 17.15%	284,018
Smithkline Corporation, 8.15% bonds due December 15, 1984	150,000
Federal National Mortgage Association Notes, 9-1/2% due March 10, 1983	497,896
U.S. Treasury notes, 7-7/8% - 9-3/8%, due May 1982 - June 1983	800,384
U.S. Land Bank notes, 8.1% due July 22, 1985	150,418
Accrued interest	<u>38,568</u>
	4,363,484
Amounts held on account for village corporations and shareholders	<u>(1,071,539)</u>
Company share	<u>\$3,291,945</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

5. Property and Equipment:

Property and equipment at June 30, 1981 consists of the following:

	<u>Total</u>	<u>Operating</u>	<u>Rentals</u>	<u>Non Operating</u>
Land	\$1,215,512	\$ 593,909	\$ 395,285	\$ 226,318
Buildings	5,150,693	2,001,145	2,111,150	1,038,398
Docks	487,451	419,089		68,362
Leasehold improvements	120,146	120,146		
Rental furniture	143,985		143,985	
Office furniture and equipment	157,458	157,458		
Machinery and equipment	3,164,115	2,068,009		1,096,106
Vehicles	180,818	180,818		
Training equipment	23,052	23,052		
Fishing boats	<u>222,265</u>			<u>222,265</u>
	10,875,495	5,573,627	2,650,419	2,651,449
Accumulated depreciation and amortization	<u>(1,871,748)</u>	<u>(553,784)</u>	<u>(404,047)</u>	<u>(913,917)</u>
	<u>\$9,003,747</u>	<u>\$5,019,843</u>	<u>\$2,246,372</u>	<u>\$1,737,532</u>

Non operating assets consist of:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Property held for sale (a)	\$ 725,043	\$211,754	\$ 513,289
Land held for development	149,794		149,794
Larsen Bay cannery (b)	<u>1,776,612</u>	<u>702,163</u>	<u>1,074,449</u>
	<u>\$2,651,449</u>	<u>\$913,917</u>	<u>\$1,737,532</u>

(a) Land and buildings, and fishing boats with a net book value of \$198,115 were sold in July - September 1981 for an aggregate gain of \$492,000.

(b) The cannery was not operated for the 1981 salmon fisheries season (June - August). However many of the related facilities were used for fishermen and fishing vessel support. If the cannery is not operated or disposed of in future years, the facilities may continue to be used for such support activities.

6. Assets in Amounts to be Determined and Related Liability for Natural Resource Revenues Received:

As indicated in Note 1, Section 7(i) of the Act provides that certain natural resource revenues received by regional corporations are subject to redistribution to all twelve Alaskan regional corporations. Section 7(i) is the subject of litigation which will determine the method of computing redistributable amounts and proportionate basis for redistributions among regional corporations. During 1979, the regional corporations were ordered by the court to make distributions of the uncontested portion of 7(i) receipts. The Company received \$58,866 and \$336,951 of such distributions in fiscal 1981 and 1980, respectively. The Company's interest in remaining redistributions cannot be finally determined until conclusion of litigation and until other regional corporations make available detailed information regarding such amounts. Public statements issued by certain other regional corporations indicate that substantial transactions have been entered into which involve Section 7(i) monies.

The Company has itself generated natural resource revenues totaling \$1,140,888 (\$390,888 in fiscal 1981) of which 70% is distributable to other regional corporations under Section 7(i). The balance due to other regional corporations of \$974,047 at June 30, 1981 (after payment of the uncontested portion of \$173,874, and including interest of \$349,299), is subject to reduction for deferred exploration and other costs as determined by litigation referred to above.

A summary of natural resource revenues for the years ended June 30, 1981 and 1980 follows:

	<u>1981</u>	<u>1980</u>
Received from other regional corporations	\$ 58,866	\$336,951
Company generated revenues	<u>117,267</u>	<u> </u>
	<u>\$176,133</u>	<u>\$336,951</u>

It is management's opinion that monies to be received from other regional corporations will be material to its financial statements.

7. Notes Payable:

Notes payable consisted of the following at June 30, 1981 and 1980:

	<u>1981</u>	<u>1980</u>
Note payable, bank, due on demand, bearing interest at the bank's prime rate plus 1.75% (21.75% at June 30); collateralized by inventories and receivables of Swiftsure Fisheries Division	\$2,790,376	
Customer advances, reduced by seafood product deliveries with unpaid balance due at close of packing season, bearing interest at 1.5% above prime rate (21% at June 30, 1981); collateralized by a second lien on KISI Division property and equipment, except fishing vessels, and salmon eggs and frozen salmon inventory (paid in full July 16, 1981)	153,731	\$1,717,075
Insurance premium contracts payable (1981 due in installments of \$14,178 plus interest at 13.5%)	28,356	147,568
Note payable, bank, originally due in various installments to October 1, 1981 with interest at prime rate plus 2%; collateralized by Alaska Native Fund receivable (paid in full July 1, 1980)		1,051,340
Note payable, bank, due August 4, 1980 with interest at 13.4%		500,000
Note payable, bank, due July 14, 1980 with interest at prime rate plus 1.5%		361,743
Note payable, bank, due October 1, 1980 with interest at 2% above the bank's prime lending rate		<u>25,000</u>
	<u>\$2,972,463</u>	<u>\$3,802,726</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

8. Long-term Debt:

Long-term debt consisted of the following at June 30, 1981 and 1980:

	<u>1981</u>	<u>1980</u>
Bank term loans, due in quarterly installments of \$69,446 to June 1986, and \$48,985 thereafter to year 2004, including 10.5% interest on ninety percent of the loan balance and 12.5% interest on the remainder; collateralized by a first lien on all the property and equipment, and \$269,066 of notes receivable at June 30, 1981, of KISI Division (a)	\$1,806,134	\$1,969,563
Notes payable collateralized by deeds of trust on real property:		
Credit union, due in monthly installments of \$9,319 including 9% interest	553,845	612,100
First National Bank of Anchorage, due in monthly installments of \$4,298 including 10% interest	334,113	351,789
Kodiak Welding and Fishing Supply Co., Inc., due in monthly installments of \$2,831 including 10% interest	231,919	241,629
National Bank of Alaska, due in monthly installments of \$3,056 including 8% interest	94,592	122,296
R.S. Acheson Company, due \$20,000 annually plus 10% interest	80,000	100,000
First National Bank of Anchorage, due in monthly installments of \$1,424 including 9.5% interest	37,007	49,764
Swiftsure Fisheries, Inc., due in annual installments of \$175,876 plus 12% interest (eliminated upon 1981 acquisition of Swiftsure Fisheries)		802,648
Seattle-First National Bank, due in quarterly installments of \$30,000 including interest at the prime rate plus 2.5%; but not to exceed 12% (paid in full October 1, 1980)		666,849

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

8. Long-term Debt, Continued:

	<u>1981</u>	<u>1980</u>
Seattle-First National Bank, due in quarterly installments of \$26,000 including interest at the prime rate plus 2.25% (paid in full October 1, 1980)		\$ 566,051
Other:		
Note payable, U.S. Small Business Administration, due in monthly installments of \$925 including 5.5% interest to June 5, 1987; collateralized by security agreements on inventories and property and equipment	\$ 62,164	69,645
J.M.B. Corporation, due \$10,396 annually plus 8% interest to October 1, 1985	51,978	62,374
Purchase contracts and capitalized lease obligations payable, due in monthly installments of \$1,872 including interest from 13% to 16% and semi-annual installments of \$427 plus 7% interest	38,127	31,993
Accrued long-term commissions payable	<u>40,000</u>	<u>80,000</u>
Total long-term debt	3,329,879	5,726,701
Less current portion	<u>(311,025)</u>	<u>(1,658,687)</u>
Long-term portion	<u>\$3,018,854</u>	<u>\$4,068,014</u>
(a) Bank term loans - although current installments called for by the bank term loan agreement have been paid as they became due, the loans are technically in default because a number of covenants of the loan agreement have not been met by KISI. The covenants pertain principally to limitations on the borrowing of money and purchases of property and equipment, conditions to be met when fishing vessels are sold, timeliness of financial reporting to the bank, and maintenance of specified financial ratios and amounts.		

8. Long-term Debt, Continued:

(a), Continued:

On July 30, 1980, the bank informed KISI that although the loans were technically in default, the bank would postpone its right to demand payment in full pending the performance of KISI, quarter by quarter, during the period ending December 31, 1980, and on October 12, 1981, the bank extended the period of postponement on a quarterly basis through December 31, 1981. Accordingly, the term loans are substantially classified as noncurrent based on continued forbearance by the bank.

9. Capital Stock and Contributed Capital:

As provided in the Act, 100 shares of stock have been issued to each Native person enrolled to the Company. The shares are in two classes of common stock; Class A for persons also enrolled to a village corporation and Class B for the remaining at-large enrollees.

The extension of the enrollment process (which closed in December 1976, see Note 2) resulted in 8 and 52 new enrollees and, 800 and 5,200 additional shares of stock issued by the Company during fiscal years ended June 30, 1981 and 1980, respectively.

An adjustment to contributed capital of \$514,163 giving effect to fiscal 1980 and prior years' changes in enrollment was recorded in fiscal 1980.

In fiscal 1981, in accordance with the terms of merger (see Note 1), the Company made cash distributions to the former shareholders of the merged Village Corporations of \$2,100 per typical shareholder (equivalent to \$21.00 per Koniag Class B share) totaling \$2,450,700. In addition, cash distributions totaling \$226,282 were made to the five successor village non-profit organizations as determined by and established pursuant to the terms of merger.

Also as a result of the merger of the Village Corporations, an adjustment to contributed capital of \$258,883 is reflected in fiscal 1981 giving effect to the change in enrollment of the former merged Village Corporation shareholders to Class B, at-large status. This change in enrollment status entitles such shareholders to allocable portions of Alaska Native Fund monies under Section 7(j) of the Act (see Note 1) previously distributed to the respective merged Village Corporations.

10. Income and Property Taxes:

Monies and properties received under provisions of the Act are not subject to any form of Federal, state or local taxation at time of receipt.

Real property interests received under the Act which are not developed or leased to third parties are exempt from state and local property taxes until December 18, 1991.

Income derived from real property interests, investments and operations are subject to applicable Federal and state taxes.

The Company files consolidated income tax returns. Net operating loss carryforwards for federal tax purposes at June 30, 1981, totaling \$4,658,000 are available to reduce future taxable income of the Company and its subsidiaries, except Kodiak Island Seafoods, Inc. which filed separate returns to December 10, 1980. KISI's net operating loss carryforwards totaling \$2,065,000 are available to reduce KISI's future taxable income only, if any. The loss carryforwards will expire as follows:

	<u>Koniag</u>	<u>KISI</u>
June 30, 1991	\$ 738,500	
June 30, 1992	481,000	\$ 708,000
June 30, 1993	529,000	165,500
June 30, 1994	1,152,000	1,191,500
June 30, 1995	1,010,000	
June 30, 1996	747,500	
	<u>\$4,658,000</u>	<u>\$2,065,000</u>

Investment and new jobs tax credits of \$282,000 are also available to offset future income taxes payable; investment tax credits (\$187,000) will expire June 30, 1989 through 1996, and the new jobs tax credit (\$95,000) will expire June 30, 1986.

11. Retirement Plans:

The Company has noncontributory retirement plans which cover substantially all of its employees (except employees of Kodiak Swiftsure Corporation) who meet certain eligibility requirements as to age and length of service. The plans require that annual contributions be made to insurance companies for future purchases of individual annuity contracts. Pension expense was \$94,245 in 1981 and \$47,862 in 1980, which includes amortization of past service costs over a period of 30 years. The Company's policy is to fund pension costs accrued.

12. Litigation and Contingencies:

The Company is a defendant to legal action initiated in December 1980 by a Company shareholder (who is also a shareholder of Afognak Native Corporation) concerning the proposed merger of Afognak Native Corporation and the Company (and the five other merged native village corporations, see Note 1). The original defendants in this action were Afognak Native Corporation, Koniag, Inc. and the individual directors of Afognak who voted in favor of the Plan of Merger.

The Plan of Merger was approved by vote of the shareholders of the Company, on December 6, 1980 and the shareholders of Afognak and each of the five other village corporations on December 4, 1980.

However, the court granted a temporary restraining order and issued a preliminary injunction enjoining certification of the merger between Afognak and Koniag and, accordingly, such merger was not consummated.

The plaintiff amended his original complaint in March and September 1981, adding as defendants the individual directors of Koniag, Koniag's President and Chief Executive Officer, Koniag's legal counsel, (who represented Koniag in connection with the preparation of the Joint Proxy Statement furnished to shareholders for the solicitation of shareholder votes on the proposed mergers), and Koniag's and Afognak's independent auditors.

The Commissioner of Commerce and Economic Development of the State of Alaska has intervened challenging the adequacy of disclosures contained in the proxy materials.

Plaintiff is suing on his own behalf, allegedly on behalf of the class of all shareholders of Afognak, and derivatively on behalf of Afognak and Koniag, seeking injunctive and declaratory relief and damages.

By way of injunctive relief, the plaintiff seeks an order rescinding the Afognak shareholders' votes, contending that the proxy materials provided to the Afognak shareholders contained misrepresentations, omitted material facts, and made otherwise misleading statements pertaining to the proposed merger. Further, he seeks to enjoin any merger between Afognak and Koniag for not less than 36 months from the date of the final decree.

12. Litigation and Contingencies, Continued:

For declaratory relief, plaintiff seeks an order declaring that the proxy materials were defective and that the five village corporation mergers that were in fact consummated are null and void. Further, he seeks a declaratory judgment that any indemnity agreements between Koniag and its officers and directors and between Afognak and its officers and directors are void.

For damages, plaintiff appears to seek reimbursement to Koniag and Afognak of all their costs incurred in connection with the merger, including costs of litigation. Further, he seeks punitive damages from certain defendants, including Koniag and its named officers and directors. Finally, he seeks an award of attorneys' fees and costs.

The merger litigation costs incurred by the Company through June 30, 1981 totaling \$326,735, have been charged to fiscal 1981 operations. Continuing costs in defense of this litigation totaled \$100,000 from July 1 to August 31, 1981.

No trial date has been set and the court has not yet ruled whether or not this case may proceed as a class action.

Although the Company has denied the allegations of the complaint and has asserted certain affirmative defenses and intends to defend vigorously, the outcome of this litigation cannot be determined at this time.

The Company, as successor to Leisnoi, Inc. upon its merger, is also a defendant in litigation challenging the eligibility of Leisnoi as an Alaska Native village under the Act (see Note 1). The case, pending since 1976, was remanded in September 1981 by the U.S. Court of Appeals to the U.S. District Court (whose earlier decision dismissed the complaint) for further judicial proceedings. The Company's rights to lands (including surface and subsurface estate) originally selected by Leisnoi under the Act depends on the outcome of this litigation, which cannot be determined at this time.

The Company and certain of its subsidiaries are involved in other legal actions arising in the ordinary course of business, none of which, in the opinion of management, is expected to materially affect the Company's consolidated financial position.

13. General and Administrative Expenses:

General and administrative expenses (including direct costs of rental properties) for the years ended June 30, 1981 and 1980 consisted of:

	<u>1981</u>	<u>1980</u>
Personnel	\$1,027,942	\$ 735,548
Directors' fees and expenses	90,748	82,495
Professional fees and expenses:		
Legal	237,668	290,304
Accounting	141,005	173,236
Other	18,277	127,947
Rental, utilities and janitorial	206,946	187,019
Travel	130,766	90,930
Provision for bad debts	81,623	19,498
Depreciation and amortization	156,358	139,978
Insurance	102,715	65,008
Taxes	47,015	48,145
Other	313,773	285,640
	<u>\$2,554,836</u>	<u>\$2,245,748</u>

14. Extraordinary Credit:

The extraordinary credit in fiscal 1980 resulted from the excess of insurance proceeds over the net carrying value of Leisnoi, Inc.'s Woody Island residential project which was completely destroyed by fire on December 12, 1979.

15. Subsequent Event:

On August 27, 1981, the Company purchased (through its newly formed subsidiary, Kodiak Industries Corporation) a 7.25% limited partnership interest in an oil refinery project to be constructed in Phoenix, Arizona for \$2,000,000 cash.

If certain future events transpire, the Company could alternately own 10-12% (maximum of 20.25%) of the project as a general partner, without further investment. Management estimates the refinery project will be completed in 1985.

KONIAG, INC.

Directors

JACK WICK HARRY CARTER
Chairman Vice Chairman

NANCY ANDERSON KARL ARMSTRONG PERRY EATON

SVEN HAAKANSON ALLEN HEITMAN JOE LLANOS

FRANK PAGANO ALLEN PANAMAROFF NICHOLAS PESTRIKOFF

FRANK PETERSON PETE OLSEN

Officers - Staff

J. F. MORSE
President & Chief Executive Officer

KARL ARMSTRONG PERRY EATON
Executive Vice President - Secretary Treasurer

GENE SUNDBERG RONALD B. ZENER
Vice President - Lands Vice President - Controller

STUART WALTON
Assistant Vice President

HENRY EATON EDWIN CHAN
General Manager - Kazim Co. Assistant Controller

MARIE UNGER CARLENE MAHLE
Executive Assistant Senior Accountant

JULIANA MILLER BECKY MAHLE
Receptionist Secretary

RICHARD WADDELL M. K. RUARK
Gen. Mgr., Shelikof Net - Kodiak Mgr., Shelikof Net - Dutch Harbor

DEAN KAYLER
General Manager Kodiak Island Seafoods, Inc.

DON MOWAT
Vice President - Kodiak Island Seafoods, Inc.

WAYNE SELBY
General Manager, Kodiak Swiftsure Corporation

ROBERT L. TARRANT
Vice President - Land Surveying Services, Inc.

AUDITORS
Coopers & Lybrand