



KAMEHAMEHA SCHOOLS BERNICE PAUAHI BISHOP ESTATE

Office of the Trustees

August 16, 1999

Marcus Owens, Esq.
Director
Exempt Organizations Division
Internal Revenue Service
1111 Constitution Avenue, N.W., Room 6411
Washington, D.C. 20224

Ms. Terry Franklin, Chief
EP/EO Division
Western Key District
Internal Revenue Service
300 North Los Angeles Street
Los Angeles, California 90012

Dear Mr. Owens and Ms. Franklin:

As you know, the Interim Trustees of Kamehameha Schools Bishop Estate and the Internal Revenue Service have reached agreement on the terms of a Closing Agreement that, if approved by the Probate Court, will result in KSBE maintaining its tax-exempt status for all past periods and on a going forward basis.

When we met to begin negotiation of these issues in Los Angeles on April 19, 1999, the IRS advised the then Special Purpose Trustees that an essential condition for the preservation of KSBE's tax-exempt status was the resignation or permanent removal of all of the Incumbent Trustees. The IRS has confirmed their position at subsequent meetings that we have had in the course of negotiating the terms of the Closing Agreement.

On July 16, 1999, the Interim Trustees wrote to each of the Incumbent Trustees advising them (1) that negotiations with the IRS were nearing conclusion; (2) that we had negotiated a resolution of the IRS Audit Issues that would preserve KSBE's tax-exempt status for all past periods and on a going forward basis; (3) that a condition of the Settlement with the IRS was the resignation or permanent removal of all of the Incumbent Trustees; and (4) that under the circumstances, it was the view of the Interim Trustees that the Incumbent Trustees had a fiduciary duty to resign. We requested the

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resignation of each of the Incumbent Trustees by July 30, 1999, and advised them that if they did not resign, we would be forced to file a Petition with the Probate Court seeking their permanent removal. We have until August 24, 1999, to file such a Petition.

In response to our July 16, 1999 letter, Trustee Stender has voluntarily resigned, subject to the resignation or permanent removal of the other Incumbent Trustees. The remaining Incumbent Trustees have not resigned, and we are prepared to file a Petition for their Permanent Removal on August 24, 1999. Before doing so, however, we request that the IRS confirm in writing that the resignation or permanent removal of the Incumbent Trustees is a necessary condition to the IRS's willingness to reaffirm KSBE's tax-exempt status for all past periods and on a going forward basis.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Robert K. U. Kihune', with a large, loopy initial 'R'.

Robert K. U. Kihune, Chair
Board of Interim Trustees

cc: Interim Trustee Constance Lau
Interim Trustee Francis Keala
Interim Trustees Ronald Libkuman
Interim Trustee David Coon