MILLER & CHEVALIER
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655 FIFTEENTH STREET, N.W. SUITE 900
WASHINGTON, D.C. 20005-5701
(202) 626-5800 FAX: (202) 628-0858

August 12, 1999

Ret. Admiral Robert K.U. Kihune
Mr. David Paul Coon
Mr. Francis Keala
Ms. Constance Lau
Mr. Ronald Libkuman
Interim Trustees
Kamehameha Schools Bernice Pauahi Bishop Estate
Kawaiahao Plaza
567 South King Street
Honolulu, Hawaii 96183

Re: Settlement of KSBE Federal Income, Employment and Excise Tax Issues

Dear Ret. Admiral Kihune, Mr. Coon, Mr. Keala, Ms. Lau, and Mr. Libkuman:

You have asked that we provide you with our assessment of the settlement agreement reached with the Internal Revenue Service Examination Division ("IRS") with respect to the additions to the federal income, employment and excise tax liability of Kamehameha Schools Bernice Pauahi Bishop Estate ("KSBE") proposed in the draft Forms 5701 issued to KSBE for the tax years ending June 30, 1990 through June 30, 1996. Pursuant to this agreement, all of the federal income, employment and excise tax issues relating to KSBE for the years ending June 30, 1990 through June 30, 1996, and the unrelated business taxable income issues relating to credit enhancement agreements for the years ending June 30, 1997 and June 30, 1998 will be resolved for a lump sum payment of $9 million, plus statutory interest (approximately $4.4 million).

Having participated in the negotiations with the IRS that resulted in this settlement agreement, it is our opinion that such a settlement is reasonable, particularly given the high profile and special circumstances of this case, and that it is in the best interest of KSBE for the Interim Trustees to approve the settlement agreement on the terms proposed.

Sincerely yours,

Robert L. Moore, II

Patricia J. Sweeney

APPENDIX "9"