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October 17, 2007

Honorable R. Barclay Surrick
United States District Court
for the Eastern District of Pennsylvania
Room 8614, United States Courthouse
601 Market Street
Philadelphia, PA 19106

Dear Judge Surrick:

I will soon come before your Honor to be sentenced. I have read the Government's sentencing submission and the Probation Department's report. Obviously, a lot of nasty things are being said about me, many of which are true. However, I believe that it is important for your Honor to hear directly from me concerning how I became involved in the conduct to which I have pled guilty and for which I will soon be sentenced.

Interestingly, because it seems that every time I attempt to explain something, I am accused of lying, my attorney actually suggested that I not write this letter. However, I believe you have to hear from me in order to really understand who I am and what this case is about, at least from my perspective.

I was hired to manage the Philadelphia Maritime Museum (PMM) (now the Independence Seaport Museum) in 1989. It was one of three positions I was looking at that Spring but the other two represented places that were struggling with no endowment funds to support them while PMM at least had about 12 million in endowment funds to help pay the basics.

When I arrived at the Museum to begin work, I was immediately struck by how different this museum was than all of the others I had been associated with since I graduated from graduate school. The Board was small and nearly all white males in a city with a very diverse ethnic and black population. The Chairman, who was also the founder, totally dominated the Board to the extent that consensus decision making took a backseat to the Chairman's wishes. The person I replaced as CEO had been a Board member who was drafted to be CEO when the last director had been fired. I soon found out that every previous director/CEO had been fired and the average tenure for the CEO had been about 3 years.

The culture within the Museum was not like any I was familiar with from my service at other institutions. Trustees utilized museum resources for storing their personal collections and had staff do their bidding when caring for these materials. The Trustees routinely had large parties for themselves at museum expense. Service contracts went to Trustees or friends of Trustees (insurance, legal services, investment management etc.) without bids. There was a

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separate fund set-up within the endowment for certain Trustees to purchase artifacts for the Museum at their discretion and numerous other anomalies that were uncommon in the not-for-profit world.

I had been hired specifically to help plan for a way for the Museum to move down to the Philadelphia waterfront from a position near the National Park where it had been since its founding in 1961. My background included several large museum building projects as well as successful capital campaigns for museum infrastructure and improvements. A lot was expected of me in this new position and from the start I negotiated a salary that would be rewarding if we were successful.

The building we eventually decided would suit the Museum's purpose was the Port of History Building (PHOB) on the waterfront at Penn's Landing. We eventually hired as consultants several individuals who were savvy in dealing with city government and began negotiations with Mayor Goode's representatives to see if the building could be won at a reasonable price. The negotiations dragged on for three years but once Mayor Rendell's team took possession of City Hall, the negotiations became productive and eventually we managed a 99 year lease of the property at a reasonable price with all costs for refurbishment to be the Museum's responsibility.

After hiring architectural service firms and evaluating the PHOB it was determined that costs for refurbishment and modifications for our needs would be approximately twelve million dollars. A feasibility study completed on behalf of the Museum determined that we could credibly raise some three million from various constituents, clearly there was a huge gap between the needs and institutional ability.

The Board of Trustees ultimately contributed a very small portion of the funds necessary and it was only through careful cultivation of foundations and state government that we were able to prevail and open the new space to the public at Penn's Landing in 1995 as the Independence Seaport Museum.

During the campaign, which raised some thirteen and a half million dollars, I began to experience some health issues. I was managing the campaign (we completed the campaign without the need for outside consultants) as well as the construction on the building and during this period 1991-1996 was rarely able to take time off, often working 12 or more hours a day. I have since learned that I am susceptible to stress and that it was having a negative effect on my overall health.

After we moved into the new space we had a good deal of trouble "right-sizing" the staff to provide for institutional needs as well as having a staff that the organization could support between income and other financial resources. We went from a 34,000 square foot building to one of 120,000 square feet and faced many more expectations for programming from the new constituents we had developed as a result of the campaign. Shortly after we moved to the waterfront the US Cruiser OLYMPIA Foundation came to us and said that they were going out

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of business and if the USC OLYMPIA and Submarine BECUNA were to remain in Philadelphia we would have to take them over. Taking them over, which we did, meant that we had to spend an additional two to three million on repairs to OLYMPIA just to keep it afloat and operational.

My life at the Museum primarily consisted of fund raising on an almost full time basis.

After the campaign I continued to raise over two million a year to support operations as the Trustees took over two nearly 100' wooden yachts that I took through refurbishment to put in service as charter vessels. The endowment had fared well as a result of the campaign and the successful stock market rally that began in the early 1990's. The investment managers, friends to various members of the Board, had the Museum invested at 90% plus in equities which while extremely risky for the perpetual endowment of an eleemosynary institution allowed the endowment to experience dynamic increases. It was after the opening that I began to question my commitment to the position and told my then Chairman that it was probably time for me to "move on" to a new challenge.

The Chairman, Adrian Hooper, at least, didn't want me to leave and there began a series of contractual changes that led me to a large salary and bonus program based on fund development that would pay me up to an additional \$100,000.00 (tax free) annually on top of my salary. While the money was nice, the work load was increasing as we needed more and more development funds to stay ahead of deficits as the endowment began to decline in 1998 or 1999.

The culture of the Board mentioned earlier hadn't changed much as a result of all this renewed activity on the Museum's part. During the refurbishment of the building several large contracts had gone out as "no bids" to people associated with Board members or actual members of the Board. Approximately 4-6 million of costs were farmed out in this manner despite the discouragement of me and the architect in charge. Insurance and legal were still handled by Board members or friends of Board members as were other contracts we let from time to time. A "friend" of the Museum who was a multi-millionaire contributed funds restricted to the use of the Museum's boatshop. In return he was granted exclusive use of the various boats produced by the boatshop. The total boats he had in his possession by the time I left the Museum totaled seven with an aggregate value of some \$1.75 million. Previously, in the early 1990s, the then-Chairman of the Board had a museum owned vessel worth some \$200,000 transferred to this "friend" of the Museum for \$1.00. Trustees continued to have access to and utilize boats and other museum resources.

The most egregious issue had to do with the management of the invested endowment funds. The outside investment managers we had, who were friends of Board members, began to fail badly in late 1998 as the stock market began to suffer. Repeatedly I and my in house business managers brought up the fact that as losses piled up something needed to be done. The managers still had us invested at an unacceptable equation of equities to other cash instruments and as the stock market went down so did the investment portfolio. I note that in its "Victim Impact Statement", the Museum states: "At least as far back as 2000, the Museum incurred multi-million dollar deficits every year..." These deficits were largely because of the loss of endowment funds ("The endowment was \$27 million in 2000. By 2005 it had fallen to \$7.7.") In

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point of fact, the endowment was \$30 million in 1998 and began to slip in late 1998 due to losses incurred in the endowment portfolio largely through poor management of the Museum's invested funds.

I have to ask the rhetorical question: if there were deficits and losses in endowment that had anything to do with me, why was I continuing to receive large bonuses each year and why was I kept on as CEO? the Museum points to a \$7,591,965. deficit for 2001. This figure is from the annual audit and I believe I received a \$50,000. bonus that year. If the financial problems connected with that deficit, revealed by the Museum's auditors and sent to every Board member, were caused by myself, why wasn't I summarily fired? It couldn't have been my "subterfuge" in hiding my personal use of museum funds because I am accused of using only \$1.5 million over a period of 8-9 years; the losses to endowment funds and the annual deficits between 1998 and 2005 total \$22.3 million and \$27.5 million respectively. Where was the Board of Trustees who are ultimately fiduciarily responsible for the well-being of the institution.

Despite the above there still remains the question of myself. As I allude to in the last paragraph I did convert museum funds, goods and services to my own use. I am not sure when this began but probably around the late 1990's. Like all schemes it started out discreetly and grew. I am ashamed and remorseful for these actions and can offer no credible excuse for what I did. At some point I guess I began to feel that I should be getting my fair share, at least this how I rationalized my use of museum resources. I had assisted various Trustees in the acquisition of vessels purportedly for the Museum either through donation or bargain sale (when a portion of the boat is donated and the Museum purchases the remaining portion) which ended up being utilized by them and kept at their marinas and decided that it was my turn to have a boat for my own use. I caused a 1929 ketch to be donated to the Museum and because it was in such a state of disrepair, the then Chairman deeded it over to me for a nominal sum. While under restoration it became too expensive for me to fund on my own and I began to produce false invoices to fund the continuing restoration of it. The Museum had another historic vessel that had been donated. I planned for the restoration of this vessel and changed the name on boatyard invoices for ALBACORE to reflect restoration costs for the Museum's vessel.

I think the above act truly demoralized me, it is the first time in my life I had ever done anything illegal and it had a deep impact on me. I am a Quaker and while we can often "fit" our actions into our religion in some fanciful way, there was no reconciliation for me for what I had done and then continued to do. I am sure it affected my outlook on my position and my outlook on life. It was shortly after this that my health began to deteriorate precipitously.

I soon realized that the business office at the Museum was pretty lenient when it came to submitting expenses and began to take advantage of the lack of scrutiny. I had always entertained heavily due to the fundraising on behalf of the Museum but I began to spend more lavishly. The Board had decided to diversify the Museum's endowment portfolio to include real estate and they purchased a property that became a "director's residence" that they required me to reside in. Part of the use agreement meant that I had to entertain as well as keep art and artifacts within it in order for the Museum to not pay property taxes on it (an opinion was rendered by the

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Museum's law firm, Saul Ewing) I began to purchase goods and services for this residence and during the period where it was refurbished transferred billings for work done at my Massachusetts residence to the Museum through the use of false invoicing

~~Furnishings had to be purchased for the museum house and I added additional purchases~~ that went to my other home in Massachusetts. Eventually I became confused with what was mine and what belonged to the Museum as furnishings, paintings and other materials went back and forth from Philadelphia to Massachusetts. There was an inventory but it wasn't kept updated. For instance when the media systems were put into the Museum's Philadelphia house, I initially thought that I should pay for them as I was the user. However, as time went on I decided that I didn't want the older technology (regular television sets, low wattage receivers and audio systems, speakers etc.) that had been installed in Philadelphia so when I had newer technology installed in my Massachusetts home (flat screen monitors, high wattage audio equipment, high quality speakers), I billed the Museum for my goods and incorrectly rationalized this as a "fair trade"

I owned sketchbooks and a painting by the Philadelphia marine artist George Bonfield (ca. 1825) and under false pretenses I valued these items myself and sold them to the Museum purporting them to be from a vendor who was doing work on my Massachusetts residence. While the value was over inflated by some factor, the painting is signed and dated with an address of Bonfield's studio "212 Market St." making it a valuable historical artifact. The sketchbooks are invaluable from the standpoint of the Delaware River scenes they depict so while I might have overvalued the pieces by some factor, they nonetheless are valuable historical artifacts belonging in a museum collection.

Similar transactions continued to take place from time to time over the years leading up to my suspension in March 2006. I'm afraid I cannot agree with the accounting put forth by the US Attorney's office. Statements are made that are simply incorrect. The accounting has items that were in fact purchased for the Museum and items that remain with the Museum and were never in my possession.

The US attorney has said I purchased artifacts for the Museum and then kept them for myself. This is simply not the case. In looking at the lax financial management in place at the Museum it would have been easy for me to purchase historical goods because this was the business of the Museum. In fact, it would have made more sense for me to purchase artifacts and then just not turn them over to the Museum. But the types of goods and services I received were common everyday goods such as: electronics, seating, books, clothing and related items. If I was going to steal artifacts, why would I purchase them when the storage areas at the Museum were full of artifacts and they wouldn't have been missed if someone took them. My criminal interest was material goods and I stuck to obtaining these goods.

It seems that the criminal activity closely followed the deterioration of my health. Not to excuse my behavior, but I was first diagnosed with glaucoma when I noticed my eyesight was deteriorating in 1997 or thereabouts. In 2000 I had a lumbar discectomy performed at

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Pennsylvania Hospital between my 4th and 5th vertebrae and have suffered chronic back pain since that time. Then in 2003 I had a heart attack which led to triple bypass surgery in 2005. At about that time I was diagnosed with: coronary artery disease, hypertension, hyperlipidemia and coronary artery spasm. Since my triple bypass I have had six cardiac catheterizations (the last in July 2007) and had two stents emplaced along with angioplasty to open blood vessels. My current cardiologist, Dr. Kenneth Rosenfield, Head, Vascular Medicine and the Intervention Cardiology Division at Massachusetts General Hospital performed the last catheterization in July and was only able to open my septal artery to 30% and noted numerous small blockages in multiple small blood vessels surrounding my heart. I am also a type II diabetic currently controlled by medicine.

In retrospect I am sure the health issues have much to do with my general loathing of myself for my actions as well as the stress generated by the fact that with each passing year as the endowment was depreciating, I had to raise more funds to keep the Museum operating. I began to realize that something was going to happen at some point but I was also wondering how long the Trustees were going to sit idly by as the Museum's endowment went up in smoke. I knew that I was going to leave one way or another but decided to "stick it out" and see what the final outcome might be.

While my Museum antics were concluding so was my marriage. My wife began to worry about what was going to happen to "us" when I told her the condition of the Museum and the lack of oversight or care by the Trustees. In December 2006 at the trustee meeting at the close of the year (when they treated themselves and their spouses to a big party paid for by the Museum) I was astounded to be paid yet another major bonus (I believe it was \$75,000. or \$50,000.00 cash the rest "bulked up" to pay for taxes).

We had welcomed a new Chairman back in June of 2005 and he had spent the summer getting up to speed on Museum operations and finances. He had been a Board member for a number of years prior to becoming Chairman. The picture we painted for him wasn't rosy and I think he began to have some small resentment for the previous Chairman not telling him the full condition of the Museum. It was only after the business manager and myself gave him endowment figures and the deterioration of same over the past five years that I found out that the investment manager for the endowment sat on the Board of this new Chairman's publicly traded company. But by this time the endowment was down to single digits anyway so it mattered little who managed it, a passbook savings account would have done better than the previous managers.

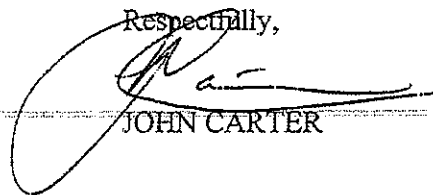
I was suspended in March and fired (for cause) in June. Between that time I was back in the hospital when I had another heart attack in late April. This hospitalization led to another cardiac catheterization and the emplacement of a stent. In early November I learned that a Federal investigation of my activities had been proceeding when I received a "target letter" from the US Attorneys office in Philadelphia. I told the attorney I engaged, Mark Cedrone, at our first meeting that I was responsible and intended to plead guilty. Later that month several FBI and IRS agents showed up at my Massachusetts residence with a list of objects they were looking for and I cooperated with them and filled their truck with material.

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Later in the year I had an interview with several people from the Department of Justice in Philadelphia hoping I might provide corroboration in an investigation they were doing on one of the Museum's Trustees, State Senator Vincent J. Fumo, with whom I had a fair amount of interaction over the course of the past several years. Unfortunately, for me, I couldn't provide them with the kind of information they were looking for.

As I said previously I am ashamed of my actions I have lost my good name and reputation My marriage has foundered and my wife, who I have known since the third grade, has sued me for divorce. I am worried about my relationship with my daughter who I love more than anything. Financial ruin is raining down upon me with a large civil suit that is concurrent with this criminal adjudication. I ask myself everyday, "what was I contemplating in this scheme..." and I honestly can't answer that question. There was never any great plan to defraud the Museum, rather I had lost interest in the position and should have moved on. The Trustees were 'asleep at the wheel' and after years of trying to bring them around or change the Board into a more meaningful group I just gave up. The culture at the Museum contributed to my own later decision to take from the institution but the responsibility is all mine. My health has deteriorated to a point where I know I will never get it back. I am remorseful and ready to accept punishment. I have not given up completely and I am hopeful of some redemption in the future with the ability to use whatever skills I have to help those even less fortunate than myself.

Respectfully,



JOHN CARTER