



Smithsonian Business Ventures

May 14, 2007

Cristián Samper
Acting Secretary
Smithsonian Institution

Dear Cristián:

Over the last several months, it has become increasingly clear to me that the Board of Regents should re-assess the future role of the private sector in the Institution, and how best to incorporate entrepreneurial efforts going forward. I was pleased to learn that you and the Regents will be acting on recommendations in my April 30 memo on future business goals and the mandate going forward.

I am writing to inform you of my plans to return to the private sector at the end of the fiscal year when my current contract expires. After eight years of service (longer than initially anticipated), my principal interests and skill set are best served going forward in an entrepreneurial environment committed fully to both creativity and the disciplines of business.

I am committed to support the SBV management team and you to ensure that we complete an orderly transition over the course of the summer that minimizes disruption to the operating businesses and allows time for the search process. I am pleased to report that SBV's mid-year forecast for full-year earnings is \$24.3 million in contribution, essentially flat with last year despite the closure of the National Museum of American History. I look forward to discussing the transition with you on your return.

Looking back over the past eight years, there has been much accomplished to achieve the central goals established by the Regents for SBV in 1999. In the early years, the events of September 11 and the recession in the advertising industry were a tremendous shock to the Institution's two primary businesses, *Smithsonian* magazine and museum visitor retail. I am very proud of how we managed through that difficult period and rebuilt to post all-time record earnings in 2005. At the same time, visitation to museums remains 30% below that recorded in 2001, SBV has doubled revenue per museum visitor enabling profit growth, and the *Smithsonian* magazine remains one of the few general interest consumer magazines that remain in the market, with our 2 million paid circulation stronger and more profitable than when I arrived. The new businesses established, including Smithsonian Books, Smithsonian Networks and Student Travel, are contributing millions of dollars of incremental profit to the Institution today, with outside corporate partners shouldering 100% of the financial investment and allowing Smithsonian to maximize funds for mission needs. In addition to the economic value of

SMITHSONIAN INSTITUTION
600 Maryland Avenue SW, Suite 6001
Washington, DC 20024
202.633.5171 Telephone
202.633.6093 Fax

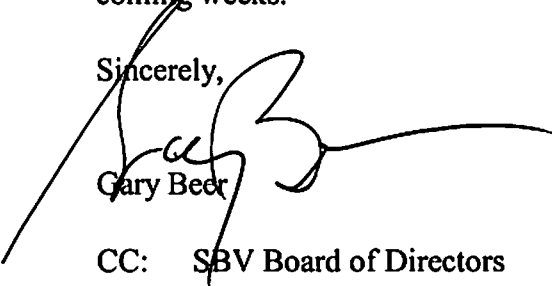
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these enterprises, these new business activities extend the mission and the reach of the Institution to millions of American consumers.

As the Inspector General stated in their recent audit of SBV compensation practices, we have established a comprehensive performance compensation program, and executive compensation is in line with market. The SBV Pay-for-Performance program is unique to the Institution and has been a success replacing Cost-of-Living with increases based on merit; and the SBV performance incentive system works as designed – when earnings are up, incentives increase and payments decrease when earnings are down.

I look forward to responding to the Governance Committee on their recent inquiry about SBV's practices, and to sharing the history of our experience and performance in the coming weeks.

Sincerely,



Gary Beer

CC: SBV Board of Directors

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