

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE MEETING
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

September 19, 2007
Nashville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 1:00 p.m., CDT, Wednesday, September 19, 2007 in Nashville, Tennessee.

I. CALL TO ORDER

Andrea J. Loughry, Chair, called the meeting to order.

II. ROLL CALL

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

Mr. William Carroll
Mr. Spruell Driver
Dr. Rhynette N. Hurd
Ms. Andrea J. Loughry
Mr. James L. Murphy, III
Dr. John Petersen
Mr. Don C. Stansberry, Jr.

The Secretary noted that a quorum was present. Mr. Wolford was unable to attend due to a scheduling conflict.

Also in attendance were Charles Wharton, Trustee, Hank Dye, Vice President for Public and Government Relations, David Millhorn, Executive Vice President, Gary Rogers, Senior Vice President and Chief Financial Officer, Alvin Payne, Associate Vice President, and Gina Stafford Phelps, Director of Communications.

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair called for any corrections or additions to the minutes of the September 19, 2007 meeting of the Executive and Compensation Committee. Mr. Stansberry moved approval of the minutes. Mr. Driver seconded, and the motion carried unanimously.

IV. OPENING REMARKS BY COMMITTEE CHAIR

The Chair expressed her appreciation to the Trustees for making time in their schedules to attend the Board Advance held on September 9-10 at the UT Space

Institute in Tullahoma. She commented that the workshop was valuable and productive for the Board.

V. BOARD ADVANCE OUTCOMES

The Chair discussed the outcomes from the Board Advance. She referred the Committee to the list of items from the Board Advance for consideration by various standing committees of the Board (Exhibit 1). She reviewed the items and asked each committee chair for any suggestions or additions to the items listed. Mr. Driver suggested updating the Advancement and Public Affairs Committee at a future meeting with internal and external communication plans currently in process by the administration. Dr. Hurd added that the Academic Affairs and Student Success Committee would not only look at the trend information and peer comparisons with respect to national rankings but also review the perspective and accuracy of those rankings. Each committee chair agreed that these items would be discussed at a future meeting of their respective committees.

Dr. Petersen updated the Committee on continued efforts to clarify the relationship between the Knoxville campus administration and various initiatives, programs, and organizational units managed by the systemwide administration. He reported that a small team of system and campus administrators will meet over the next few weeks to continue to define and clarify the interface between system-managed activities and the Knoxville campus. Trustee Hurd urged that the result of those discussions be shared with the other campuses before being finalized to ensure consensus throughout the system.

VI. PLANNING FOR FALL MEETING, NOVEMBER 8-9, 2007

The Chair referred the Committee to the tentative agenda for the Fall Board meeting included in the meeting materials (Exhibit 2). She asked each Committee chair to review the agenda items for their respective committees and comment on any suggestions or changes. Trustee Driver asked that an item be added to the Advancement and Public Affairs agenda to inform the Board of the processes in place to ensure compliance with endowment restrictions. Trustee Hurd requested that the orientation session for new Trustees emphasize the distinction between governance and management.

The Committee also discussed the suggestion by Trustee Jackson for follow-up on the matter of earthquake-resistant construction. This item was assigned to the Finance and Administration Committee, and Dr. Gary Rogers was asked to begin the process of inventorying current buildings for seismic compliance. The Committee also assigned to the Audit Committee the responsibility to assess the adequacy of campus emergency preparedness plans.

VII. PRESIDENT'S RECOMMENDATION OF APPOINTMENT TO UNIVERSITY HEALTH SYSTEMS BOARD OF DIRECTORS

A. Determination of Necessity to Act on Behalf of the Board

The Chair stated that Dr. Michael J. Blackwell's term as a member of the Board of Directors for University Health Systems, Inc., expired on June 30, 2007. She stated that it was necessary at this time to appoint or re-appoint a director to fill the position prior to the next regular meeting of the Board. Mr. Stansberry moved approval of the determination of necessity to appoint a director before the next regular meeting of the Board of Trustees. Mr. Carroll seconded the motion, and it carried unanimously.

B. Approval of Recommendation

The Chair recognized Dr. Petersen to discuss his recommendation of an appointment to the University Health Systems Board of Directors (Exhibit 3). Dr. Petersen recommended that Dr. Michael J. Blackwell be reappointed to serve for another two-year term. Dr. Blackwell was first appointed in 2005, and his term expired on June 30, 2007. Mr. Stansberry moved approval of Dr. Michael J. Blackwell's re-appointment to the University Health Systems Board of Directors. Mr. Murphy seconded, and the motion carried unanimously.

VIII. PRESIDENT'S RECOMMENDATION OF DISCRETIONARY SALARY INCREASES FOR SENIOR STAFF

A. Determination of Necessity to Act on Behalf of the Board

The Chair recognized Dr. Petersen, who explained that upon further consideration, it is his position that this item should be acted on by the Executive and Compensation Committee only as a recommendation to the full Board of Trustees in November. He noted that any salary increases ultimately approved by the Board could be made retroactive to July 1.

B. Approval of Recommendation

The Chair asked Dr. Petersen to present his recommendation of discretionary salary increases for senior staff. Dr. Petersen referred the Committee to the compensation charts for the elected University officers and other vice presidents included in the meeting materials (Exhibit 4) and discussed his recommendations. In light of Dr. Petersen's suggestion that final action on this item should await the full Board meeting in November, the Committee deferred any action and requested additional information be made available to the Committee before it makes a recommendation to the full Board. The Committee specifically requested an update of the

comparative salary data relied on in 2006 for senior staff salary adjustments.

IX. ACQUISITION OF KNOXVILLE PLACE APARTMENTS AND RELATED REVISION OF UT KNOXVILLE MASTER PLAN

The Chair stated that the next item of business, Acquisition of Knoxville Place Apartments, would be withdrawn from the meeting agenda. She stated that the item would be discussed at a future meeting because all the necessary information was not yet available.

X. JOINT VENTURE WITH MASCOMA CORPORATION THROUGH A TENNESSEE LIMITED LIABILITY COMPANY FOR MANAGEMENT AND OPERATION OF A BIOFUELS DEMONSTRATION FACILITY

A. Determination of Necessity to Act on Behalf of the Board

The Chair stated that the Committee was being asked to determine the necessity to act on the proposed joint venture with Mascoma Corporation for management and operation of a biofuels demonstration facility prior to the next regular Board meeting. Dr. Petersen stated that it was necessary for the University to move expeditiously with the construction and subsequent operation of the biofuels production facility to establish Tennessee as a biofuels industry leader. He stated that while the University has the capability to ensure the availability of biomass feedstock needed in production and brings some intellectual property to this initiative, a partner is needed with complementary intellectual property and commercialization experience to accelerate the desired project outcomes. He also stated that there is a need to move quickly to finalize the land acquisition, coupled with associated permitting and other requirements necessary to begin construction of the demonstration facility. The Chair asked for a motion to make a determination that the facts and circumstances warrant action by the Committee on behalf of the full Board. Mr. Murphy moved approval of the determination of necessity to approve a joint venture for management and operation of a biofuels demonstration facility before the next regular meeting of the Board of Trustees. Mr. Driver seconded the motion, and it carried unanimously.

B. Approval of Recommendation

Dr. Petersen referred the Committee to the memorandum and attachments included in the meeting materials (Exhibit 5). He stated that the administration is recommending Mascoma Corporation as the University's partner to build a biofuels demonstration facility in the Niles Ferry Industrial Park in Monroe County. Mascoma is a leader in the development of biorefinery and process technology for the cost-effective conversion of cellulosic biomass for ethanol. He further discussed Mascoma's expertise and noted that Mascoma will be constructing another cellulosic ethanol plant in Michigan and will partner with two universities in that state.

In response to a question from Trustee Murphy, Dr. Millhorn explained that Mascoma was chosen as the University's partner because of its unique intellectual property, including plant design, and because Mascoma had been rated very highly by the Department of Energy in a competition that resulted in the \$125 million grant to the Oak Ridge National Laboratory for creation of the BioEnergy Science Center. Mascoma, along with the University, is a partner in the BioEnergy Science Center.

Trustee Murphy also asked how intellectual property would be differentiated between Mascoma, the University, and the LLC. Dr. Millhorn explained that intellectual property being contributed by Mascoma and the University would be identified at the beginning and that all intellectual property developed by the LLC would be jointly owned. Trustee Stansberry noted that managing the intellectual property would be a challenging task and asked who would be the University's day-to-day manager of the project. Dr. Millhorn responded that Dr. Kelly Tiller, an agricultural economist in the Institute of Agriculture.

Trustee Murphy asked whether Mascoma would be able to partner with other entities in a similar venture. Dr. Millhorn responded that Mascoma would probably partner with others in projects using wood chips but that Tennessee is the only state with sufficient capacity to produce switchgrass as the feedstock. Trustee Driver asked Dr. Millhorn if he is confident the University has negotiated a good deal with Mascoma. Dr. Millhorn responded that he is confident the University has negotiated a deal that will produce substantial benefits for the University while allowing Mascoma to be successful in this new venture. He referred to the warrant Mascoma will issue to the University or, at the University's election, to UTRF to purchase common stock valued at up to \$10 million, with the warrant being exercised at the University's option within a seven-year period. Dr. Millhorn noted that the value of the warrant will not be devalued over time. Trustee Murphy asked for clarification that all costs for the demonstration facility other than the \$40.7 million capital contribution by the University and the approximately \$24 million for the feedstock program would be borne by Mascoma. Dr. Millhorn responded affirmatively that the University's costs are fixed.

Chair Loughry asked Dr. Millhorn to inform the Committee of the financial due diligence conducted on Mascoma. Dr. Millhorn explained that the audited financial statements have been reviewed by legal counsel and by Trustee Carroll, chair of the Finance and Administration Committee. Trustee Driver asked for confirmation that there has been no pre-existing relationship between any University official and Mascoma, and Dr. Millhorn confirmed that no such relationship exists now or previously. He reiterated that Mascoma was identified as a partner through the DOE grant application process for the BioEnergy Science Center at Oak Ridge.

The Chair asked for a motion on the proposed resolution included in the meeting

materials (Exhibit 5). Mr. Murphy moved approval of the resolution as presented in the meeting materials. Mr. Stansberry seconded the motion, and it carried unanimously.

XI. REVISION OF STRATEGIC PLAN BENCHMARKS

The Chair recognized Dr. Millhorn to discuss the next item of business, revision of Strategic Plan benchmarks.

A. Determination of Necessity to Act on Behalf of the Board

Dr. Millhorn stated that the Strategic Plan and Scorecard is a living document that has been modified since its inception as measurement tools are developed and refined. He stated that these modifications also reflect increased experience in working with available data sources to obtain accurate and reliable information. He stated that after careful analysis of the scorecard, certain changes are being recommended at this time so staff can incorporate the new metrics in the first annual scorecard report to the Board at its Fall meeting. The Chair asked for a motion to make a determination that the facts and circumstances warrant action by the Committee on behalf of the full Board. Mr. Stansberry moved approval of the determination of necessity to approve revision of Strategic Plan benchmarks before the next regular meeting of the Board of Trustees. Mr. Murphy seconded the motion, and it carried unanimously.

B. Approval of Recommendation

Dr. Millhorn referred the Committee to the memorandum discussing the proposed benchmark changes included in the meeting materials (Exhibit 6). He also distributed a revised scorecard illustrating all of the proposed changes in benchmarks (Exhibit 7). Dr. Millhorn discussed the purpose and rationale for each proposed changes.

After discussion, Mr. Stansberry moved approval of the revision of Strategic Plan benchmarks as presented at the meeting. Mr. Driver seconded the motion, and it carried unanimously.

XII. PRESIDENT'S RECOMMENDATION TO GRANT TENURE TO UT KNOXVILLE FACULTY MEMBERS UNDER EXPEDITED REVIEW PROCEDURES

The Chair recognized Dr. Petersen, who referred the Committee to the memorandum included in the meeting materials (Exhibit 8). He stated that UT Knoxville has recently appointed three outstanding new faculty members who also hold administrative appointments, one as a director and two as department head. He stated that each individual was selected for his/her respective position after a rigorous national search, and all are very experienced and respected leaders who

have achieved tenure at their former institutions. In each case, expedited tenure consideration was important to the recruitment process, and the appropriate faculty advisory votes and administrative recommendations are positive. Dr. Petersen discussed the background of each of the new hires. Dr. Stephen Paddison brings a distinguished research record to the Department of Chemical and Biomolecular Engineering. He was recruited from Alabama/Huntsville. Dr. Kevin Tomsovic comes from Washington State University to head the Department of Electrical Engineering and Computer Science. Dr. Pia Wood was recruited from Wake Forest University where she has been the Director for the Center of International Studies.

Chair Loughry asked for a motion for approval to grant tenure to the recently appointed faculty members. Mr. Stansberry moved approval to grant tenure to Dr. Paddison, Dr. Tomsovic and Dr. Wood in their faculty appointments. Dr. Hurd seconded the motion, and it carried unanimously.

XIII. PRESIDENT'S RECOMMENDATION TO GRANT TENURE TO VICE CHANCELLOR FOR RESEARCH AT UT KNOXVILLE UNDER EXPEDITED REVIEW PROCEDURES

Dr. Petersen discussed the recent hiring of Dr. Bradley W. Fenwick as Vice Chancellor for Research at UT Knoxville. He noted Dr. Fenwick's impressive record of teaching, research and administration. He referred the Committee to Dr. Fenwick's curriculum vita included in the meeting materials (Exhibit 9). Dr. Petersen explained that Dr. Fenwick, like many academic administrators, he will have a faculty appointment in addition to his administrative appointment. Dr. Petersen requested approval of expedited tenure for Dr. Fenwick in his faculty position in the Department of Pathobiology in the College of Veterinary Medicine. Mr. Wharton noted that detailed information on Dr. Fenwick's educational background was not included in the materials, and the Chair asked that this information be provided. Stansberry moved approval to grant tenure to Dr. Fenwick in his faculty appointment. Mr. Murphy seconded the motion, and it carried unanimously.

XIV. OTHER BUSINESS

The Chair asked if there was any other business to come before the Committee. There being none, the Chair asked Dr. Petersen for any further comments or announcements he would like to make. Dr. Petersen advised the Committee that the University has executed the purchase of an airplane to replace the 30-year-old King Air 200 purchased by in 1985. He stated that the cost to the University, after an \$825,000 allowance for the current plane, is \$4.4 million. He discussed maintenance costs for the old plane and explained that investing in additional overhauls would not be cost effective due to its age and its extensive use. The financial advantages of warranties, equipment upgrades, pilot training being

included, and the trade-in allowance for the old plane made the factory purchase the most attractive bid.

XV. 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