

**SMITHSONIAN INSTITUTION
COMPENSATION FOR SMITHSONIAN BUSINESS VENTURES EXECUTIVES**

General Philosophy

The general philosophy for senior level Trust Business Ventures executives is that these positions will be treated the same as other Trust executive positions in terms of deciding the general compensation approach. These positions will be evaluated to determine if a market-based or Federal equivalent compensation approach should be followed. Once that evaluation is complete, the compensation process for these positions follows the SBV philosophy attached, except that those positions determined to Federal Equivalent Based will follow the salary procedures and grandfathering plan outlined in the previous sections. Contractual obligations for incentive programs will be honored.

Business Ventures positions that meet the following criteria require approval of the Full Board of Regents, and are reflected in the following pages:

- Business Ventures Disqualified Persons Positions
- Business Ventures Positions with 2007 salaries at or greater than \$200,000

Business Ventures positions that meet the following criterion require approval of the Committee only and not the Full Board, and summary information on these positions is included in the final tab of the compensation book:

- Business Ventures Positions with 2007 salaries greater than the Federal SL salary cap, but less than \$200,000

Effective Date

Base salary adjustments will be effective January 6, 2008. Because of the timing of the meeting of the Full Board of Regents, those decisions will be retroactive, as in the past.

Smithsonian Business Ventures
2007 - 2008
Executive Compensation Philosophy
(Recommended Revisions to the Compensation Philosophy of May 6, 2002)

BACKGROUND

The Board of Regents of the Smithsonian Institution authorized the formation of Smithsonian Business Ventures (SBV) in 1998 to increase the financial support of the programmatic missions of the Institution provided by its commercial activities. SBV, while remaining true to the mission and brand equity of the Institution, was charged to be performance driven, externally oriented and successfully entrepreneurial. Executive compensation that is marketplace-competitive and performance-based was specifically recognized to be a necessary tool for SBV to achieve its goals.

GOALS

1. Align the self-interests of senior executives with the goals of SBV.
2. Attract and retain executives with the skills necessary to accomplish the growth goals of SBV.
3. Encourage the formulation of aggressive – but achievable – financial goals in annual budgets and multi-year growth plans.
4. Encourage the achievement of both annual and long-term financial and operational goals.
5. Encourage actions that will improve the long-term growth of SBV's businesses.

EXTERNAL BENCHMARKS

SBV needs to be current as to its knowledge of executive compensation practices at relevant competitors and sources of executive talent. Such talent, while generally found in the commercial world, may also be sought in educational or not-for-profit organizations. SBV will identify competitive practices with the periodic use of outside compensation consultants, input from members of SBV's board and other sources in the private sector. Such information, as well as the limitations of the Smithsonian's nonprofit environment, will be used to set general parameters for compensation practices at SBV.

GENERAL POLICIES

The overriding compensation policy at SBV is to pay for Performance. SBV will set its compensation packages (salary, benefits, incentives) at levels necessary to attract, retain and motivate a highly competent executive team with appropriate skills and attitudes capable of attaining and exceeding their respective goals. SBV will provide a total compensation package that includes base salary and annual incentive bonuses that are competitive in the marketplace.

Executives should have an opportunity to earn substantial rewards for producing substantially increased “Net Gain” (profit) for the Institution. Executive compensation will be negatively impacted by failure to achieve short-term goals (budgets) and be limited if profits are stagnant or decline from relevant prior periods. Individual components of SBV incentive plans may or may not be capped, as appropriate to the situation. Any such caps will be recommended annually by the Compensation Committee. Total Compensation (the sum of base salary plus annual incentives) will generally not exceed the 75th percentile of the relevant competitive set.

Unless they have contracts to the contrary, all executives are employed “at will.” Specific provisions of compensation plans are to be fully stated in writing no later than the beginning of the fiscal year covered by the incentive. Performance standards should be specific and measurable with minimal reliance on discretionary awards. The Compensation Committee will review all recommendations from the CEO for incentive awards to ensure that the best interests of the Institution and fairness to the executives are being served prior to passing its recommendations to the Secretary for his final approval. The Secretary will ensure compliance with any regulatory requirements.

COMPONENTS OF TOTAL COMPENSATION

SALARY AND BENEFITS: Base salaries will be targeted at approximately the 50th percentile of the relevant external competitive set, subject to the difficulty of determining such benchmarks as discussed above and the availability of appropriately skilled talent when SBV is recruiting. SBV executives will be eligible to participate in all benefits programs (e.g. insurance, vacation, and pension) available to other senior executives at the Institution. There will be no automatic annual salary increases. Any salary adjustments will be performance based, relevant to market conditions, and not dictated by any Institution-wide policies unless specifically directed by the Secretary.

ANNUAL INCENTIVES: The annual incentive plan will provide participating executives the opportunity to earn total compensation substantially in excess of the 50th percentile of their relevant competitive set to the degree that Net Gain performance exceeds that year’s budget. Performance standards and Target Incentives will be individualized to each business unit, but all will be subject to the following common provisions:

1. Each individual’s Target Incentive will be allocated and determined based upon achievement of three goals, the most significant of those being achievement of financial goal (budgeted net gain) in his/her business unit. The additional goals considered will be achievement of specific and clearly measurable operational goals, and the achievement of the overall SBV budgeted Net Gain. Executives in individual business units may earn portions of their Target Incentives relating to divisional financial performance and individual operational goals regardless of the overall performance of SBV.
2. Target Incentives will typically be set at budget but may also take into consideration increases in revenue and net gain over prior year(s).

3. No portion of any annual Target Incentives will be guaranteed. The Compensation Committee may establish minimum levels of financial performance (within the applicable business unit and/or SBV) below which there will be no payout of the “financial” or “operational” portions of the Target. The Compensation Committee may also endorse programs for over budget incentive payments.

LONG-TERM INCENTIVES: The board has approved a long-term incentive plan only for the CEO of SBV. It rewards the achievement of an average compounded three-year growth rate which exceeds the growth rate of SBV units prior to the creation of SBV. The compensation committee is open to consider management’s recommendation for long-term incentive plan(s) that will help accomplish the Goals set for above in this document for other senior SBV executives. How any such additional plan would interact with existing salary and short-term incentive plans has not been determined.

THE ROLE OF THE COMPENSATION COMMITTEE

The SBV Board Chairman shall annually appoint three members of the Compensation Committee from among the Board’s outside directors. The Committee shall operate on behalf of the Board in ways which are both a) consistent with this Executive Compensation Philosophy (as approved by the full board) and b) necessary for the administrative implementation of compensation plans that have prior board approval. The Committee will bring to the attention of the full board, through the Board’s Chairman, its recommendations on any substantial matter that cannot be resolved consistent with a) and b) above.

The Committee will perform the following roles:

1. Recommend to the Board any necessary changes to this document.
2. Make available to any SBV Board member who so requests (and so authorized by the Secretary If an Inside Director) any provisions of compensation plans or background information concerning any recommendation made to the Secretary by the Committee.
3. Review management’s recommendations for changes in compensation for senior executives and for all Incentive Plans (including base periods, growth targets, allocation of incentives between financial and operational goals) prior to their submission to the Secretary.
4. Review management’s recommendations for the implementation of incentive plans. The committee shall have the discretion to recommend to the Secretary modifications to incentive awards on the basis of extraordinary events not envisioned in the preparation of budgets or other financial plans.
5. Review management’s recommendation for terms of employment of new senior executives or substantial changes to existing executives and endorse such terms to the Secretary.

6. Provide recommendations to the Secretary concerning the performance and compensation of the CEO as well as CEO contract renewal and/or succession. Solicit input from the full Board through the Board Chairman in conjunction with annual CEO performance appraisal and succession plans.

Specifically, this would include the preparation of: a) an annual appraisal of performance vs. financial and operational goals, b) an annual compensation review c) an annual review of provisions and administrative implementation of incentive plan(s) in which the CEO participates. Any product or recommendations of these tasks will be forwarded to the Secretary for his consideration. While the Committee will provide whatever assistance the Secretary may request, it is understood that the Secretary will maintain primary responsibility for the authorization and implementation of any employment agreement with the CEO and for the presentation to the CEO of any performance appraisal.

7. Have the sole authority to retain, terminate and direct the work of any outside compensation consultant necessary to comply with this Executive Compensation Philosophy.