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MINUTES OF MEETING
PRESIDENT'S REPORT
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The President's Report was given in the Room 302 of the University Fitness Center, The Milton S. Hershey Medical Center, Hershey, Pennsylvania, at 8:38 a.m. on March 23, 2007.

The following Trustees were present: Broadhurst (chairman), Garban (vice chairman), Alexander, Arnelle, Conti, DiBerardinis, Eckel, Foulke, Hayes, Henning, Hetherington, Hintz, Huber, Jones, Junker, Metzgar, Myers, Peechatka, Poprik, Riley, Rowell, Shaffer, Spanier, and Strumpf; Trustees Emeriti Beaver, Brosius, Cook, Frey, Huck, Robinson and Wolff; and Governor's Representative Daniels.

Present by invitation were faculty representatives Blasko and Casteel; student representatives Chamberlin and Livingston; staff members Ammerman, Babe, DiEugenio, Dolbin, Kirsch, MacCarthy, Mahon, Pangborn, Paz, Pell, Romano, Schultz, Thomas, Triponey, and Weidemann; and Mr. Courtney of McQuaide Blasko.

Chairman Broadhurst called on Dr. Hal Paz for a welcome.

Dr. Hal Paz welcomed everyone to the new 20,000 square foot addition to the University Fitness Center at the Hershey Medical Center and the "sweetest place on earth," Hershey, Pennsylvania.

Chairman Broadhurst welcomed University Faculty Senate officers Dawn Blasko, Associate Professor of Psychology, and Mark Casteel, Associate Professor of Psychology at Penn State York; student representatives J. J. Livingston, President of the Council of Commonwealth Student Governments, and Jay Chamberlin, President of the University Park Undergraduate Association; and Jim Thomas, Chair of the Academic Leadership Council and Dean of the Mary Jean and Frank P. Smeal College of Business.

President's Report

Dr. Spanier's report is included in its entirety:

"This morning I am going to provide just a brief report and then open the floor to questions, because I want to leave enough time for a very special announcement that we are going to make after the conclusion of the Board Report.

"Two weeks ago we were able to announce a groundbreaking new partnership with Highmark that we believe will have a great impact on improving the quality of health care and increasing access and affordability of services for our employees, their families, and the people of central Pennsylvania and the Commonwealth.

"The 10-year agreement encompasses a number of components including investment in clinical research for diseases such as cancer and a contribution toward a new children's hospital, as well as the collaborative development of community health initiatives including the study and enhancement of wellness and prevention programs. Highmark will administer the health-care benefits for all employees and family members of Penn State University, including Penn State Hershey Medical Center, beginning January 1, 2008. The agreement also ensures that the Medical Center will remain part of the Highmark network of hospitals and providers for the next decade.

"The partnership, which is unique, provides increased access to health care services for our Penn State employees and their families across the Commonwealth, while advancing vital research and investing in new facilities that will ultimately benefit the health of everyone we serve.

"Under the agreement:

-- Highmark is committing \$5 million to support clinical research for diseases such as cancer, including investment in research infrastructure that will increase the ability of other area hospitals to participate in clinical research.

-- Highmark is committing \$20 million to the construction of the Penn State Children's Hospital. When completed some years from now, the Children's Hospital will enhance the availability and quality of specialized medical care for children throughout Pennsylvania.

-- Highmark, Penn State and the Medical Center will jointly develop evidence-based health, wellness and prevention programs to help employers improve the overall health of their workers and families.

-- All three partners will work together to develop community health initiatives designed to benefit the overall health of the region.

-- Beginning January 1, 2008, Highmark will be the exclusive administrator of all health plans offered to employees, dependents and retirees of Penn State, Penn State Hershey Medical Center, and throughout the state at all campuses. About 60,000 people will be covered under the agreement.

"Hal Paz, and his senior staff, Gary Schultz and Billie Willits deserve great praise for helping to negotiate this important new arrangement. And we are very grateful to the leadership at Highmark for their commitment to Penn State. We look forward to partnering with them over the next decade in an effort that we believe will make life better for people across the entire Commonwealth.

"Another extraordinary accomplishment that benefits the Hershey Medical Center and the children it serves happened last month when Penn State students raised a record-breaking \$5,240,385 at this year's THON. This year's total exceeded the funds raised in 2006 by approximately \$1 million. It was an unbelievable achievement.

"More than 700 dancers packed the floor of the Bryce Jordan Center for the event. More than 15,000 Penn State students participated, serving on committees to plan the event or raising money through their student organizations.

"All proceeds from THON benefit pediatric cancer care and research through The Four Diamonds Fund at Penn State Children's Hospital. THON has raised more than \$40 million for Four Diamonds since 1977. Congratulations go to all of the Penn State students who made this year's event such a huge success.

"The research being done here at Hershey continues to make news around the world in a number of areas of medicine. One recent and important Penn State College of Medicine pilot study suggests a low dose of naltrexone, a drug used to ease symptoms of alcohol and drug addiction, also may bring relief to people with Crohn's disease, a chronic inflammatory disorder of the intestine that affects an estimated 500,000 Americans.

"A team of researchers led by gastroenterologist Jill P. Smith and Ian S. Zagon, distinguished professor of neural and behavioral sciences, received NIH funding last summer to initiate a phase 2 trial of low-dose naltrexone and Crohn's.

"Congratulations goes to Trustee Joel Myers, who has been named the first inductee into the National Meteorologist Hall of Fame in Punxsutawney. The Hall of Fame opened on February 2nd, and is part of the Punxsutawney Weather Discovery Center. Joel's accomplishments in revolutionizing the field of meteorology made him a natural choice, and we offer our congratulations.

"I also want to point out, if you have not already seen it, that there is a wonderful video currently available on 'Penn State Live' that features trustees George Henning's extraordinary Penn State Room, and his one-of-a-kind collection of Penn State memorabilia. It is a nice tribute to his long-standing hobby of collecting unique pieces of Penn State's history.

"Penn State has made history on another front--that being television ratings. ESPN recently released the list of the most highly rated Big Ten football broadcasts in the history of their network. Penn State played in 4 of the top 5 highest rated games on ESPN, and we played in 8 of the top 20 rated games. The highest rated game was Michigan State playing at Beaver Stadium in 1994. The highest number of viewers (and there is a slight difference in how they calculate rating and viewership) was when we hosted Ohio State at Beaver Stadium in 2005.

"Later today you will be asked to approve two new dean appointments. I want to take just a moment this morning to reiterate how fortunate we are to have been able to select two such outstanding candidates. In Arts and Architecture, Barbara Korner will be coming to us from the University of Florida to replace Dick Durst, who left to become the president of Baldwin-Wallace College. Barbara has done a terrific job at Florida and will bring outstanding leadership skills to our arts and architecture programs.

"In Health and Human Development, we were able to persuade a familiar face to many at Penn State, as Nan Crouter, Professor of Human Development, Director of the Social Science Research Institute and Director of the Consortium for Children, Youth and Families has agreed to accept the appointment to fill the position that was vacated when Ray Coward left to become Provost and Executive Vice President at Utah State.

"Nan has a long history at Penn State, joining the faculty in the College of Health and Human Development in 1981.

"On the administrative side, you also will be asked to approve two additional appointments: Vice President for Finance and Business and Vice President for University Relations.

"Albert Horvath is the candidate for the Finance and Business post. He comes to us from Columbia University, where he served as Executive Vice President for Finance and Chief Financial Officer responsible for an operating budget of \$2.7 billion and a capital budget of \$300 million. He has vast experience in higher education.

"For University Relations, I will recommend Bill Mahon be named Vice President. Bill, as most of you know, has been with Penn State for more than two decades, most of that time as Director of Public Information. He has been University spokesman on various issues and is a leader in our quest to curb underage and high-risk drinking on campus.

"We will hear more about these recommended appointments shortly.

"But as we have new people joining us, we also have some people leaving, and I wanted to take just a moment to acknowledge the service of two hardworking, outstanding members of the Penn State family who are attending their last Penn State Board of Trustees meeting as members of the current administration.

"Ken Babe, who has served as the University's Corporate Controller for the past 21 years, is retiring next week. Throughout his more than four decades at Penn State, Ken has served as accountant, assistant controller, and assistant vice president for audits and internal controls, as well as corporate controller.

"As a member of the Penn State Investment Council and Central Investment Group, Ken helped manage our endowment of more than \$1 billion and ensured that the University is in compliance with myriad laws and accounting rules and regulations. In addition, Ken has skillfully served on a number of boards both within the University and the community, and is a gifted numbers man.

"The other individual who I would like to recognize is Steve MacCarthy, Vice President of University Relations. Steve will move on next month in his career as Vice President for External Relations at The University of Arizona, where he will assume a highly visible and expanded leadership role within that institution. They are lucky to have snagged him.

"Over the last 11 years, Steve has served as Penn State's chief spokesperson and has done an outstanding job of leading our internal and external communications efforts through Public Information, Publications, Marketing and Advertising, Advancement Communications and Special Projects. Steve also took on additional duties a few years ago, managing my office and working with the Board of Trustees, and assisting me in every imaginable way.

"His work handling issues of critical importance for Penn State and in effectively overseeing day-to-day administrative operations has been superb.

"We will miss both Ken and Steve for their experience and expertise, and also because they were such valued and dedicated colleagues and exceptional members of the Penn State community.

"That concludes my report. I would now be happy to answer any questions that you might have."

President Spanier received a comment concerning:

- An article in the *Chronicle of Higher Education* concerning student's illegal use and piracy of copyright materials via the internet and Penn State's involvement in notifying the students of the infractions.

President Spanier proceeded with a special announcement:

"As you all know, we are currently in the leadership gifts phase of our next fundraising campaign. So it gives me great pleasure to announce that we have selected an outstanding individual to lead us in what will be an ambitious fundraising effort.

"Peter G. Tombros, a 1964 baccalaureate degree graduate and a 1968 master's graduate of Penn State, has graciously agreed to head up our third comprehensive capital campaign. As Campaign Chairman, Peter will serve as the chief volunteer spokesperson for the campaign, recruit other volunteer leaders, work with senior development staff and administrators to determine the ultimate campaign goal, and help shape strategies to meet that goal.

"You may recall that this campaign will raise private funds to ensure student opportunity through scholarships, enrich the student experience, and build the strength and capacity of our faculty--to name just a few priorities we have outlined. Overall, I believe the campaign, which has students at its heart, will help us realize our full potential as the most comprehensive student-centered research university in the nation. I also believe that Peter Tombros has the leadership, vision, and dedication to make it all happen.

"Last year, as you know, Peter earned the title of Distinguished Alumnus from this board, so you are already familiar with some of his many accomplishments. Peter holds a bachelor's degree in agricultural and biological sciences and a master's degree in agricultural economics, both from Penn State, along with an MBA from the University of Pennsylvania's Wharton School.

"He was recently appointed Penn State distinguished executive-in-residence in the Eberly College of Science, after nearly 40 years of experience in the pharmaceutical and life sciences industries.

"Peter's professional achievements include serving as chief executive officer and chairman of Vivoquest, a private biotechnology company, until its sale in 2005. Before that,

he was president and CEO of the biopharmaceutical company Enzon and oversaw its rise from significant losses to great profitability.

"Earlier in his career, Peter spent 25 years with Pfizer where he helped build the pharmaceutical business as executive vice president of Pfizer Pharmaceuticals. Over the years, many corporate boards have relied upon his expertise and experience, and he currently serves as a director for six public companies.

"Peter's leadership also has been invaluable for many non-profit organizations for which he has been a volunteer. Penn State has been one of his top priorities. Peter and his wife, Ann, have supported a number of initiatives across the University, including the University Libraries, athletics, and the sciences. Peter has served on the Ag Constituent Society Board, the advisory panel for the Eberly College of Science BS/MBA program, and the University Libraries committee for the Grand Destiny Campaign. He is presently a member of the committee that has been planning our new campaign over the last 18 months.

"As you can see, Peter is a seasoned leader who brings invaluable talent, executive skills, and multiple strengths to this volunteer position. We are extremely grateful he has accepted this challenge. His energy, his dedication, and his vast expertise in so many areas will help us make this campaign the most successful in Penn State's history. I have every confidence that under Peter's leadership, we are destined to hit new philanthropic milestones.

"Peter is with us today, and I'd like to ask him to come forward to say a few words. Please join me in welcoming Peter Tombros as the new chair of our campaign."

Peter Tombros addressed the Board of Trustees. His comments are included in their entirety:

"Thank you, Graham, for that kind introduction and for placing your confidence in me to lead this landmark fundraising initiative. It is a genuine honor to be chosen as campaign chair. Over the years, I have had the privilege to see Penn State from many perspectives: as an undergraduate, a graduate student, an alumnus, a faculty member, and a volunteer. In each of those roles, I have come to know this University a little better, and I have developed a deep appreciation of all that Penn State does for its students, the Commonwealth, and the larger world.

"Now I want to encourage other alumni and friends to deepen their own understanding of the University and to take an active role in shaping our future through philanthropy. I know that serving as campaign chair will be the most demanding job I've ever had, and the highest possible standards have been set for me by the chairs of our past campaigns. Bill Schreyer, Ed Hintz and Jim Broadhurst are tough acts to follow!

"Fortunately, I'm going to be working with a very impressive team. Right now, we're putting together a group of volunteers which includes not only past all-stars like Ed and Jim but also new players who are bringing fresh perspectives to the campaign planning process. I will also be relying on all of you for your insight, guidance, and participation. I'm looking forward to seeing just how much we can all accomplish together to make this a better institution for future Penn Staters. Thank you."

Chairman Broadhurst expressed thanks and appreciation to Mr. Tombros and encouraged all board members to join in the philanthropy efforts. His comments are included in their entirety:

"We are pleased to have your capable leadership for this campaign, and I know I speak for my fellow trustees when I say that we look forward to working with you and supporting you in any way we can.

"As we launch this new and ambitious campaign for Penn State's students, we look to our Board members, key alumni and friends for the philanthropic leadership that will provide the momentum needed in these important, early days of the campaign. You may recall that during Grand Destiny, current and past members of the Board of Trustees accounted for \$90 million of gift commitments. This leadership-by-example inspired

other donors to stretch in their giving and helped to build confidence that the campaign's vision for Penn State was shared at every level of leadership.

"I believe that we can and must surpass that \$90 million total in the new campaign. It is my hope that each member of the Board will give as generously as possible to demonstrate our personal and collective endorsement of this fundraising initiative. Three past Chairs of the Board--Ted Junker, Ed Hintz and Lloyd Huck--have graciously agreed to assist me in reaching out to each of you to discuss your participation in the campaign, and I hope that you will allow us to schedule a personal visit with you. We ask that you wait to make your campaign gift until one of us has had a conversation with you about how your generosity can have the greatest possible strategic impact during these critical early days of the campaign. We anticipate speaking with each member of the Board over the next year and will ask for your commitments by June 2008.

"We are looking forward to 100% participation in the campaign by members of the Board of Trustees. As University Trustees, we are uniquely positioned to send a powerful message to other alumni and friends about the important role that philanthropy plays at Penn State. If we can say that every Trustee has personally and generously supported this campaign, we will be making a much stronger case for support.

"We will be calling to set up meetings and encourage you to visit with the academic and development resources at the University who can be helpful in shaping your gift. Those resources were helpful to me in the past and they will be vital as Suzy and I contemplate our gift for support over the next few months.

"As Trustees, we are making decisions that will guide Penn State for many years to come. Now, through our philanthropy, we can help to ensure that the University will be able to fulfill that vision. Generations of Penn Staters to come are counting on our leadership and support. I know that together we can rise to this challenge. Thank you for all you do for Penn State and thank you again, Peter, for your important leadership."

The President's Report concluded at 9:10 a.m.

Update on The Milton S. Hershey Medical Center

From 9:10 to 9:50 a.m., the Board received an update on The Milton S. Hershey Medical Center from Harold L. Paz, M.D., Senior Vice President for Health Affairs, Dean of the College of Medicine, and Chief Executive Officer of The Milton S. Hershey Medical Center. The strategic planning process goals, academic mission, research mission, patient care mission, community engagement mission and the Highmark partnership were all outlined. [A visual presentation was made.]