

MINUTES OF SPECIAL MEETING

BOARD OF TRUSTEES

VOLUME 265

August 25-26, 2012

A special meeting of the Board of Trustees was held in Room 207, The Penn Stater Conference Center Hotel, University Park, Pennsylvania, on Saturday, August 25, 2012 at 3:00 p.m. and Sunday, August 26, 2012, beginning at 9:00 a.m.

Saturday, August 25, 2012

The special meeting was convened at 3:09 p.m.

The following Trustees were present: Peetz (chairman), Masser (vice chairman), Alexander, Broadhurst, Clemens, Cotner, Dambly, Deviney, Eckel, Erickson, Frazier, Hayes, Hintz, Huber, Khoury, Lubrano, McCombie, Myers, Shaffer, Silvis, Suhey, Surma, Taliaferro, and Tomalis; and Trustee Emeritus Wolff.

Present by invitation were faculty representatives Backer, Hufnagel, and Yarnal; student representatives Clark, Fisher, and Lennartz; constituent representatives Egolf, Hosterman, Hubler, and Mullen; staff members Ammerman, DiRaimo, Dunham, Foley, Gray, Hanes, Kirsch, Mahon, Pangborn, Poole, Sims, and Weidemann.

[A complete audio and video recording of the meeting is available at <http://www.youtube.com/watch?v=nZi7-wGrFDA>]

Chairman Karen Peetz 's opening remarks are included in their entirety:

"We Are Penn State.

"Four words synonymous with heritage, achievement, leadership and responsibility. Four words we live by. Four words that are special and carry meaning for each of us.

"We know that Penn State is a special place. It is a place:

- Where students with ambition, ability and potential have their lives transformed.
- Where researchers and faculty find solutions to the world's most vexing challenges.
- Where staff take great pride in their work and University.
- Where student athletes excel on the playing field and in the classroom.
- And where alumni passion and commitment are unsurpassed.

"We are Penn State.

"We are all about serving our 96,000 students throughout the Commonwealth and beyond... Focusing on our land grant mission... So that every one of our students can reach his or her full potential through their Penn State experience and degree.

"We are world class faculty and students committed to our studies. In fact, in just the past few weeks, we were ranked within the top 50 universities worldwide for academic accomplishment.

"We are well-rounded individuals, making Penn State students and alumni so highly desirable in today's competitive marketplace.

"We are Penn State.

"As we focus on the future, we cannot underestimate or minimize the broad and immense impact recent events have had on our community, and of course, on the victims who have suffered much longer.

"We are Penn State and as we move forward, accepting the consequences of failure, remedying any wrongs, but not losing sight of the outstanding heritage we've built for nearly 160 years. We have been through challenging times, and we move forward with confidence renewed in who we are, and who we can become.

"We are entering a new era of high standards of corporate governance, where the University's--and this Board of Trustees'--deliberations and actions are open and transparent. Except for limited sensitive, legal or individual personnel matters, The Board meetings will be open and available to all.

"A prime example of this was our recent Board of Trustees call on Sunday, August 12, which was open to the public. A more obvious signal is our public meetings today and tomorrow.

"We will communicate more directly, frequently and openly. We have expanded our online presence with a website called 'Progress' dedicated to the progress we are making as well as a site that provides information about the Board of Trustees and its actions, including meeting agendas, minutes and other material.

"We are taking action to strengthen our University. We recently announced a new chief counsel, Steve Dunham, who joins us from Johns Hopkins. Steve has already brought a fresh, new and needed perspective.

"At our meetings today and tomorrow, the Board is considering several more key matters.

"Importantly, we will be discussing searches, in due course, for a new president and a new provost, in addition to our current search for a leader of compliance across the University. These are all highly important leadership positions.

"We will deliberate about the right timing and sequencing for these critical searches while we maintain complete confidence in, and endorsement of, our current leadership.

"It is my hope these discussions will, in short order, lead to actions resulting in the framing of the search objectives, naming of committee members, and setting achievable timelines. We will keep everyone informed as we progress.

"For better oversight and effectiveness, we will also be establishing more central control over both the human resources and the compliance functions throughout the University. These are important steps to enhance the University's infrastructure, and modernize key administrative functions, while recognizing that certain aspects of these functions must be performed at the level where the activity occurs.

"The board believes we cannot stand still as an organization and accept the status quo, but must focus on best practices from both operational and skills points-of-view.

"We will continue to review and discuss with University management how we can enhance both effectiveness and efficiencies.

"To broaden and expand our own thinking and perspectives, the board is also discussing the formation of 'The Blue & White Distinguished Advisory Group' with broad global experience.

"The advisory group would be a wise and valuable adjunct to the skills and capabilities of our management team and our board. The primary objective of the group will be to provide their unique perspective on our future strategy to maintain our world class academic stature, and as a prelude to the transition to new presidential leadership.

"Earlier, I spoke about transparency as a first step in improved corporate governance. In the coming months I will be engaging the board in further discussions on other aspects of good corporate governance. I anticipate these discussions will focus on such issues as aligning the board with all its constituents, current trends and thinking, as well as overall best practices.

"We will strive for flawless execution in addressing those issues; whether in the classroom, the research lab, the hospital room, or on the athletic field.

"These coming months will, for sure, bring more than chill winds and blowing snow. They will bring stiff challenges, testing us all. Testing, whether or not, in fact...

"...We Are Penn State.

"Understand clearly, these months ahead may be less shocking, but they may well be more difficult as the legal ramifications of this tragedy continue to play out. We must be prepared to address these issues head on.

"To do so, we must execute the changes necessary and the changes we pledged and be true to our values. We have begun to do so.

"Earlier this month I reported that Judge Freeh's interim recommendations, which he presented to us early this year, have either been implemented or are substantially complete.

"Now, this weekend and in the immediate weeks ahead, the board will discuss and consider the administration's plan to review and implement, as appropriate, the final recommendations of Judge Freeh's July report. We are focused on the recommendations in Section 10. We must move forward with urgency.

"Additionally, we as a board must lead, with the guidance of Senator George Mitchell, in effectuating the NCAA Athletic Integrity Agreement, which focuses on compliance and cultural issues. We have met with the Senator and pledged our full cooperation. The leaders of our Athletic Department, including the head coaches, are fully on board with this compliance effort.

"Clearly these are issues we wished we would never have faced.

"If only ... two wishful words.

"But reality is often cruel and harsh...and responsibility is often difficult to accept...but we must do so.

"There are some with differing opinions, some who say "fight back." While I am respectful of those individuals, let me be clear:

"We must not--and will not--waiver in accepting reality and responsibility.

"We will take decisive action to right wrongs, change and improve processes and operations and demonstrate values-based leadership in all that we do.

"And we will continue to make Penn State the institution we are all so proud of.

"So, we must be as flawless as humanly possible in executing these critical actions.

"In so doing, we will put Penn State on a clear path to continue to realize our land grant educational mission... and all that it embodies.

"That is what we believe in. That is what we are here for. There is no doubt we can do it. We can re-connect, through our shared values, our passion for our University and our love for its community.

"We are a great University that can get even better. We will be the best public University.

"Our values of decency, hard work, and service develop students into self-made people who go on to make important contributions to America and the world.

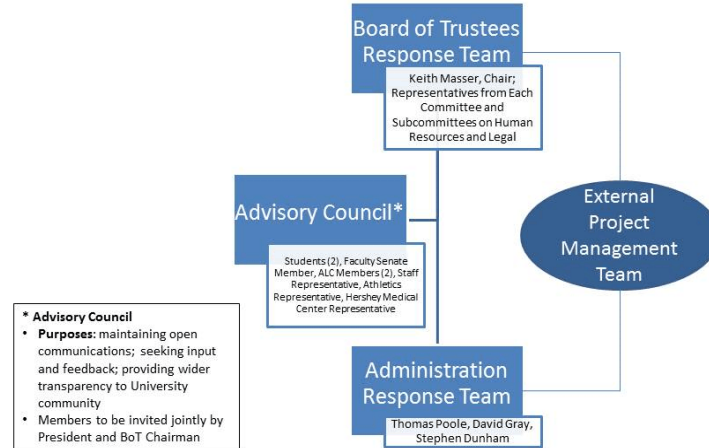
"We embrace the future.

"We Are--after all--Penn State! Thank you."

Following her remarks, the following items were discussed:

1. Overview of Governance Model for Freeh Recommendations and AIA Commitments - Chairman Peetz, Vice Chairman Masser, and President Erickson provided an overview of the structure for the Freeh Report Response Team [see below diagram]. The structure provides for a Board of Trustees Response Team, chaired by Keith Masser, and an Administration Response Team (comprised of Tom Poole, David Gray and Steve Dunham), and an Advisory Council (comprised of students faculty, academic leadership council members, staff, intercollegiate athletics, and the Medical Center). The Administrative Response Team has developed the Freeh Report Response Matrix which, for each recommendation in the Report, has a working title, the functional office(s) with responsibilities for the subject area, the Executive and/or Trustee leader proposed for developing an action plan, the Board of Trustees Committee with appropriate oversight for the subject area, the status of progress in implementing the recommendation and appropriate indicators for the level of completion of the work, and the date of completion. An external project management team will also be engaged to coordinate and monitor the activities of the evaluation and implementation of the recommendations, where appropriate. It is anticipated that the Athletic Integrity Agreement recommendations will also be monitored in a similar fashion.

Penn State University's Structure for Freeh Report Response



2. Accounting Firm's Project Management Oversight Roles and Responsibilities - David J. Gray, Senior Vice President for Finance and Business/Treasurer, reviewed the process and criteria used to develop the Request for Proposal to invite interest in the External Project Management Team assignment. Responses have been received and interviews are being conducted; announcement of the successful firm will be provided when available.
3. Athletic Integrity Agreement Terms and Requirements - Stephen S. Dunham, Vice President and General Counsel, reviewed the provisions of the Athletic Integrity Agreement (the main terms of which were provided in the Consent Decree), that are intended, by design, to move us forward with standards of good practice and policies going forward over the next five years. They include: appointment of an Athletics Integrity Officer, an Athletics Integrity Council; a series of Internal Accountability and Certifications, establishment of a Code of Conduct for Athletics and All Covered Persons; policies and procedures regarding the operation of the Integrity Program, Training and Education; and Disclosure Program.

It is expected that the agreement will be finalized in the near future.

4. Freeh Recommendations Committee Review and Discussions - Prior to the committee's adjourning into individual sessions, Chairman Peetz instructed the committees to review the Freeh Recommendations assigned to the respective committees, seek input from the associated administrator with respect to process, progress, and projected timelines, and provide feedback at the special meeting planned for Sunday, August 26.

The special meeting adjourned at 4:15 p.m.

Sunday, August 26, 2012

The special meeting was convened at 9:05 a.m.

The following Trustees were present: Peetz (chairman), Masser (vice chairman), Alexander, Broadhurst, Clemens, Cotner, Dambly, Deviney, Eckel, Erickson, Frazier, Hayes, Hintz, Huber, Khoury, Lubert, Lubrano, McCombie, Shaffer, Silvis, Suhey, Surma, Taliaferro, and Tomalis; and Trustee Emeritus Wolff.

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Discussion items included:

1. Strategic Framework for Future of the University - Chairman Peetz noted that it was important that future directions for the University, a five- to ten-year perspective, be considered in order to provide the necessary framework to identify the next future president of the University to assist in achieving those goals and objectives. She invited feedback and discussion regarding the best approach to evaluating challenges and opportunities in higher education so that Penn State can be best positioned. General discussion ensued regarding the utilization of higher education consultants who have explored these areas and have a broader perspective.
2. Blue & White Advisory Council - Chairman Peetz noted that, in addition to the utilization of external experts, a council, comprised of Penn State constituent groups, could be appointed to identify key strategic challenges and opportunities facing Penn State and to assess the implications for the University. The Council could be charged, to the extent possible, to envision the broad outlines of the era at Penn State--what the University will be as well as what the University can and should be.
3. Presidential Search Timeline and Governance Discussion - James S. Broadhurst, Chair of the Board's Governance and Long-Range Planning Committee, reviewed the preliminary structure and timeline proposed for the upcoming presidential search. It was noted that further refinements and discussions would occur with the Committee on Governance and Long-Range Planning and the full Board.
4. Freeh Project Management Structure, Oversight and Committee Progress Reports - Each committee reported out on the preliminary reviews of the Freeh Report Matrix.
5. Outreach Committee Report for Going Forward and Brand Plans - Richard Edelman, of the Edelman Group, provided an overview for the Going Forward initiatives for the University.

The special meeting adjourned at 11:50 a.m.

Respectfully submitted,

Paula R. Ammerman
Associate Secretary
Board of Trustees