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University of South Carolina

BOARD OF TRUSTEES

Executive Committee

September 8, 2009

The Executive Committee of the University of South Carolina Board of Trustees met on Tuesday, September 8, 2009, at 3:15 p.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. Miles Loadholt, Chairman; Mr. Herbert C. Adams; Dr. C. Edward Floyd; Mr. Michael J. Mungo; and Mr. Eugene P. Warr, Jr. Other Trustees present were: Mr. Chuck Allen; Mr. J. Egerton Burroughs; Mr. Mark W. Buyck, Jr.; Mr. William C. Hubbard; Mr. William W. Jones, Jr.; Mr. Toney J. Lister; Mrs. Amy E. Stone; Mr. John C. von Lehe, Jr.; Mr. Mack I. Whittle, Jr.; and Mr. Othniel H. Wienges, Jr.

Others present were: President Harris Pastides; Secretary Thomas L. Stepp; Chief Financial Officer and Vice President for Finance and Planning William T. Moore; Vice President for Human Resources Jane M. Jameson; General Counsel Walter (Terry) H. Parham; Interim Vice President for University Advancement Michelle D. Dodenhoff; Special Assistant to the President J. Cantey Heath; Associate Vice Provost for Academic Resources Edward L. Walton; Associate Vice President for Marketing and Communication Gary Snyder; Media Relations Senior Writer, University Marketing and Communications, Karen Petit; Chair of the Faculty Senate Patrick D. Nolan; Director of Governmental and Community Relations and Legislative Liaison Shirley D. Mills; Associate Director of Governmental Affairs and Legislative Liaison Casey Martin; Student Government Association President Meredith Ross; Director of Media Relations, Division of University Advancement, Margaret Lamb; University Technology Services Production Manager Justin Johnson; Board staff members Vera Stone, and Karen Tweedy; and members of the media.

Chairman Loadholt called the meeting to order and asked Ms. Lamb to introduce members of the media who were in attendance. Chairman Loadholt stated that notice of the meeting had been posted and the press notified as required by the Freedom of Information Act; the agenda and supporting materials had been circulated to members of the Committee; and a quorum was present to conduct business.

I. Innovista Status Report:

Chairman Loadholt called on President Pastides, who provided the following report.

Thank You Mr. Loadholt and members of the Executive Committee.

A new day, and a new way forward, has arrived for Innovista and I start with some background.

In 2003 the University of South Carolina stepped beyond the campus walls, and into the community further than most universities venture. We stepped out, and we stepped up, to help drive our state's economic development efforts and to improve the quality of life for our citizens.

We believed it was the right thing to do for our state and our university. We also knew it would be a huge challenge, and we knew that it would take time. How challenging would it be? Well, in fact, it would have been a lot easier to raise the height of the brick wall that surrounds the Historic Horseshoe, the wall that was built to protect the campus from the town and the town from the University; it would have been easier for our faculty to stay in their offices and write their papers than to file patents or create start-up companies; it would have been easier not to collaborate with our sister research universities on the Centers of Economic Excellence, and not to collaborate with the Department of Commerce, the South Carolina Research Authority, the Central SC Alliance, EngenuitySC, and other private and public sector allies in helping to create higher paying jobs in our region and state; and it would have been easier to ignore the business community and all the Chambers of Commerce who have voted their confidence in Innovista.

It would have been easier, and it would have been wrong.

It would now be easier to turn away from Innovista because of several problems in our execution, specifically the delay in construction of the Horizon II building. That, too, would be wrong.

It is unfortunate that media attention has focused almost exclusively on the private building, which is only a part, albeit an important one, of the Innovista concept.

Innovista is also about the Centers of Economic Excellence and the Endowed Chairs; we already have recruited 19 chairs in collaboration with MUSC and Clemson. Innovista is about start-up companies; we are incubating companies at a rate that is comparable to the leading public and private universities in the United States. Innovista is about faculty, students and technicians who have broken past records, each year in the last 10, with the externally funded projects they have successfully applied for. Non-state dollars, and research jobs, have come to Columbia at a record pace.

Just as an example, the Public Health Research Center in Innovista is fully occupied by nationally recognized researchers whose work ranges from studies on obesity and exercise to nutrition and the environment. Their recent grant funding has pushed \$27 million into our economy. Discovery I is occupied by grant-funded researchers whose work is focused on the prevention and control of cancer. This fall, that facility will house 10 additional scientists and their assistants who are doing research on the brain. We eagerly await news about another \$22 million of funding that will be determined later this fall. Two floors of Horizon I will be completed this fall and will house top researchers on fuel cells and energy, who together received more than \$13 million in grant awards last year. All of these researchers pay taxes, shop, send their children to school and contribute to the growth of Innovista and the betterment of the region and the state. Many were attracted to South Carolina because of Innovista and they are a major reason why the Carnegie Foundation has cited our university as a top-tier research university.

Nevertheless, we are at a juncture where we must address certain matters and put them behind us before we can move forward and renew our commitment to our city and our state.

Today, we address questions regarding delays with the building of Horizon II. We are here to provide answers regarding the vetting of developers, and our commitment to improve our execution. You will hear no excuses or finger pointing to the past, only a determined administration committed to advancing within a new framework of improved processes and practices for doing business at the University.

The Board has asked me about the vetting of the individuals who are part of Innovista Holdings, LLC.

At my request, university General Counsel Terry Parham conducted personal interviews and examined notes and minutes to

determine who had knowledge of Mr. Roscoe's felony tax evasion guilty plea in 2002, and whether any formal vetting process was followed.

Mr. Parham interviewed Former President Andrew Sorensen, Former Chief Financial Officer Rick Kelly, Innovista Executive Director John Parks, Associate Vice Provost for Academic Resources Ed Walton, and me.

This is what he found.

In Spring 2008, the university began looking for additional developers for Innovista.

Mr. Parks was familiar with Mr. Roscoe as a result of their professional affiliation at the Coldstream project, while Mr. Parks was employed by the University of Kentucky.

Craig Davis Properties agreed to accept Mr. Kale Roscoe and Tim Heath as partners, and in May 2008, Mr. Rick Kelly, as president of the Research Campus Foundation, proposed to the Executive Committee of the Board that the University's contractual arrangement with Craig Davis Properties be modified to add Roscoe and Heath as partners. Financial due diligence requested by the Executive Committee affirmed that the developers had sufficient resources.

No formal discussions on Mr. Roscoe's background, beyond his apparent success at Coldstream, were ever held.

John Parks was the only university employee who had knowledge of Mr. Roscoe's felony tax conviction before the meeting of the Executive Committee of the Board of Trustees on May 16, 2008, at which time the Committee approved the Implementation Agreement authorizing Craig Davis Properties to assign its contractual relationship with the university to Innovista Holdings, LLC.

Mr. Parks had learned of Mr. Roscoe's tax conviction in late 2004, or early 2005, while employed at the University of Kentucky.

Andrew Sorensen, Rick Kelly and I learned of Mr. Roscoe's felony tax conviction in August 2009, after publication of the Free Times article.

In March 2009, Mr. Kelly learned that Mr. Roscoe had a previous tax issue, but the information presented was general in nature and did not include mention of a felony tax conviction. That meeting included Mr. Parks; Ed Menzie, an attorney with Nexsen Pruitt; and a representative of BB&T, the bank that was considering a financing plan.

Ed Walton, Associate Vice President for Resource Planning, learned of Mr. Roscoe's felony tax conviction in May 2009, at a subsequent meeting with Mr. Menzie and a representative of BB&T.

I believe that this review has led to better organizational structures and more effective business practices. During the past month we have focused much energy and time on this process.

Today, I say that USC could have done much better. I have concluded that the proper processes were not in place to assure that we had full information. But today I am confident that we have taken action to ensure that this will not happen again.

Mr. John Parks will be leaving the university. He has submitted his resignation and will leave the University 90 days from today, and I am moving forward with a new organizational plan to oversee Innovista and to accelerate our progress.

I am creating a new Economic Development Council that will be comprised of university, community, and business leaders from the region and the state. This council will provide oversight, especially in the identification and evaluation of future private entities that propose to partner with us in the development of

buildings and in the broader arena of job creation. I can assure you that partnership decisions will incorporate careful scrutiny of all candidates' performance records, borrowing abilities, and character.

Its members will recommend performance and accountability standards and utilize those to monitor performance. They will also assist in reviewing the role of current market forces that have seriously eroded the progress of commercial real estate ventures, locally and nationally. I will name the members of this group in the coming weeks.

The group also will be asked to increase communications with the many Innovista-affiliated organizations that already have close ties, including EngenuitySC, the Central SC Alliance, the Greater Columbia and the State Chambers of Commerce, and the Midlands Business Leadership Group at the regional level; and groups like New Carolina, the Palmetto Institute, the Palmetto Business Forum, and the South Carolina Department of Commerce at the statewide level.

As I have said before, I will seek advice and participation from those organizations who know and love South Carolina best, our own local, regional and state partners. And we will work with the community to ensure that all of our citizens have an equal opportunity to be involved with the diverse opportunities afforded by Innovista.

We will also increase the opportunity for the general public, especially through the press, to keep up with developments in an environment that fosters open communication and transfer of information. We already have an excellent relationship with all of our Foundations, and their unique relationship with our university puts them in a position to help facilitate private development, as well.

The day to day operational logistics of Innovista will be overseen by the university, including its Capital Planning Committee, the Office of Business and Finance, the Office of the General Counsel, and the Vice President for Research and Graduate Education, all of which operate with public accountability.

One of the most positive elements that emerged from this process is that we were reminded how much has changed since we created the vision for Innovista. As a result, we are moving forward today with efforts to explore how we can better serve the larger mission of economic development and job creation for South Carolina.

Clearly, Innovista will remain at the center of our development efforts, and with the expanded role of The Darla Moore School of Business in entrepreneurship we must explore new goals, new strategies and new partnerships to bring them to fruition. South Carolina needs its research universities more than ever before, and it needs Innovista to succeed more than ever.

Standing before you today, I am reminded of Thomas Edison, who said that nearly every man who develops an idea works at it up to the point where it looks impossible, and then gets discouraged. We will not allow that to happen.

We will continue to refine our fresh approach for moving forward with Innovista and accelerate the university's role as a powerful economic engine that helps create higher paying jobs and improves the quality of life for all South Carolinians.

We look forward to sharing these plans with the Executive Committee and with the Full Board as well as with the entire community in the coming weeks.

II. Proposed Contractual Matter:

Chairman Loadholt thanked President Pastides and called on Mr. Parham, who had

been asked to brief the Executive Committee on the proposed terms of an agreement. The agreement entitled "Assignment, Bill of Sale and Termination Agreement" would sever all relationships between Innovista Holding, LLC and the University of South Carolina and all support foundations and affiliates of the University.

Mr. Parham explained that the agreement included the following essential terms:

1. Agreement of Innovista Holdings, LLC:

A. All contractual relationships between the parties will be terminated, and Innovista Holdings would have no further on-going rights or obligations to the University in connection to Innovista or otherwise.

B. Innovista Holdings will provide to the University all materials and personal property related to Innovista and specifically the Horizon II private research building. Those materials would include, but not be limited to, architectural plans and specifications, approvals, permits, budgets, etc.

C. Innovista Holdings will be responsible for paying all architects, contractors, subcontractors, suppliers, or other parties (collectively, the "vendors") that had performed any work on their behalf in connection with Innovista, and would remain the obligation of Innovista Holdings.

D. Innovista Holdings would waive and release the University and all of its support foundations and employees from any further claims in connection to the Innovista Project.

2. Agreement of the University: Mr. Parham explained that in exchange for the above, the University agreed to the following:

A. To pay Innovista Holdings the sum of \$890,000. That payment would be made as follows: \$200,000 at closing, and the balance paid in three equal installments between now and June 30, 2010.

B. The University will take steps to have marked "paid in full" the Promissory Note that existed between Innovista Holdings and the USC Research Campus Foundation, with a current \$100,000 outstanding balance.

C. The University will waive its claims against Innovista Holdings as well.

Chairman Loadholt called for a motion to authorize the administration to enter into an assignment, bill of sale, and termination agreement with Innovista Holdings LLC according to the terms and conditions of the Executive Summary distributed at this meeting and as described by the General Counsel. This motion is contingent upon the requisite approvals of the USC Research Foundation and the USC Research Campus Foundation.

Mr. Mungo moved to approve the motion as stated by Chairman Loadholt and Dr. Floyd seconded the motion. The vote was taken and the motion carried.

III. Adjournment:

Since there were no other matters to come before the Executive Committee, Chairman Loadholt declared the meeting adjourned at 3:20 p.m.

Respectfully submitted,

Thomas L. Stepp
Secretary