

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE MEETING
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

June 20, 2006
Knoxville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 11:00 a.m., Eastern Daylight Time, Tuesday, June 20, 2006 in Room 113 of the Plant Biotech Building on the Agriculture Campus, Knoxville, Tennessee.

I. CALL TO ORDER

Don C. Stansberry, Jr., Chair, called the meeting to order.

II. ROLL CALL

Catherine Mizell, Secretary, called the roll, and the following members were present:

Mrs. Andrea J. Loughry
Mr. James L. Murphy, III
Dr. John D. Petersen
Mr. Don C. Stansberry, Jr.
Mr. William Stokely
Mr. John C. Thornton
Mrs. Susan Williams

Due to a scheduling conflict, Mr. Waymon Hickman was absent from the meeting.

The Secretary announced the presence of a quorum.

III. APPROVAL OF MINUTES OF LAST MEETING

Chair Stansberry called for corrections or additions to the minutes of the May 8, 2006 meeting of the Executive and Compensation Committee. There being none, Mrs. Andrea Loughry moved approval of the minutes. Mr. James Murphy seconded, and the motion carried unanimously.

IV. APPROVAL OF VICE CHAIR'S ANNUAL PERFORMANCE REVIEW OF THE PRESIDENT AND RECOMMENDED GOALS FOR 2006-07

Chair Stansberry called the Committee's attention to his memorandum on the annual performance review of President Petersen included in the meeting materials. (Exhibit 1) President Petersen recused himself from the meeting.

Chair Stansberry discussed the presidential performance review process, noting that it included several meetings with President Petersen, interviews with each member of the President's staff, and surveys completed by various constituent groups. He

reported that the feedback he received concerning the President's performance was positive, including a general consensus among the respondents that Dr. Petersen represents the University well and is an effective leader. Chair Stansberry opened the discussion to comments from the Committee.

Mr. Thornton stated that, in his opinion, Dr. Petersen has done an excellent job over the past year. He specifically mentioned the President's positive involvement with University of Tennessee at Chattanooga. Various members of the Committee commented on Dr. Petersen's success in assembling a first-rate administration. Mr. Murphy noted his satisfaction with Dr. Petersen's ability to interact with the state legislature and restore confidence in UT with various groups within Tennessee. He also complimented Dr. Petersen's understanding and appreciation for areas of improvement identified by the extensive review process. Ms. Loughry commented on the benefits of Dr. Petersen's ability to maintain a strong relationship with Dr. Jeff Wadsworth of ORNL.

Chair Stanberry called the Committee's attention to the memorandum prepared by Chief Financial Officer Gary Rogers included in the meeting materials. He noted that the memorandum reports that all accounts under the President's control were reviewed and are within budget year-to-date. (Exhibit 2) After further discussion among the Committee, Chair Stansberry announced the consensus of the Committee that the President's performance over the past year is deserving of high marks.

V. EXTENSION OF PRESIDENT PETERSEN'S EMPLOYMENT AGREEMENT

Chair Stansberry stated that the current employment agreement between the University and Dr. John D. Petersen expires on June 30, 2006. He called for questions or comments regarding the proposed Amendment No. 1 to the agreement, which includes a 2% pay increase to reflect the across-the-board increase for staff mandated by the Legislature and a two-year extension of the term of the agreement. (Exhibit 3).

Mr. Murphy moved approval of Amendment No. 1 to the Employment Agreement Between The University of Tennessee and Dr. John D. Petersen. The motion was duly seconded and carried unanimously.

Chair Stansberry noted that later in the year, President Petersen will present proposed salary increases for his staff, and at that time the Board may discuss an additional pay increase for President Petersen.

President Petersen rejoined the meeting, and Chair Stansberry asked the President to comment on his self-evaluation and goals for the coming year. (Exhibit 4). In reviewing his personal goals for 2006-07, President Petersen noted that they primarily involve resources and implementation as he continues to seek new funding

from the State of Tennessee, push hard for private funding for the development of the University, and seeks to implement the Strategic Plan.

President Petersen discussed the recent legislative session. He discussed the administration's work in outlining the University's needs very early on and providing a framework for the University to keep pace with or exceed its peers. He then discussed the final draft of the Strategic Plan provided to the Committee. He discussed the collaborative effort to select the benchmarks included on the scorecards. He stated that Jack Britt would discuss the Strategic Plan in more detail later in the meeting.

In reviewing the goals for the University for 2006-07, President Petersen discussed development of a reward system for employees to compensate for quality performance. He stated that such programs could really enforce a feeling of ownership in the University for employees. He discussed examples of how departments could potentially reduce expenses and re-allocate those savings to reward employees.

President Petersen discussed the development of a system-wide strategic capital outlay plan. He stated that the capital outlay plan would need to fit with discussions regarding the right size for the University.

In conclusion, President Petersen noted that he planned to discuss at the full Board meeting the announcement of a Governor's Chair, the acceleration of the University's partnership with ORNL, and an extensive communication plan with internal and external constituents.

There being no further discussion, Chair Stansberry asked for a motion to approve the performance review and the proposed goals for 2006-07. Mrs. Williams moved approval; the motion was duly seconded and carried unanimously.

VI. ELECTION AND COMPENSATION OF UNIVERSITY OFFICERS

Chair Stansberry called on President Petersen to address the next item of business, Election and Compensation of University Officers (Exhibit 5).

President Petersen called attention to the list of individuals currently serving as elected Officers of the University and their proposed compensation for FY 2006-07. President Petersen stated that the proposed salary increases reflect only the 2% across-the-board increase for staff mandated by the legislature. No other increase in salaries or allowances is proposed. A discussion ensued regarding existing members of the President's staff whose salaries lag behind those of recently hired members of the President's staff. President Petersen noted that he has asked Dr. Gary Rogers to review the salaries of the President's staff in relation to industry

peers, and Dr. Rogers will report his findings at a future meeting. In response to further questions, President Petersen stated that review of faculty salaries is a campus-by-campus task and would not be included in Dr. Rogers review.

Ms. Mizell called to the Committee's attention the specific conditions included in the Resolution before the Committee. She stated that the third condition clarifies that compensation for University Officers is for service in their administrative positions; if a University Officer also holds a tenured faculty appointment and leaves his/her University Officer position but continues in the faculty appointment, his/her initial compensation as a full time faculty member shall not exceed the average compensation for full-time professors in the department in which he/she holds a faculty appointment.

A motion to approve the election and compensation of University Officers was duly made, seconded, and carried unanimously.

VII. APPROVAL OF STRATEGIC PLAN AND SCORECARD

Chair Stansberry stated that drafts of the Strategic Plan and Scorecard were circulated to the full Board in advance of the meeting, and a final color proof of the document was available for the Committee's review at this meeting (Exhibit 6). President Petersen asked Dr. Jack Britt to discuss the Strategic Plan and Scorecard.

Dr. Britt reviewed with the Committee the steps taken by the administration to create the plan. He reviewed the three key missions of the plan and their respective benchmarks. A discussion ensued regarding the ability to measure the goals for each mission. Dr. Britt stated that in creating the scorecard, it was important that each area could be clearly defined and measured. He noted that the administration would continue to look into ways to better measure outreach.

Chair Stansberry asked Dr. Britt to discuss the ways the scorecard would measure graduation rates. Dr. Britt noted that THEC has a standardized way of measuring graduation rates, including students that start at one Tennessee college or university and finish at another.

After further discussion, Dr. Britt discussed an upcoming retreat in August for the administration to continue work on gathering data and setting goals. There being no further questions, Dr. Britt concluded his presentation.

Chair Stansberry asked for a motion to approve the Strategic Plan and Scorecard. Mr. Murphy moved approval; the motion was duly seconded and unanimously approved.

VIII. APPROVAL OF DEPARTMENT OF ENERGY SECURITY RESOLUTION

Chair Stansberry explained the Department of Energy requires the Board to appoint a Managerial Group for administration of US Government contracts and only members of the Managerial Group will have access to the necessary classified information (Exhibit 7). He noted that this is a routine item that the Committee has approved in the past, and approval at this time is necessary to update the members of the Managerial Group. In response to a question from the Committee, Ms. Mizell stated that members of the Board are excluded from access to classified information. There being no further questions, Chair Stansberry called for a motion. Mr. Murphy moved approval; the motion was duly seconded and unanimously approved.

IX. ADJOURNMENT

There being no further business to come before the Executive and Compensation Committee, the meeting was adjourned.

Catherine S. Mizell
Vice President, General Counsel and Secretary