

FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai`i

WINTER 2011

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MESSAGE FROM THE FACULTY DIRECTOR

Once again the highlight of the year was the Family Business Center of Hawai`i Annual Retreat on Oct. 8–9, 2010 at the Outrigger Reef on the Beach hotel. Lee Hausner, a well-known family business consultant and psychologist, was this year's retreat leader.

Close to 60 members attended the retreat. Attendees also had the opportunity to meet in private consultation sessions with Dr. Hausner. We were also fortunate to have a good number of members attend from our Maui chapter.

Ken Gilbert is already starting to line up next year's retreat program and we will let you know the details as soon as we get the event scheduled.

The FBCH regular program is almost completely scheduled for the upcoming year, thanks to program chair Myron Nakata. I encourage you to be on the lookout for new members and feel free to invite them to one of our meetings. The tentative schedule is on page 4 of this newsletter.

We are also planning to video-record our meetings to make them available to members who are unable to attend. This way, missing a meeting won't mean missing the message.

Lastly, an online membership directory is being developed where members will be able to find contact information for each other. An announcement will be made when the web page goes live.



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First Family Business Center Meeting Held in 1995 is Available on DVD

The Family Business Center of Hawai`i is now in its sixteenth year. The first meeting, held on Nov. 13, 1995, was a full day event and attracted more than 100 people. Recently, a video of the first presentation by Craig Aronoff, the facilitator of our 2009 retreat, and John Nordstrom, co-president of Nordstrom at that time, was transcribed to DVD. We would be happy to make it available to our members.

The video is two hours long and quite interesting. Many of the issues that they discussed 15 years ago are still relevant today. You may even recognize some of the people in the audience.

If you would like a copy of the DVD, contact Krystal Lee at 956-5092 or e-mail her at krystal.lee@hawaii.edu.



John Nordstrom at the first FBCH meeting in 1995

Kualoa Ranch Hawaii: Trials, Tribulations and Triumphs of Seven Generations

FBCH members visit the ranch and learn about the family business from President John Morgan



FBCH members and their families stopped to take a picture at the site where Jurassic Park was filmed during the Annual Social at Kualoa Ranch.

On June 27, 2010, FBCH members and their families networked with one another as they soaked in the breathtaking views of Kualoa Ranch Hawaii at the Annual Social event.

The day began with the viewing of a video entitled, "Kualoa: Land of Legacy." The video was followed by a ranch-style buffet of ribs from Kualoa-raised cattle.

Guests then boarded a bus and toured various locations where movies were filmed. After the movie sites tour, participants boarded another bus for a garden tour and then took a relaxing boat ride around the fishpond.

Thank you to FBCH board member Nancy Morgan for coordinating the event and to the Morgan family for their warm hospitality.

Following the social, John Morgan, president of Kualoa Ranch Hawaii, shared the 160-year chronicle of his

family's business at the FBCH meeting on July 28, 2010 at the Pacific Club.

In 1850, when the land was first acquired from King Kamehameha III to the present, where the seventh generation is involved in business operations, challenges and lucky happenstance have carved Kualoa Ranch Hawaii's legacy.

"There's a lot of history, so we need to be responsible for the future," said Morgan, a sixth-generation descendant of the ranch's founder, Dr. Gerrit P. Judd.

It is important to Morgan and his family to build a sustainable company to perpetuate the land for future generations.

Since Morgan became president in 1992, he has been busy building the visitor center, redeveloping the company's brand and expanding the board.

The 4,000-acre Windward Oahu ranch has been a working cattle ranch since 1870. However, raising cattle was not generating enough revenue. The family began offering outdoor recreational activities on land and in the water. The natural beauty of the land also caught the eye of Hollywood, and the Morgan's opened up the ranch to many television shows and blockbuster movies.

Morgan also shared the business practices he learned through joining the FBCH. One of the most important lessons he learned was to hold stockholder retreats, which he modeled after other FBCH members.

At a FBCH event, he learned that the younger generation of a family business should have the opportunity to meet separately from the older generation. When he

incorporated this idea into his retreat, he was surprised to learn that he was considered to be part of the older generation. More importantly, he was happy to find that both generations came to the same conclusions: all members want to continue to own the land, continue to operate the company on their own and support stewardship of the land by developing it as little as possible.

On June 30, while the rest of the country suffered harsh economic times, Kualoa closed the fiscal year with the best financial results in the company's history. Morgan attributes their family's success to having happy employees, happy shareholders who are confident in the company and being good to their community.

"I like to think we're adding to the mana [power] of the land," he said.

For the future, Kualoa Ranch has many plans including installing a "zipline" system, renovating the group facility, and starting a youth camp.



John Morgan (right), pictured with his wife Carri, spoke to the Family Business Center last July on "Trials, Tribulations and Triumphs of Seven Generations."

Chuck Kelley shares the Outrigger legacy at the November FBCH meeting

Dr. Chuck Kelley, vice president of KF development at Outrigger Enterprises Inc., shared how his grandparents, Roy and Estelle Kelley, built their hotel empire at the Nov. 10, 2010 FBCH meeting on Oahu.

Chuck also gave a presentation to the Maui chapter in January last year.

He emphasized the importance of family history in understanding the success and failures of family firms.

Roy was an architect, but moved into the hotel business as his eyesight began to fail. The Kelley's started with the Islander to focus on middle-income family travelers and began expanding, pioneering the hospitality industry. Roy worked on building hotels,



Ken Gilbert, Chuck Kelley, Jenny Kelley, Sandra Au Fong and John Butler pose for a photo after Chuck's presentation at the Nov. 10, 2010 FBCH meeting.

while Estelle worked the reservation desk.

Their son Richard, who became a medical doctor, left his practice and joined the business to help his parents.

Chuck credited his father for managerial changes

and for modernizing the operations.

He said, his father pushed hard for computers, but Roy was against it calling them the "devil's instrument."

Richard won that battle and wrote the program for a

reservation program that is still used today. He named it Stellex after Estelle.

In the late 80's, Richard created the family counsel. Family members look forward to summer retreats, where outside consultants, such as Lee Hausner, are hired.

Today, the company is headed by Richard's son-in-law, David Carey, and is one of the largest and fastest growing privately-held leisure lodging and hospitality companies in the Pacific with 2500 staff worldwide.

As it enters its fifth generation, Outrigger Enterprises will remain a family held company as they expand around the world, while keeping their home base in Hawai'i, said Chuck.

Cades Schutte representatives provide members with an estate tax law update



Roger Epstein (right) and Constance Liu (left) from Cades Schutte spoke on the new estate tax law at the Jan. 11, 2011 FBCH meeting at the Pacific Club.

Roger Epstein, partner and chair of the tax department at Cades

Schutte and Constance Liu, an associate in their tax department, spoke on "Tax aspects of transferring the business to the next generation (in light of the new estate tax law)," at the Jan. 11, 2011 FBCH meeting

at the Pacific Club.

They pointed out that Congress has passed some

favorable legislation with respect to the estate tax rate and exemptions for 2011 and 2012. However, these rates may revert to the rate of 55 percent with a \$1 million exemption in 2013.

Epstein and Liu discussed a number of ways to minimize taxes by passing on wealth through a variety of gift and trust options. They will also be making this presentation to the Maui Chapter on February 7, so you can catch it there if you missed it on Oahu.

In addition, we have just begun a new service to members. We will now attempt to provide access to

videos of presentations that you miss, in cases where the speakers are willing to be videotaped. It is not as good as being there, but it is a way to benefit from both their knowledge and learning.

The video of this is now available online. Please visit www.fbcofhawaii.org and scroll down to the Past Events section. Click on "View Video" under the January 11 event info. You will need a password to watch the video. Contact Krystal Lee (krystal.lee@hawaii.edu, 808-956-5092) or John Butler (jebutler@hawaii.edu) for the password.

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You can't beat death, but in 2010 you could beat taxes

Several years ago Harmon Brown spoke at a Family Business Center meeting and advised that 2010 was the year to die because Congress had not yet passed legislation that would renew the estate tax law for that year. However, he assured us that this is surely something they would do. Everyone assumed they would and there was little discussion until it became apparent that the tax would lapse for one year only.

Some comedians began to incorporate this into their routine and "let's throw grandma from the train" became a frequent theme of

late night television. The fact is that most wealthy people did not die in 2010 and the death rate was similar to prior years.

However, one very wealthy American, Roger Milliken, chairman of Milliken & Co., died on Dec. 30, 2010 just one day before the estate tax would have increased to 35 percent from 0 percent. Forbes estimated that Milliken was worth \$1 billion.

While Milliken escaped the tax, his grandfather and founder of the firm Seth Milliken was one of the first to have to pay the original estate tax back in 1916. He tried to avoid the tax by giving



Roger Milliken

the shares to his children but a famous Supreme Court case ruled that he had to pay. Of course, the tax was much lower with an exemption of \$50,000 (\$11 million today) and rates that started at 1 percent and reached the maximum of 10 percent at \$5 million (\$1 billion in today's dollars).

UPCOMING FBCH MEETINGS

FEBRUARY 7, 2011 • MAUI

"Tax aspects of transferring the business to the next generation (in light of the new estate tax law)"

Speakers: Roger H. Epstein, partner, and Constance Liu, associate, Cades Schutte
11:30 a.m. – 1 p.m. at Bistro Casanova

MARCH 29, 2011 • OAHU

"Family business succession—with family members and non-family employees"*

Speaker: Kent Tsukamoto, managing partner, Accuity LLP
11:30 a.m. – 1 p.m.

MAY 17, 2011 • OAHU

"Reinventing the business and family by the third generation"*

Speaker: Paul Uyehara, president, Aloha Tofu
11:30 a.m. – 1 p.m.

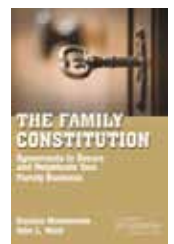
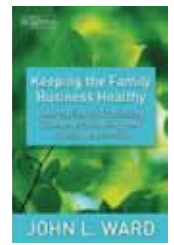
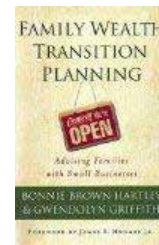
JULY 12, 2011 • OAHU

"Training company leaders"*

Speaker: Beryl Fajardo, director of leadership development and training, Hawaiian Airlines
11:30 a.m. – 1 p.m.

*Meeting topic subject to change.

Recent books on family business



MISSION:

Equipping, educating and celebrating families in business

The Family Business Center of Hawai'i is a nonprofit, member-based forum, housed within the Shidler College of Business at the University of Hawai'i at Mānoa. Administrative support for the FBCH is provided by the Pacific Asian Center for Entrepreneurship and E-Business.

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