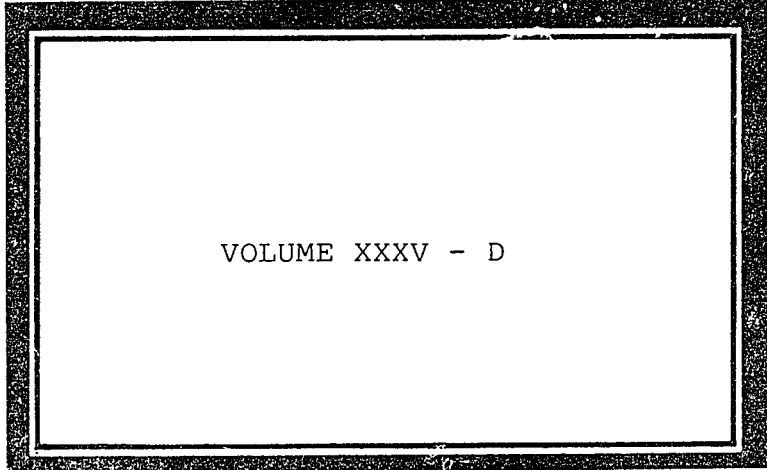


Meeting No. 832

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM



VOLUME XXXV - D

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April 14, 1988

Galveston, Texas

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 OF
 THE UNIVERSITY OF TEXAS SYSTEM
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 GALVESTON, TEXAS

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MEETING NO. 832

THURSDAY, APRIL 14, 1988.--The members of the Board of Regents of The University of Texas System convened in regular session at 11:00 a.m. on Thursday, April 14, 1988, in the Caduceus Room on the sixth floor of the Administration Building at The University of Texas Medical Branch at Galveston, Galveston, Texas, with the following in attendance:

ATTENDANCE.--

<u>Present</u>	<u>Absent</u>
Chairman Blanton, presiding	
Vice-Chairman Ratliff	
Vice-Chairman Roden	
Regent Baldwin	
Regent Barshop	
Regent Beecherl	
Regent Hay	
Regent Moncrief	
Regent Yzaguirre	
Executive Secretary Dilly	
Chancellor Mark	
Executive Vice Chancellor Duncan	
Executive Vice Chancellor Mullins	
Executive Vice Chancellor Patrick	

Chairman Blanton announced a quorum present and called the meeting to order.

RECESS TO EXECUTIVE SESSION.--Chairman Blanton announced that the Board would recess to convene in Executive Session pursuant to Vernon's Texas Civil Statutes, Article 6252-17, Sections 2(e), (f) and (g) to consider those matters set out in the Material Supporting the Agenda: litigation, land acquisition and personnel matters.

RECONVENE.--At 1:30 p.m., the Board reconvened in open session.

U. T. SYSTEM: INTRODUCTION OF MR. RAY FARABEE, VICE CHANCELLOR AND GENERAL COUNSEL.--Chairman Blanton introduced and welcomed Mr. Ray Farabee as he attended his first Board meeting as Vice Chancellor and General Counsel of The University of Texas System.

WELCOME AND REPORT BY THOMAS N. JAMES, M.D., PRESIDENT OF THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON.--Chairman Blanton stated that the Board was pleased to be meeting in Galveston and expressed appreciation to President James for the very generous hospitality extended to the Board. He then called on Thomas N. James, M.D., President of The University of Texas Medical Branch at Galveston (the host institution).

On behalf of the faculty, staff and students of U. T. Medical Branch - Galveston, President James welcomed the members of the Board and other guests to Galveston. With the aid of

slides, President James presented a comprehensive overview on the approaching centennial year, on the importance of private philanthropy (particularly that of The Sealy & Smith Foundation) and on the mutual benefits shared by the U. T. Medical Branch - Galveston and the City of Galveston.

President James noted that UTMB had made remarkable progress since the opening of the institution in 1891 and in a few years will celebrate a century of service to the Galveston region and the State of Texas. As UTMB approaches its centennial year in 1991, Dr. James reiterated that the institution will look forward to working with the City of Galveston and others to continue its tradition of service and to enhance its stature and reputation in health professions education and research.

With regard to the private resources available to the institution, Dr. James recognized The Sealy & Smith Foundation, The Moody Foundation, The Kempner Foundation and such individuals as the Randalls, Bauers, Mitchells and Seinsheimers, and noted that the Medical Branch would not be where it is today without the generosity of these and other benefactors. He emphasized the importance of The John Sealy Memorial Endowment Fund for Biomedical Research which was established by the Board in December 1986 and cited the John Sealy Hospital as tangible evidence of The Sealy & Smith Foundation generosity.

President James commented on what the Medical Branch means to the Galveston economy and pointed out that the institution employs 7500 people, has a \$360 million budget and \$190 million payroll, and pays \$10.1 million in taxes per year. He noted that UTMB enhances the quality of life in Galveston, provides health care services for the entire State and provides increased graduate research opportunities for the State and Nation.

On behalf of the Board, Chairman Blanton expressed appreciation to President James for his very informative report.

U. T. BOARD OF REGENTS: APPROVAL OF MINUTES OF REGULAR MEETING HELD ON FEBRUARY 11, 1988.--Upon motion of Vice-Chairman Ratliff, seconded by Vice-Chairman Roden, the Minutes of the regular meeting of the Board of Regents of The University of Texas System held on February 11, 1988, in San Antonio, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XXXV, Pages 1627 - 2594.

SPECIAL ITEM

U. T. Board of Regents: (a) Adoption of Resolution Authorizing Issuance and Sale of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1988, in the Amount of \$100,000,000, and Awarding the Sale of the Bonds to Marine Midland Bank, N.A., New York, New York; (b) Designation of MTrust Corp, National Association, Austin, Texas, as Paying Agent/Registrar; (c) Award of Contract to Print the Bonds and Official Statement to Pandick Dallas, Dallas, Texas; and (d) Appointment of Hutchison Price Boyle & Brooks, Dallas, Texas, as Disclosure Counsel.--Chairman Blanton called on Executive Vice Chancellor for Asset Management Patrick to review the recommendations related to the adoption of a resolution authorizing the issuance and sale of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1988, in the amount of \$100,000,000.

Following a detailed presentation and upon motion of Regent Beecherl, seconded by Regent Barshop, the Board:

a. Adopted the Resolution set out on Pages 4 - 41 authorizing the issuance and sale of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1988, in the amount of \$100,000,000, and awarding the sale of the bonds to Marine Midland Bank, N.A., New York, New York, with a 6.792343% net effective interest rate

b. Designated MTrust Corp, National Association, Austin, Texas, as Paying Agent/Registrar

MTrust Corp will pay the Board of Regents a one time lump sum of \$100 to act as Paying Agent/Registrar.

c. Awarded the contract for printing of the Bonds and the Official Statement to Pandick Dallas, Dallas, Texas, in the amount of \$5,800

d. Appointed Hutchison Price Boyle & Brooks, Dallas, Texas, as Disclosure Counsel.

After these actions by the Board, Executive Vice Chancellor Patrick advised the Board that, in accordance with the authorization at the February meeting, The University of Texas System General Tuition Revenue Refunding Bonds, Series 1986 Escrow Fund had been restructured with a resulting gain to the U. T. System in excess of \$500,000.

RESOLUTION
authorizing the issuance, sale and delivery of

Board of Regents
of
The University of Texas System
Permanent University Fund Refunding Bonds
Series 1988

and approving and authorizing instruments and procedures
relating thereto

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PERMANENT UNIVERSITY FUND REFUNDING BONDS, SERIES 1988,
AND APPROVING AND AUTHORIZING INSTRUMENTS AND PROCEDURES
RELATING THERETO

WHEREAS, article VII, section 18 of the Texas Constitution, as amended, authorizes the Board of Regents (the "Board") of The University of Texas System (the "System") to issue bonds and notes not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund established, implemented and administered pursuant to article VII of the Texas Constitution (the "Permanent University Fund"), exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund consisting of the dividends, interest and other income from the Permanent University Fund (less administrative expenses) including the net income attributable to the surface of Permanent University Fund land (the "Available University Fund") to secure the payment of the principal and interest of those bonds and notes, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under such section or prior law, at or for the System administration and component institutions of the System; and

WHEREAS, the Board heretofore has authorized, issued, and delivered, pursuant to such constitutional provision and a resolution adopted by the Board on December 5, 1985, its Permanent University Fund Variable Rate Notes, Series A (the "Refunded Notes"), which are now outstanding in the aggregate principal amount of \$100,000,000, and which, along with certain other outstanding obligations of the Board, are secured by a pledge of the Board's two-thirds interest in the Available University Fund; and

WHEREAS, the Board has determined to issue its obligations in the aggregate principal amount of \$100,000,000 for the purpose of refunding the Refunded Notes, pursuant to article VII, section 18 of the Texas Constitution, Texas Revised Civil Statutes Annotated articles 717k, 717q and other applicable laws; NOW, THEREFORE

BE IT RESOLVED BY THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM THAT:

ARTICLE I

DEFINITIONS, INTERPRETATION AND FINDINGS

Section 1.01. DEFINITIONS. (a) Unless expressly provided otherwise herein or unless the context shall indicate a contrary meaning or intent, the terms and expressions defined below, when used in this Resolution, shall have the meanings set forth below for all purposes of this Resolution, except the FORM OF BOND appearing in Section 2.06 hereof.

"Additional Parity Bonds and Notes" means the additional parity bonds and the additional parity notes permitted to be issued pursuant to Section 3.04 hereof or pursuant to Section 12 of the Series 1985 Resolution.

"Authorized Denomination" means \$5,000 principal amount or any integral multiple thereof.

"Available University Fund" means, as provided in article VII, section 18 of the Texas Constitution, as amended, all of the dividends, interest, and other income from the Permanent University Fund (less administrative expenses), including the net income attributable to the surface of Permanent University Fund land.

"Board" means the Board of Regents of the System.

"Bond" or "Bonds" means any one or more, as the case may be, of the bonds authorized by this Resolution, and all substitute bonds exchanged therefor, and all other substitute and replacement bonds issued pursuant to this Resolution.

"Code" means the Internal Revenue Code of 1986, as amended.

"Counsel's Opinion" shall mean a written legal opinion of nationally recognized bond counsel acceptable to the Board.

"Defeased Bond" means any Bond the principal of and interest on which is deemed to be paid, retired and no longer outstanding within the meaning of this Resolution, pursuant to and in accordance with Section 7.02 hereof.

"Government Obligations" means direct obligations of the United States of America, including obligations the

principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

"Interest and Sinking Fund" means the Board of Regents of The University of Texas System Permanent University Fund Bonds Interest and Sinking Fund described in Section 3.02 hereof.

"Interest of the System," when used with reference to the Available University Fund, means the System's two-thirds interest in the Available University Fund as apportioned and provided in article VII, section 18 of the Texas Constitution, as amended.

"Paying Agent" means the paying agent for the Bonds appointed by the Board in Section 2.13 hereof, or any successor to such paying agent appointed hereunder.

"Paying Agent/Registrar" shall mean the entity acting as both Paying Agent and Registrar hereunder.

"Paying Agent Agreement" means that certain Paying Agent/Registrar Agreement dated as of the date of issuance and delivery of the Bonds to the initial purchasers thereof between the Board and the Paying Agent, as authorized by Section 2.13 hereof, and as such agreement may be amended from time to time in accordance with the terms thereof.

"Permanent University Fund" means the Permanent University Fund as created, established, implemented, and administered pursuant to sections 10, 11, 11a, 15 and 18 of article VII of the Texas Constitution, as amended, and by other applicable present and future constitutional and statutory provisions.

"Principal and Interest Requirements" means, with respect to any fiscal year of the System, the amounts of principal of and interest on all PUF Bonds scheduled to be paid in such fiscal year from the Interest of the System in the Available University Fund. If the rate of interest to be borne by any PUF Bonds is not fixed, but is variable or adjustable by any formula, agreement, or otherwise, and therefore cannot be calculated as actually being scheduled to be paid in a particular amount for any particular period, then for the purposes of the previous sentence such PUF Bonds shall be deemed to bear interest at all times to their

maturity or due date at the lesser of (i) the maximum rate then permitted by law or (ii) the maximum rate specified in such PUF Bonds.

"PUF Bonds" means the Bonds, the Series 1985 Bonds and all Additional Parity Bonds and Notes.

"Record Date" means, with respect to any scheduled interest payment date or scheduled principal payment date on the Bonds, the 15th day of the month next preceding such payment date.

"Refunded Notes" means the Board of Regents of The University of Texas System Variable Rate Notes, Series A, issued under a resolution adopted by the Board on December 5, 1985 and outstanding in the aggregate principal amount of \$100,000,000.

"Registrar" means the registrar and transfer agent for the Bonds appointed by the Board in Section 2.13 hereof, or any successor to such registrar and transfer agent appointed by the Board hereunder.

"Registration Books" means the books or records of the registration and transfer of the Bonds required to be kept by or on behalf of the Board pursuant to Section 2.09 hereof.

"Resolution" means this resolution authorizing the Bonds.

"Series 1985 Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1985, issued under the Series 1985 Resolution in the original aggregate principal amount of \$345,970,000.

"Series 1985 Resolution" means the resolution adopted by the Board on October 25, 1985, authorizing the issuance of the Series 1985 Bonds, as such resolution may be amended from time to time.

"System" means The University of Texas System, including each of the following existing and operating institutions, respectively:

The University of Texas at Arlington;
The University of Texas at Austin;
The University of Texas at Dallas;
The University of Texas at El Paso;

The University of Texas of the Permian Basin;
The University of Texas at San Antonio;
The University of Texas at Tyler;
The University of Texas Southwestern Medical Center at
Dallas (formerly known as The University of Texas
Health Science Center at Dallas);
The University of Texas Medical Branch at Galveston;
The University of Texas Health Science Center at
Houston;
The University of Texas Health Science Center at San
Antonio;
The University of Texas ^{M. D. Anderson} ~~System~~ Cancer Center;
The University of Texas Health Center at Tyler; and
The University of Texas Institute of Texan Cultures at
San Antonio,

(formerly known as The University of Texas System Cancer Center)

together with every other institution or branch thereof now or hereafter operated by or under the jurisdiction of the Board pursuant to law.

Section 1.02. RECITALS, TABLE OF CONTENTS, TITLES AND HEADINGS. The terms and phrases used in the recitals of this Resolution have been included for convenience of reference only and the meaning, construction and interpretation of such terms and phrases for purposes of this Resolution shall be determined solely by reference to Section 1.01 of this Resolution. The table of contents, titles and headings of the articles and sections of this Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Resolution or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.03. INTERPRETATION. Unless the context requires otherwise, words of the singular number used in this Resolution shall be construed to include correlative words of the plural number and vice versa, and words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa. References in this Resolution to numbered Articles, Sections or portions thereof shall refer to the respective Articles and Sections of this Resolution, unless expressly specified otherwise. The terms "hereof," "herein," "hereunder" and similar terms shall refer to this Resolution as a whole and not to any particular provision of this Resolution. This Resolution and all the terms and provisions hereof shall be liberally construed to effectuate the provisions set forth herein and to sustain the validity of this Resolution.

Section 1.04. FINDINGS. The Board officially finds and determines, for purposes of article VII, section 18 of the Texas Constitution, as amended, that the cost value of investments and other assets of the Permanent University Fund (exclusive of real estate) is now in excess of \$3,001,046,709 and that the amount of bonds and notes of the Board outstanding and secured by a pledge of the Interest of the System in the Available University Fund following the issuance of the Bonds will not exceed a total amount of 20% of such cost value.

ARTICLE II

AUTHORIZATION AND TERMS OF THE BONDS

Section 2.01. AUTHORIZATION AND AUTHORIZED AMOUNT. Pursuant to authority conferred by and in accordance with the provisions of the Constitution and laws of the State of Texas, particularly article VII, section 18 of the Texas Constitution and articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended, Bonds shall be and hereby are authorized to be issued in the aggregate principal amount of ONE HUNDRED MILLION DOLLARS (\$100,000,000) for the purpose of obtaining funds to refund the Refunded Notes, all in accordance with and subject to the terms, conditions and limitations contained herein. The Bonds are Additional Parity Bonds permitted to be issued under Section 12 of the Series 1985 Resolution on a parity and in all respects of equal dignity with the Series 1985 Bonds.

Section 2.02. DESIGNATION, FORM, NUMBERS, DATE AND DENOMINATION OF THE BONDS. Each Bond shall be designated: "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND REFUNDING BOND, SERIES 1983." The Bonds shall be issuable only in fully registered form without coupons. Unless the Board shall direct otherwise, the Bonds shall be lettered and numbered separately from 1 upward prefixed by the letter R. Each Bond shall be in an Authorized Denomination and shall be dated April 1, 1988.

Section 2.03. INTEREST PAYMENT DATES, INTEREST RATES AND MATURITY OF THE BONDS. The Bonds shall bear interest at the respective rates per annum set forth below, calculated on the basis of a 360-day year composed of twelve 30-day months, payable on July 1, 1988 and on each January 1 and July 1 thereafter until maturity or prior redemption and shall mature and become payable on July 1 in each of the

years and in the respective principal amounts set forth below, subject to prior redemption as set forth in the FORM OF BOND appearing herein:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
(July 1)		
1989	\$6,000,000	8.500%
1990	6,000,000	8.375%
1991	7,000,000	7.250%
1992	7,000,000	8.500%
1993	8,000,000	7.000%
1994	8,000,000	6.300%
1995	8,000,000	6.500%
1996	8,000,000	6.600%
1997	8,500,000	6.700%
1998	8,500,000	6.800%
1999	8,500,000	7.000%
2000	8,500,000	7.000%
2001	8,000,000	6.000%

Each Bond authenticated prior to the first Record Date on the Bonds shall bear interest from the date thereof. Each Bond authenticated on or after the first Record Date on the Bonds shall bear interest from the interest payment date immediately preceding the date of authentication, unless such Bond is authenticated after any Record Date but on or before the next following interest payment date, in which case such Bond shall bear interest from such next following interest payment date; provided, however, that if at the time of delivery of any exchange or replacement Bond the interest on the Bond it replaces or for which it is being exchanged is due but has not been paid, then such Bond shall bear interest from the date to which such interest has been paid in full.

Section 2.04. MEDIUM AND PLACE OF PAYMENT. The principal and redemption price of the Bonds shall be payable, without exchange or collection charges, in lawful money of the United States of America, to the respective registered owners thereof upon presentation and surrender thereof at maturity or upon the date fixed for redemption prior to maturity at the principal corporate trust office of the Paying Agent. Interest on the Bonds shall be payable by the Paying Agent on each interest payment date, by check or draft dated as of such interest payment date, sent by United States mail, first-class postage prepaid, to the respective owners thereof, at the address of each such registered owner as it appears on the Record Date preceding each such

interest payment date. In addition, interest may be paid by such other method acceptable to the Paying Agent requested by, at the risk and expense of, the respective registered owners of the Bonds. Any accrued interest due upon the redemption of any Bond prior to maturity as provided in this Resolution shall be payable to the registered owner thereof at the principal corporate trust office of the Paying Agent upon presentation and surrender thereof for redemption and payment at such principal corporate trust office.

Section 2.05. REDEMPTION PRIOR TO MATURITY. The Bonds may and shall be prepaid or redeemed prior to the stated maturities thereof, and notice of such redemption shall be given to the registered owners of the Bonds to be redeemed, all as set forth in the FORM OF BOND appearing in this Resolution.

Section 2.06. FORM OF BOND. (a) The form of all Bonds issued under this Resolution shall be substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Resolution.

FORM OF BOND

NO. _____ PRINCIPAL AMOUNT
 UNITED STATES OF AMERICA \$ _____
 STATE OF TEXAS
 BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
 PERMANENT UNIVERSITY FUND REFUNDING BOND
 SERIES 1988

INTEREST RATE MATURITY DATE DATE OF ORIGINAL ISSUE CUSIP NO.
 _____% _____ April 1, 1988 _____

ON THE MATURITY DATE specified above the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Issuer"), being the governing body of The University of Texas System, an agency of the State of Texas, hereby promises to pay to _____ or the registered assignee hereof (either being herein called the "registered owner") the principal amount of _____ and to pay interest thereon, calculated on the basis of a 360-day year composed of twelve 30-day months, from APRIL 1, 1988, to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on JULY 1, 1988, and semiannually on each JANUARY 1 and JULY 1 thereafter, except that if

the date of authentication of this Bond is later than JUNE 15, 1988, such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date (hereinafter defined) but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the principal corporate trust office of MTRUST CORP, NATIONAL ASSOCIATION, AUSTIN, TEXAS, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required by the resolution authorizing the issuance of the Bonds (the "Bond Resolution") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner hereof. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner at the principal corporate trust office of the Paying Agent/Registrar upon presentation and surrender of this Bond for redemption and payment at the principal corporate trust office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and accrued interest payment date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" maintained under the Bond Resolution, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are so authorized to close; and payment on such date have the same force and effect as if made on the original date payment was due.

THIS BOND is one of an issue of Bonds initially dated APRIL 1, 1988, authorized in the principal amount of \$100,000,000, FOR THE PURPOSE OF PROVIDING FUNDS TO REFUND BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND VARIABLE RATE NOTES, SERIES A, NOW OUTSTANDING IN THE AGGREGATE PRINCIPAL AMOUNT OF \$100,000,000.

ON JULY 1, 1998, or on any interest payment date thereafter, the Bonds of this Series may be redeemed prior to their scheduled maturities, at the option of the Issuer, with funds derived from any available and lawful source, as a whole or in part in any integral multiple of \$5,000 principal amount, and if in part, the particular Bonds or portions thereof to be redeemed shall be selected and designated by the Issuer (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000 principal amount), at a redemption price equal to the par or principal amount thereof plus accrued interest to the date fixed for redemption.

AT LEAST 30 days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial publication, journal, or report of general circulation among securities dealers in the City of New York, New York (including, but not limited to, The Bond Buyer and The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter). Such notice also shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, not less than 30 days prior to the date fixed for any such redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th day prior to such redemption date on the Registration Books kept by the Paying Agent/Registrar; provided, however, that the failure to send, mail, or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the

redemption of any Bond, and it is hereby specifically provided that the publication of such notice as required above shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof that are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is published and if due provision for such payment is made, all as provided above, the Bonds or portions thereof that are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive from the Paying Agent/Registrar the redemption price plus accrued interest, out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 principal amount, at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Issuer, all as provided in the Bond Resolution.

THIS BOND OR ANY PORTION HEREOF IN ANY INTEGRAL MULTIPLE OF \$5,000 principal amount may be assigned and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Resolution. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion hereof in any integral multiple of \$5,000 principal amount to the assignee or assignees in whose name or names this Bond or any such portion hereof is to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the

previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Paying Agent/Registrar in conversion of and exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the conversion and exchange of other Bonds. The Issuer shall pay the Paying Agent/Registrar's fees and charges, if any, for making such transfer, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The registered owner of this Bond shall be deemed and treated by the Issuer and the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, in the denomination of \$5,000 principal amount or any integral multiple thereof. As provided in the Bond Resolution, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 principal amount as requested in writing by the appropriate registered owner or assignee, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Resolution. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for converting and exchanging any Bond or any portion thereof, but the one requesting such conversion and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange.

THE PAYING AGENT/REGISTRAR shall not be required to make any transfer of registration of this Bond or any portion hereof, or any conversion and exchange hereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called

for redemption prior to maturity, within 45 days prior to its redemption date.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Resolution that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law; and that the interest on and principal of this Bond, and other Bonds of this Series, are equally and ratably secured by and payable from a first lien on and pledge of the two-thirds interest of The University of Texas System in the fund (the "Available University Fund") consisting of the dividends, interest and other income (less administrative expenses) from the Permanent University Fund that is created and administered under the Texas Constitution, as described more fully in the Bond Resolution, all in accordance with article VII, section 18 of the Texas Constitution and other applicable laws.

THE ISSUER heretofore has issued its \$345,970,000 Permanent University Fund Refunding Bonds, Series 1985, which also are secured by a first lien on and pledge of the aforesaid interest of The University of Texas System in the Available University Fund, and are on a parity with and of equal dignity in all respects with the Bonds. The Issuer has reserved the right, subject to the restrictions referred to in the Bond Resolution, (i) to issue Additional Parity Bonds and Notes that also may be secured by and made payable from a first lien on and pledge of the aforesaid interest of The University of Texas System in the Available University Fund, in the same manner and to the same extent as this Bond and other obligations of the Board on a parity therewith, and (ii) to make certain amendments to the Bond Resolution with the approval of the owners of 51% in principal amount of all outstanding bonds and notes that are secured by and payable from a first lien on and pledge of the aforesaid interest of The University of Texas System in the Available University Fund.

THE REGISTERED OWNER hereof shall never have the right to demand payment of this Bond or the interest hereon out of any funds raised or to be raised by taxation or from any source whatsoever other than specified in the Bond Resolution.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Resolution, agrees to be bound by such terms and provisions, acknowledges that the Bond Resolution is duly recorded and available for inspection in the official minutes and records of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Resolution constitute a contract between each registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Chairman of the Issuer and countersigned with the manual or facsimile signature of the Executive Secretary of the Issuer, and has caused the official seal of the Issuer to be duly impressed, or placed in facsimile, on this Bond.

(facsimile signature)
Executive Secretary, Board of
Regents of The University of
Texas System

(facsimile signature)
Chairman, Board of Regents
of The University of Texas
System

(BOARD SEAL)

(b) A Paying Agent/Registrar's Authentication Certificate shall be printed on each Bond, in substantially the following form:

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Resolution described in this Bond; and that the initial Bonds of the series of Bonds of which this Bond is a part were approved by the Attorney

General of the State of Texas.

_____, TEXAS
Paying Agent/Registrar

Dated

Authorized Signature

(c) Assignment provisions shall be printed on the back of each Bond, in substantially the following form:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

(Assignee's Social Security or Taxpayer Identification Number)

(print or typewrite Assignee's name and address, including zip code)

and hereby irrevocably constitutes and appoints

attorney to transfer the registration of this Bond on the Paying Agent/Registrar's Registration Books with full power of substitution in the premises.

Date: _____

Signature Guaranteed:

NOTICE: This signature must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company.

Registered Owner
NOTICE: This signature must correspond with the name of the Registered Owner appearing on the face of this Bond.

(d) The approving legal opinion of the Issuer's Bond Counsel and the assigned CUSIP numbers may, at the option of the Issuer, be printed on the Bonds but neither shall have

any legal effect, and shall be solely for the convenience and information of the registered owners of the Bond.

Section 2.07. EXECUTION OF BONDS. The Bonds shall be executed on behalf of the Board by the Chairman and the Executive Secretary of the Board, by their manual or facsimile signatures, and the official seal of the Board shall be impressed or placed in facsimile thereof. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by said officers of the Board, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the Board had been manually impressed upon each of the Bonds. In the event that any officer of the Board whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Section 2.08. AUTHENTICATION AND DELIVERY OF BONDS. The Bonds, after execution by the Board as provided herein, shall be delivered to the Registrar. No Bonds shall be deemed to be issued or outstanding, or be valid or obligatory for any purpose, or be entitled to any security or benefit of this Resolution unless and until such Bond has been duly authenticated by the Registrar by the execution of the certificate of authentication appearing on such Bond. The certificate of authentication appearing on any Bond shall be deemed to have been duly executed by the Registrar if dated and manually signed by an authorized signatory of the Registrar. It shall not be required that the same signatory of the Registrar sign the certificate of authentication on all the Bonds.

Upon receipt of a letter of instructions signed by an authorized representative of the Board identifying the initial purchasers of the Bonds and requesting and authorizing the Registrar to authenticate and deliver the initial Bonds to the initial purchasers thereof, an authorized representative of the Registrar shall authenticate the initial Bonds by executing the certificate of authentication appearing on each such initial Bond and shall deliver the initial Bonds to the initial purchasers identified in such letter of instructions.

The Registrar shall authenticate any Bonds issued in exchange, substitution or replacement of other Bonds by

executing the certificate of authentication appearing thereon, upon satisfaction of the conditions set forth in Section 2.09 hereof.

Section 2.09. REGISTRATION, TRANSFER, EXCHANGE AND REPLACEMENT OF BONDS. (a) The Board shall keep or cause to be kept at the principal corporate trust office of the Registrar books or records of the registration and transfer of the Bonds, and the Board hereby appoints the Registrar as agent to keep such books or records and make such transfers and registrations under such reasonable regulations as the Board and Registrar may prescribe. The Registrar shall make such transfers and registrations as provided herein.

The Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided. It shall be the duty, however, of each registered owner to notify the Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Board shall have the right to inspect the Registration Books during regular business hours of the Registrar, but otherwise the Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity.

(b) Each Bond issued and delivered pursuant to this Resolution, to the extent of the unpaid or unredeemed principal balance thereof, may, upon surrender of such Bond at the principal corporate trust office of the Registrar, together with a written request therefor duly executed by the registered owner or its assignee, or its duly authorized attorney or representative, with guarantee of signatures satisfactory to the Registrar, may, at the option of the registered owner or such assignee, as appropriate, be converted into and exchanged for fully registered Bonds, without interest coupons, in an aggregate principal amount equal to the unpaid or unredeemed principal balance of any Bond so surrendered, and payable to the appropriate registered owner or assignee, as the case may be.

Registration of each Bond may be transferred in the Registration Books only upon presentation and surrender of such Bond to the Registrar for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing (i) the assignment

of the Bond, or any portion thereof in any Authorized Denomination, to the assignee thereof, and (ii) the right of such assignee to have the Bond or any such portion thereof registered in the name of such assignee. A form of assignment shall be printed or endorsed on each Bond, which shall be executed by the registered owner or its duly authorized attorney or representative to evidence an assignment thereof. Upon the assignment and surrender of any Bond or portion hereof for transfer of registration, an authorized representative of the Registrar shall make such transfer in the Registration Books, and shall deliver a new, fully registered substitute Bond having the characteristics herein described, payable to such assignee (which then will be the registered owner of such new Bond), or to the previous registered owner in case only a portion of a Bond is being assigned and transferred, all in conversion of and exchange for said assigned Bond or any portion thereof.

Bonds issued and delivered in conversion of and exchange for any other Bonds assigned and transferred or converted shall be in any Authorized Denomination requested in writing by the registered owner or assignee thereof, shall have all the characteristics and shall be in the form prescribed in the FORM OF BOND set forth in this Resolution, shall be in the same outstanding aggregate principal amount and shall have the same principal maturity date and bear interest at the same rate as the Bonds for which they are exchanged. The Board shall pay the Registrar's fees and charges, if any, for making such transfer and delivery of a substitute Bond, but the one requesting such transfer or conversion shall pay any taxes or other governmental charges required to be paid with respect thereto. The Registrar shall not be required to make any transfer of registration, conversion and exchange, or replacement (i) of any Bond or any portion thereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(c) If a portion of any Bond shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any Authorized Denomination requested by the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation, at the expense of the Board.

(d) In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Registrar shall cause to be printed, executed, and delivered a new Bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the Board and to the Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the Board and to the Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Registrar for cancellation the Bond so damaged or mutilated.

Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal or interest on the Bond, the Board may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this subsection.

Prior to the issuance of any replacement bond, the Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the Board whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Resolution equally and proportionately with any and all other Bonds duly issued under this Resolution.

(e) The Registrar shall convert and exchange or replace Bonds as provided herein, and each fully registered Bond delivered in conversion of and exchange for or replacement of any Bond or portion thereof as permitted or required

by any provision of this Resolution shall constitute one of the Bonds for all purposes of this Resolution, and may again be converted and exchanged or replaced. No additional ordinances, orders, or resolutions need be passed or adopted by the governing body of the Board or any other body or person so as to accomplish the foregoing conversion and exchange or replacement of any Bond or portion thereof. For purposes of Section 6 of article 717k-6, Texas Revised Civil Statutes Annotated, as amended, this Section of this Resolution shall constitute authority for the issuance of any substitute, exchange or replacement Bond hereunder without necessity of further action by the governing body of the Board or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect provided in this Resolution. Upon the execution of the Paying Agent/Registrar's Authentication Certificate appearing on any converted and exchanged or replaced Bond, the converted and exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the initial Bonds originally issued pursuant to this Resolution, approved by the Attorney General.

Section 2.10. CANCELLATION. All Bonds paid or redeemed in accordance with this Resolution, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance with this Resolution shall be cancelled by the Paying Agent/Registrar.

Section 2.11. TEMPORARY BONDS. Pending the preparation of definitive Bonds, the Board may execute and, upon the Board's request, the Paying Agent/Registrar shall authenticate and deliver, one or more temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any Authorized Denomination, substantially of the tenor of the definitive Bonds in lieu of which they are delivered, without coupons, with provision for registration and with such appropriate insertions, omissions, substitutions and other variations as the authorized officers of the Board executing such temporary Bonds may determine, as evidenced by their signing of such temporary Bonds.

Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the benefit and security of this Resolution. The Board, without unreasonable delay, shall prepare, execute and deliver to the Paying

Agent/Registrar, and thereupon, upon the presentation and surrender of the Bonds in temporary form to the Paying Agent/Registrar, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor Bonds of the same maturity, in definitive form, in Authorized Denominations, and in the same aggregate principal amount, as the Bonds in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any holder of Bonds.

Section 2.12. OWNERSHIP OF BONDS. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Resolution, whether or not such Bond shall be overdue, and the Board, the Paying Agent and the Registrar shall not be affected by any notice to the contrary. Payment of, or on account of, the principal of, premium, if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sums so paid.

Section 2.13. PAYING AGENT AND REGISTRAR; PAYING AGENT AGREEMENT. The appointment of MTrust Corp, National Association, Austin, Texas, as Paying Agent for the purpose of making the payments of principal of and interest on the Bonds, and as Registrar to keep the Registration Books and make transfers, exchanges and replacements of Bonds hereunder on behalf of the Board, is confirmed and ratified hereby. Pursuant to Article 717k-6, Texas Revised Civil Statutes Annotated, as amended, and particularly Section 6 thereof, the duty of conversion and exchange or replacement of Bonds as set forth in Section 2.09 hereof hereby is imposed upon the Registrar. The Paying Agent/Registrar shall perform such duties as are required of the Paying Agent and Registrar hereunder and under the Paying Agent Agreement. The Chairman of the Board, the Executive Secretary of the Board, the Executive Vice Chancellor for Asset Management of the System or the Manager of Special Investments and Financing hereby are authorized to execute and deliver on behalf of the Board the Paying Agent Agreement, in substantially the form and substance submitted at this meeting.

The Board hereby covenants with the registered owners of the Bonds that it will (i) pay the fees and charges, if any, of the Paying Agent/Registrar for its services with respect to the payment of the principal of and interest on the Bonds, when due, and (ii) pay the fees and charges, if

any, of the Paying Agent/Registrar for services with respect to the transfer of registration of Bonds, and with respect to the conversion and exchange of Bonds, but solely to the extent provided in this Resolution.

Section 2.14. SUBSTITUTE PAYING AGENT/REGISTRAR. The Board covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the Board will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent and Registrar for the Bonds under this Resolution, and that the Paying Agent and Registrar will be one entity. The Board reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Board covenants that it will promptly appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Resolution. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the Board. Upon any change in the Paying Agent/Registrar, the Board promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Resolution, and a certified copy of this Resolution shall be delivered to each Paying Agent/Registrar.

ARTICLE III

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS; ADDITIONAL PARITY BONDS AND NOTES

Section 3.01. SECURITY AND PLEDGE. Pursuant to the provisions of section 18 of article VII of the Texas Constitution, as amended, all the Bonds, and any Additional Parity Bonds and Notes hereafter issued, and the interest thereon,

shall be and are hereby equally and ratably secured, together with the Series 1985 Bonds by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund.

Section 3.02. PAYMENT OF BONDS AND ADDITIONAL PARITY BONDS AND NOTES. (a) The Comptroller of Public Accounts of the State of Texas previously has established and shall maintain in the State Treasury a fund to be known as "Board of Regents of The University of Texas System Permanent University Fund Bonds Interest and Sinking Fund." The Board and the officers of the System shall cause the Comptroller of Public Accounts of the State of Texas, in addition to taking the actions required by the Series 1985 Resolution to pay the Series 1985 Bonds, (i) to transfer to the Interest and Sinking Fund, out of The University of Texas System Available University Fund (the fund in the State Treasury to which is deposited the Interest of the System in the Available University Fund), on or before each date upon which principal of, premium, if any, or interest on the Bonds and the Additional Parity Bonds and Notes, when issued, is due and payable, and whether by reason of maturity or optional or mandatory redemption prior to maturity, and (ii) to withdraw from the Interest and Sinking Fund, and deposit with the Paying Agent/Registrar on or before each such date, the amounts of interest or principal, premium and interest which will come due on the Bonds and Additional Parity Bonds and Notes on each such date, and in such manner that such amounts, in immediately available funds, will be on deposit with the Paying Agent/Registrar on or before each such date.

(b) When Additional Parity Bonds or Notes are issued pursuant to the provisions of this Resolution or the Series 1985 Resolution, the Board, the officers of the System and the Comptroller of Public Accounts shall follow substantially the same procedures as provided above in connection with paying the principal of and interest on such Additional Parity Bonds or Notes when due; provided, however, that other and different banks or places of payment (paying agents) and Paying Agent and Registrars and dates and methods of payment and other procedures not in conflict with this Resolution may be named and provided for in connection with each issue of Additional Parity Bonds or Notes. In the event that any such Additional Parity Bonds or Notes are made redeemable prior to maturity, the resolution or resolutions authorizing the issuance of such Additional Parity Bonds or Notes shall prescribe the appropriate procedures for redeeming same.

Section 3.03. DISPOSITION OF FUNDS. After provision has been made for the payment of the principal of and interest on the Series 1985 Bonds, the Bonds and any Additional Parity Bonds and Notes, when issued, the balance of the Interest of the System in the Available University Fund each year shall be made available to the Board in the manner provided by law and by regulations of the Board to be used by the Board as it lawfully may direct.

Section 3.04. ADDITIONAL PARITY BONDS AND NOTES. The Board reserves the right and shall have full power at any time and from time to time, to authorize, issue, and deliver additional bonds and notes on a parity with the Bonds and the Series 1985 Bonds, in as many separate installments or series as deemed advisable by the Board, but only for the purposes and to the extent provided in article VII, section 18 of the Texas Constitution, as amended, or in any amendment hereafter made to said article VII, section 18 of the Texas Constitution, or for refunding purposes as provided by law. Such Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be equally and ratably secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund, in the same manner and to the same extent as are the Series 1985 Bonds and the Bonds issued pursuant to this Resolution, and the Bonds and the Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be on a parity and in all respects of equal dignity with each other and with the Series 1985 Bonds. It is further covenanted that no installment or series of Additional Parity Bonds or Notes shall be issued and delivered unless the Executive Vice Chancellor for Asset Management of the System, or some other officer of the System designated by the Board, executes:

(a) a certificate to the effect that for the fiscal year immediately preceding the date of said certificate the amount of the Interest of the System in the Available University Fund was at least 1-1/2 times the average annual Principal and Interest Requirements of the installment or series of Additional Parity Bonds or Notes then proposed to be issued and all then outstanding PUF Bonds that will be outstanding after the issuance and delivery of said proposed installment or series; and

(b) a certificate to the effect that the total principal amount of (i) all Bonds and Additional Parity Bonds and Notes and (ii) all other obligations of the

Board, including but not limited to the Series 1985 Bonds, that are secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund, that will be outstanding after the issuance and delivery of the installment or series of Additional Parity Bonds or Notes then proposed to be issued will not exceed 20% of the cost value of investments and other assets of the Permanent University Fund (exclusive of real estate) at the time the proposed series or installment of Additional Parity Bonds or Notes is issued.

For purposes of calculating the Principal and Interest Requirements under this section with respect to any obligations of the Board bearing interest at interest rates that are variable or adjustable, the "maximum rate then permitted by law," for purposes of the definition of "Principal and Interest Requirements" set forth in Section 1.01 hereof, shall be deemed to be the maximum "net effective interest rate" permitted under article 717k-2, Texas Revised Civil Statutes Annotated, as such article may be amended from time to time, or such other maximum interest rate permitted to be borne by such obligations by then-applicable law. In addition, for purposes of this Resolution, including but not limited to subsection 3.04(b) above, any obligation of the Board that is payable from amounts appropriated, pursuant to article VII, section 18 of the Texas Constitution, as amended, including any amendment hereafter made to said article VII, section 18 of the Texas Constitution, for the support and maintenance of The University of Texas at Austin or System administration does not and shall not constitute an obligation secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund.

ARTICLE IV

REMEDIES

Section 4.01. REMEDIES. Any owner or holder of any of the Bonds or Additional Parity Bonds or Notes, when issued, in the event of default in connection with any covenant contained herein, or default in the payment of said obligations, or of any interest due thereon, shall have the right to institute mandamus proceedings against the Board or any other necessary or appropriate party for the purpose of enforcing payment from the moneys herein pledged or for enforcing any covenant herein contained.

ARTICLE V

GENERAL COVENANTS OF THE BOARD

Section 5.01. GENERAL COVENANTS OF THE BOARD. The Board covenants and agrees, in addition to the other covenants of the Board hereunder, as follows:

(a) That while any PUF Bonds are outstanding and unpaid the Board will maintain and invest and keep invested the Permanent University Fund in a prudent manner and as required by law;

(b) That the Board will restrict expenditures for administering the Permanent University Fund to a minimum consistent with prudent business judgment;

(c) That the Board duly and punctually will pay or cause to be paid the principal of every PUF Bond, when issued, and the interest thereon, from the sources, on the days, at the places, and in the manner mentioned and provided in such obligations, according to the true intent and meaning thereof, and that it will duly cause to be called for redemption prior to maturity, and will cause to be redeemed prior to maturity, all PUF Bonds, when issued, that by their terms are required to be redeemed mandatorily prior to maturity, when and as so required, and that it faithfully will do and perform and at all times will observe fully all covenants, undertakings and provisions contained in this Resolution and in the aforesaid obligations;

(d) That, except for the PUF Bonds, and the interest thereon, the Board will not at any time create or allow to accrue or exist any lien or charge upon the Permanent University Fund or the Interest of the System in the Available University Fund, unless such lien or charge is made junior and subordinate in all respects to the liens, pledges, and covenants in connection with the PUF Bonds, but the right to issue junior and subordinate lien obligations payable from the Interest of the System in the Available University Fund is specifically reserved by the Board; and that the lien created by this Resolution will not be impaired in any manner as a result of any action or non-action on the part of the Board or officers of the System, and the Board will, subject to the provisions hereof, continuously preserve the Permanent University Fund and each and every part thereof; and

(e) That proper books of records and accounts will be kept in which true, full, and correct entries will be made of all income, expenses, and transactions of and in relation to the Permanent University Fund and each and every part thereof in accordance with accepted accounting practices, and that as soon after the close of each fiscal year (September 1 to August 31, inclusive) as reasonably may be done the Board will furnish to all bondholders and owners who may so request, such audits and reports by the State Auditor of Texas for the preceding fiscal year, concerning the Permanent University Fund, the Interest of the System in the Available University Fund and the PUF Bonds, as the State Auditor of Texas is required by applicable law to prepare and distribute.

ARTICLE VI

PROVISIONS CONCERNING FEDERAL INCOME TAX EXCLUSION

Section 6.01. GENERAL TAX COVENANT. The Board intends that the interest on the Bonds shall be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Code, and applicable regulations. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the Board covenants and agrees to comply with each requirement of this Article VI; provided, however, that the Board shall not be required to comply with any particular requirement of this Article VI if the Board has received a Counsel's Opinion that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the Board has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this Article VI will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in this Article VI.

Section 6.02. USE OF PROCEEDS. The Board covenants and agrees that its use of the Net Proceeds of the Bonds and the Refunded Notes will at all times satisfy the requirements set forth in this Section. When used in this Article VI, the term Net Proceeds, when used with respect to the

Bonds or the Refunded Notes, shall mean the proceeds from the sale of the Bonds or the Refunded Notes, as the case may be, including investment earnings on the proceeds of such issue, less accrued interest with respect to such issue.

(a) The Board will use all of the Net Proceeds of the Bonds to pay the principal of or interest and premium, if any, on the Refunded Notes. The Board has limited and will limit the amount of original or investment proceeds of the Refunded Notes to be used (other than use as a member of the general public) in the trade or business of any person other than a governmental unit to an amount aggregating no more than ten percent of the Net Proceeds of the Refunded Notes ("private-use proceeds"). For purposes of this Section, the term "person" includes any individual, corporation, partnership, unincorporated association, or any other entity capable of carrying on a trade or business; and the term "trade or business" means, with respect to any natural person, any activity regularly carried on for profit and, with respect to persons other than natural persons, any activity other than an activity carried on by a governmental unit. Any use of proceeds of the Refunded Notes or the Bonds in any manner contrary to the guidelines set forth in Revenue Procedures 82-14, 1982-1 C.B. 459, and 82-15, 1982-1 C.B. 460, including any revisions or amendments thereto, shall constitute the use of such proceeds in the trade or business of one who is not a governmental unit.

(b) The Board has not permitted and will not permit more than five percent of the Net Proceeds of the Refunded Notes to be used in the trade or business of any person other than a governmental unit if such use is unrelated to the governmental purpose of the Refunded Notes. Further, the amount of private-use proceeds of the Refunded Notes in excess of five percent of the Net Proceeds of the Refunded Notes ("excess private-use proceeds") did not and will not exceed the proceeds of the Refunded Notes expended for the governmental purpose of the Refunded Notes to which such excess private-use proceeds relate.

(c) The Board has not permitted and will not permit an amount of proceeds of the Refunded Notes exceeding the lesser of (i) \$5,000,000 or (ii) five percent of the net proceeds of the Refunded Notes to be used, directly or indirectly, to finance loans to persons other than governmental units.

(d) The Board covenants and agrees that the Board of Regents of The University of Texas System Series A Note

Construction Account established under the resolution adopted by the Board authorizing the issuance of the Refunded Notes will be maintained in accordance with the requirements of such resolution until all amounts on deposit therein as of the date of issuance of the Bonds, and any investment earnings thereon, have been expended for costs and expenses incurred in relation to the acquisition of land either with or without permanent improvements, the construction and equipping of buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, the acquisition of capital equipment and library books and library materials (but not including the construction, equipping, repairing or rehabilitating of buildings or other permanent improvements that are to be used for student housing, intercollegiate athletics or auxiliary enterprises), and that such amounts on shall not be used for any other purposes whatsoever, except as provided in this subsection. Any such amounts remaining in such Series A Note Construction Account not necessary for the payment of such costs and expenses shall be applied as required under such resolution or, in the event that no obligations of the Board are outstanding under such resolution at the time of such application, shall be transferred to the Interest and Sinking Fund. All amounts on deposit in such Series A Note Construction Account that are attributable to the Refunded Notes shall be invested at a yield not in excess of the yield on the Bonds, to the extent required by Treasury Regulations Section 1.103-14(e).

Section 6.03. NO FEDERAL GUARANTY. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and applicable regulations thereunder, except as permitted by section 149(b)(3) of the Code and such regulations.

Section 6.04. NO-ARBITRAGE COVENANT. The Board shall certify, through an authorized officer, employee or agent, that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the Board will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder. Moreover, the Board covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond

proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder.

Section 6.05. ARBITRAGE REBATE. The Board will take all necessary steps to comply with the requirement that certain amounts earned by the Board on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the Board will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the Board allocable to other bond issues of the Board or moneys that do not represent gross proceeds of any bonds of the Board, (ii) calculate at such times as are required by applicable regulations, the amount earned from the investment of the gross proceeds of the Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds, all amounts required to be rebated to the federal government. Further, the Board will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a "prohibited payment" within the meaning of Temp. Treas. Reg. §1.103-15AT.

Section 6.06. INFORMATION REPORTING. The Board covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and applicable regulations thereunder.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.01. INDIVIDUALS NOT LIABLE. All covenants, stipulations, obligations, and agreements of the Board contained in this Resolution shall be deemed to be covenants, stipulations, obligations, and agreements of the

System and the Board to the full extent authorized or permitted by the Constitution and laws of the State of Texas. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the Board or agent or employee of the Board in his individual capacity and neither the members of the Board nor any officer thereof shall be liable personally on the Bonds or Additional Parity Bonds or Notes when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 7.02. DEFEASANCE OF BONDS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of this Resolution, except to the extent provided in subsection (c) of this Section, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with the Paying Agent/Registrar for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the Interest of the System in the Available University Fund, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding for the purposes of Section 3.04 hereof or any other purpose.

(b) Any moneys so deposited with or made available to the Paying Agent/Registrar also may be invested at the written direction of the Board in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by

the Paying Agent/Registrar that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board, or deposited as directed in writing by the Board.

(c) Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Board shall make proper arrangements to provide and pay for such services as required by this Resolution.

Section 7.03. AMENDMENT OF RESOLUTION. (a) The owners of PUF Bonds aggregating 51% in principal amount of the aggregate principal amount of then-outstanding PUF Bonds shall have the right from time to time to approve any amendment to any resolution authorizing the issuance of PUF Bonds that may be deemed necessary or desirable by the Board; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the outstanding PUF Bonds, the amendment of the terms and conditions in said resolutions or in any PUF Bond so as to:

- (1) Make any change in the maturity of the outstanding PUF Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding PUF Bonds;
- (3) Reduce the amount of the principal payable on the outstanding PUF Bonds;
- (4) Modify the terms of payment of principal or interest on the outstanding PUF Bonds, or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the PUF Bonds then outstanding; or
- (6) Change the minimum percentage of the principal amount of PUF Bonds necessary for consent to such amendment.

(b) If at any time the Board shall desire to amend a resolution under this Section, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New

York, once during each calendar week for at least two successive calendar weeks. Such notice shall set forth briefly the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each Paying Agent/Registrar for the PUF Bonds for inspection by all owners of PUF Bonds. Such publication is not required, however, if notice in writing is given to each owner of PUF Bonds.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the Board shall receive an instrument or instruments executed by the owners of at least 51% in aggregate principal amount of all PUF Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Board may adopt the amendatory resolution in substantially the same form.

(d) Upon the adoption of any amendatory resolution pursuant to the provisions of this Section, the resolution being amended shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Board and all the owners of then outstanding PUF Bonds and all future PUF Bonds thereafter shall be determined, exercised, and enforced hereunder, subject in all respects to such amendment.

(e) Any consent given by the owner of a PUF Bond pursuant to the provision of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same PUF Bond during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar for such PUF Bonds and the Board, but such revocation shall not be effective if the owners of 51% in aggregate principal amount of the then-outstanding PUF Bonds as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) For the purpose of this Section the ownership and other matters relating to all PUF Bonds shall be determined

from the registration books kept for such bonds by the respective paying agent/registrar therefor.

Section 7.04. SALE OF BONDS. The Bonds are hereby sold and shall be delivered to Marine Midland Bank, N.A., as the initial purchaser thereof for cash for the par value thereof and accrued interest thereon to the date of delivery, plus a premium of \$7,395.00. It is officially found, determined and declared hereby that the Bonds have been sold at public sale to the bidder offering the lowest interest cost, after receiving sealed bids pursuant to an Official Notice of Sale and Official Bid Form and a Preliminary Official Statement dated April 1, 1988 prepared and distributed by the Board in connection with the sale of the Bonds. Such Official Notice of Sale and Official Bid Form, the Preliminary Official Statement, the Official Statement dated April 14, 1988 and any addenda, supplements or amendments thereto have been and are approved by the Board hereby. The use of the Official Statement in the reoffering of the initial Bonds or any portion thereof or any Bond issued in substitution and exchange therefor is approved hereby. It further is officially found, determined and declared that the statements and representations contained in such Official Statement are true and correct in all material respects, to the best knowledge and belief of the Board.

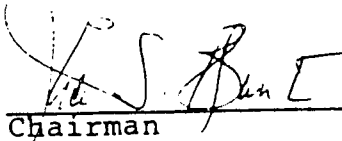
Section 7.05. REFUNDING OF REFUNDED BONDS. Concurrently with the delivery of the Bonds to the initial purchaser thereof, the Board shall deposit with Morgan Guaranty Trust Company of New York, New York, New York, as paying agent and place of payment for the Refunded Notes, an amount from the proceeds from the sale of the Bonds and other funds of the Board available for such purpose sufficient to pay in full the principal of and the interest accruing on all the outstanding Refunded Notes to the date of their redemption, which shall be no later than the scheduled interest payment date next succeeding the issuance and delivery of the Bonds to the initial purchaser thereof, in accordance with section 7A of article 717k, Texas Revised Civil Statutes Annotated, as amended, and the applicable sections of article 717q, Texas Revised Civil Statutes Annotated, as amended. The Board hereby authorizes and directs the Chairman of the Board, the Executive Secretary of the Board, the Executive Vice Chancellor for Asset Management or the Manager of Special Investments and Financing of the System, for and on behalf of the Board, to sign, seal and otherwise execute and deliver such notices, instructions, certificates, instruments and other documents as may be necessary or convenient

to accomplish the refunding of the Refunded Notes as set forth herein and in accordance with their terms. It is hereby found and determined that the refunding of the Refunded Notes is advisable and necessary in order to restructure the debt service requirements and procedures of the Board so as to fix the borrowing costs of the Board for financing the facilities financed through the issuance of the Refunded Notes for the long term at favorable rates.

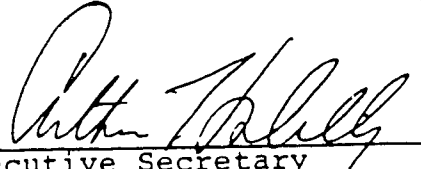
Section 7.06. FURTHER PROCEDURES. The Chairman of the Board, the Executive Secretary of the Board, the Executive Vice Chancellor for Asset Management of the System, the Vice Chancellor and General Counsel of the System and the Manager of Special Investments and Financing of the System, and all other officers, employees, and agents of the Board, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the seal and on behalf of the Board all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Resolution, the Bonds, the Official Statement for the Bonds and the Paying Agent Agreement. In case any officer whose signature appears on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if he or she had remained in office until such delivery.

ADOPTED AND APPROVED this the 14th day of April, 1988.

Attest:



Chairman
Board of Regents of
The University of Texas System



Executive Secretary
Board of Regents of
The University of Texas System

{SEAL}

UTPUF/02

RECESS FOR COMMITTEE MEETINGS AND COMMITTEE REPORTS TO THE BOARD.--At 1:45 p.m., the Board recessed for the meetings of the Standing Committees and Chairman Blanton announced that at the conclusion of each committee meeting, the Board would reconvene to approve the report and recommendations of that committee.

The meetings of the Standing Committees were conducted in open session and the reports and recommendations thereof are set forth on the following pages.

REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES

REPORT OF EXECUTIVE COMMITTEE (Pages 43 - 44).--In compliance with Section 7.14 of Chapter I of Part One of the Regents' Rules and Regulations, Chairman Blanton reported to the Board for ratification and approval all actions taken by the Executive Committee since the last meeting. Unless otherwise indicated, the recommendations of the Executive Committee were in all things approved as set forth below:

1. U. T. Arlington: Acceptance of Gifts from Mr. W. A. "Tex" Moncrief, Jr., Fort Worth, Texas, and the O'Donnell Foundation, Dallas, Texas, and Establishment of the Moncrief - O'Donnell Chair for the Automation and Robotics Research Institute (ARRI) (Exec. Com. Letter 88-15).--The Board, upon recommendation of the Executive Committee, accepted a \$250,000 gift from Mr. W. A. "Tex" Moncrief, Jr., Fort Worth, Texas, and a \$250,000 gift from the O'Donnell Foundation, Dallas, Texas, for a total of \$500,000 and established the Moncrief - O'Donnell Chair for the Automation and Robotics Research Institute (ARRI) at The University of Texas at Arlington.

Income earned from the endowment will be used to support a chair in the area of artificial intelligence.

On behalf of the Board, Chairman Blanton expressed appreciation to Regent Moncrief for this very significant gift and for his most generous and continuing support of the component institutions of The University of Texas System.

2. U. T. Austin - Expansion of Physical Plant Facilities, Phase I (Project No. 102-454): Award of Contract for Furniture and Furnishings to C. P. Snider Construction Company, Austin, Texas, and Authorization for the Chancellor to Sign the Contract (Exec. Com. Letter 88-16).--Upon recommendation of the Executive Committee, the Board awarded a contract for furniture and furnishings for the Expansion of Physical Plant Facilities, Phase I at The University of Texas at Austin to the lowest responsible bidder, C. P. Snider Construction Company, Austin, Texas, for Base Proposal "A" (Movable Partition System) in the amount of \$55,688.00.

Further, the Chancellor was authorized to sign the contract awarding this bid based on the results of the Executive Committee circularization.

3. U. T. El Paso - Institute for Advanced Manufacturing in El Paso (IAMEP): Approval to Redesignate as the Institute for Manufacturing and Materials Management (IMMM) (Exec. Com. Letter 88-16).--At its August 1986 meeting, the U. T. Board of Regents approved, in concept, the establishment of an Institute for Advanced Manufacturing in El Paso (IAMEP) and authorized a fund-raising campaign in conjunction with The University of Texas at

El Paso's 75th anniversary celebration for the purpose of raising private funds to support establishment and operation of this Institute. As the concept of the Institute evolved, it was determined that a title with an emphasis solely on advanced manufacturing was clearly too narrow.

In order to more accurately reflect the evolution of the Institute's role as a partner in fostering the economic development of the El Paso region, the Board, upon recommendation of the Executive Committee, redesignated the Institute for Advanced Manufacturing in El Paso at U. T. El Paso as the Institute for Manufacturing and Materials Management (IMMM).

It was noted that this expansion of concept will enhance the funding appeal for the Institute.

4. U. T. San Antonio: Approval to Name the Flagpole Area at the U. T. Institute of Texan Cultures - San Antonio the H. B. Zachry Plaza (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.2, Naming of Facilities Other Than Buildings) (Exec. Com. Letter 88-16).--The Board, upon recommendation of the Executive Committee, named the flagpole area in front of The University of Texas Institute of Texan Cultures at San Antonio the H. B. Zachry Plaza in accordance with the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.2, relating to the naming of facilities other than buildings.

The naming of this Plaza is in tribute to Mr. H. B. Zachry, who was a great friend and benefactor of the Institute with both dollar and in-kind contributions.

5. U. T. Medical Branch - Galveston - Administration Annex II Renovation (Project No. 601-615): Award of Construction Contract to Lebco Constructors, Inc., Houston, Texas (Exec. Com. Letter 88-14).--The Board awarded a construction contract for the Administration Annex II Renovation at The University of Texas Medical Branch at Galveston to the lowest responsible bidder, Lebco Constructors, Inc., Houston, Texas, for the Base Bid and Alternate Bid Item Nos. 1, 2, 3, 4, 5, 6, 7 and 8, in the amount of \$2,540,550.

This project was approved by the Texas Higher Education Coordinating Board in July 1986 and is funded from U. T. Medical Branch - Galveston Unappropriated Balances.

6. U. T. Medical Branch - Galveston - New Parking Structures (Project No. 601-670): Award of Construction Contract to Manhattan Construction Company, Houston, Texas (Exec. Com. Letter 88-17).--Upon recommendation of the Executive Committee, the Board awarded a construction contract for the New Parking Structures at The University of Texas Medical Branch at Galveston to the lowest responsible bidder, Manhattan Construction Company, Houston, Texas, for the Base Bid and Alternate Bid Item Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10, in the amount of \$5,424,000.

This project was approved by the Texas Higher Education Coordinating Board in December 1987.

REPORT AND RECOMMENDATIONS OF THE FINANCE AND AUDIT COMMITTEE (Pages 45 - 49).--Committee Chairman Roden reported that the Finance and Audit Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Finance and Audit Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. System: Approval of Docket No. 39 of the Office of the Chancellor (Catalog Change).--Upon recommendation of the Finance and Audit Committee, the Board approved Docket No. 39 of the Office of the Chancellor in the form distributed by the Executive Secretary. It is attached following Page 248 in the official copies of the Minutes and is made a part of the record of this meeting.

It was expressly authorized that any contracts or other documents or instruments approved therein had been or shall be executed by the appropriate officials of the respective institution involved.

It was ordered that any item included in the Docket that normally is published in the institutional catalog be reflected in the next appropriate catalog published by the respective institution.

Regents Hay and Ratliff abstained from voting on items within the Docket related to Exxon Corporation due to a possible conflict of interest. Regent Ratliff also abstained from matters related to Southwest Texas Electric Cooperative for the same reason.

Regent Yzaguirre abstained from voting on the U. T. Medical Branch - Galveston Docket item regarding contracts related to the Community Oriented Primary Care Demonstration Project (CO-PRIMA) due to a possible conflict of interest.

2. U. T. System: Authorization to Implement a Flexible Benefits Program (UTFLEX) for Employees Effective September 1, 1988.--In accordance with Sections 125 and 129 of the Internal Revenue Code (IRC) and upon recommendation of the Finance and Audit Committee, authorization was granted to implement a flexible benefits program (UTFLEX) for employees of The University of Texas System effective September 1, 1988, which will permit employees to choose among certain nontaxable benefits. The source of funds for UTFLEX will be employee contributions by means of a salary redirection agreement entered into between plan participants and the U. T. System. These contributions are considered employer funds for accounting, administrative and tax purposes.

The flexible benefits plan to be offered to employees contains three major categories of available benefit options:

- a. Insurance Premium Redirection Account

This account will allow eligible participants to enter into salary redirection agreements with the U. T. System for the payment of insurance premiums in excess of State premium

sharing (\$115 effective September 1, 1988). Contributions made under this account will be considered on a pretax basis. The insurance premium redirection account may be used in conjunction with medical and HMO coverage, the first \$50,000 of employee life insurance, dependent life insurance, accidental death and dismemberment insurance, disability insurance and dental insurance.

b. Medical Expense Reimbursement Account

This account will allow eligible participants to elect to have a portion of their annual compensation redirected through UTFLEX to cover medical expenses which are not otherwise covered by the group health insurance plan or the various health maintenance organizations approved by the U. T. System. Employee funds used to pay these expenses will thus be treated as pretax dollars. Noncovered medical expenses include, but are not limited to, items such as: group health insurance deductibles and coinsurance features, eyeglasses, and spouse or dependent insurance premiums for medical insurance coverage not associated with U. T. System employment. There will be a minimum \$15 per month contribution requirement and participants will be permitted to contribute up to a maximum of \$5,000 per plan year to the medical expense reimbursement account.

c. Dependent Care Reimbursement Account

This account will allow eligible participants to pay for those monthly expenses associated with day care programs for children under 15 and for certain mentally or physically handicapped dependents of any age on a pretax basis. Applicable IRS regulations limit yearly dependent care contributions to \$5,000 (\$2,500 for married taxpayers filing separately). As in the medical expense reimbursement account, a minimum \$15 monthly contribution will be required. The plan will limit reimbursement to eligible participants rather than permitting payment to day care vendors.

With regard to the plan design in general, the following requirements are to be included:

- a. The plan year has been defined as September 1 through August 31.
- b. The salary redirection agreement is to be effective for the duration of each plan year, must be irrevocable during the plan year and may be renewed at the beginning of subsequent plan years.
- c. All insurance eligible employees are eligible to participate in the flexible benefits plan.
- d. Changes during any given plan year are not allowed except for certain legally defined family status changes.
- e. Funds allocated for use by participants for a specific benefit plan, but remaining unspent at the end of the plan year, are forfeited to the UTFLEX program.

- f. No individual account benefits are payable if individual account balances fall below zero.
- g. Participation in UTFLEX is permissible without health plan coverage.
- h. Claims may be submitted at any time; claims will be paid two times per month.
- i. A minimum claims payment is scheduled at \$25.
- j. Claims under the medical expense reimbursement account must be submitted on or before December 31 following each plan year to be considered timely.
- k. There is a 60-day sign-up period for new employees with an effective date as of the effective date of premium payment.
- l. Annual enrollment of active employees in the plan must be accomplished by the payroll cut-off date for the month of September to ensure a September 1 effective date of participation.
- m. For salary contributions to be tax exempt, salary redirection agreements and elections must be made in advance of earnings.
- n. Participation in the insurance premium redirection account will be mandatory for all eligible employees enrolled in group insurance plans or an HMO effective September 1, 1988.

A primary benefit of these plans to the employer is that the level of reportable wages subject to FICA (Social Security) taxes can be reduced, resulting in considerable savings through reduced contributions to FICA. Of additional benefit to employers is the fact that the offering of such plans will not result in added payroll-related costs above and beyond identifiable costs associated with administration.

An operational administrator for the program will be determined at a future date and the plan will be described to potential enrollees in a summary document which will include the basic rules regarding plan eligibility and procedures for making elections under UTFLEX.

- 3. U. T. System: Amendments to Qualifications for Commissioned Law Enforcement Personnel.--To comply with recent changes in State law and rules promulgated by the Texas Commission on Law Enforcement Officers Standards and Education (TCLEOSE), the Resolution adopted by the U. T. Board of Regents on December 6, 1985, regarding the age and educational requirements for commissioned law enforcement personnel in The University of Texas System was amended as follows:
 - II. The applicant must have reached his or her 21st birthday but not his or her 45th birthday ON DATE OF COMMISSIONING.
 - III. The applicant for admission to the U. T. System Police Academy must have a high school diploma or a GED, and must have a minimum of sixty (60) semester college hours. The applicant who has reached his or her 21st birthday

on the date of commissioning may fulfill this college requirement by substituting two years of continuous employment as a police guard for a component institution within the U. T. System.

4. U. T. System: Approval of Policies for Preparation of Legislative Budget Requests for the 1990-1991 Biennium.-- Upon recommendation of the Finance and Audit Committee, the Board approved the following Budget Policies for use in preparing the Legislative Budget Requests for the 1990-1991 Biennium for The University of Texas System. In accordance with Section 61.059 of the Texas Education Code as amended by Section 3.01 of Article 3, H. B. 2181, 70th Legislature, Second Called Session, the formulas (including salary increase recommendations) approved by the Texas Higher Education Coordinating Board serve as the basis for these policies for requesting legislative appropriations.

Policies for Preparing Legislative Budget Requests
for the Biennium 1990-1991

In preparing the Legislative Budget Requests for the biennium beginning September 1, 1989, the instructions issued by the Texas Higher Education Coordinating Board, the Legislative Budget Board and the Governor's Budget and Planning Office are to be used as specific guidelines. In the interest of uniformity and similar treatment, the following additional policies and limitations shall be observed relating to areas not funded by formula or otherwise covered by the above-mentioned instructions:

a. Salary Advances for Faculty and Professional Staff

Funds may be requested to grant merit salary increases for 1990 of 10.1% over 1989 Budget and an additional 10.1% in 1991 over 1990 Requested.

b. Salary Advances for Classified Personnel

Funds may be requested to provide for a 10.1% increase for 1990 over 1989 Budgeted amounts and an additional 10.1% increase in 1991 over 1990 Requested amounts. In addition, requests may include sufficient funds for a 3.4% merit increase for approximately one-half of all employees each year.

c. New Positions

All requests for new positions must be based on new or expanded programs or on improvements in existing programs and be fully justified.

d. Maintenance, Operation and Equipment

The general guidelines for requesting funds for this item should be for an increase up to 5.2% in 1990 over 1989 Budget plus an additional 5.2% increase in 1991 over 1990 Requested. In limited situations such as scientific equipment, medical supplies, and like items, in which price escalation or other factors make the above limitations totally impractical, actual needs must

be the basis for the request. In these situations the variance from the general standard stated above must be carefully justified.

e. Utilities

Requests for Purchased Utilities are to be based on projected needs using the best available rate estimates, carefully documented.

f. Employee Insurance Premiums

For Level 2 use \$150 per month in 1990 and \$200 per month in 1991 for each person in requesting funds for payment of the State's contribution toward the cost of insurance premiums. Eligible employees are those covered under provisions of the Texas State College and University Employees Uniform Insurance Benefits Act.

g. Special Items

Funds may be requested to support items which are peculiar to the particular institution and which are not otherwise included in other specific "Elements of Institutional Costs." Support for these special items must be fully justified.

1990-1991 LEGISLATIVE BUDGET CALENDAR

April 14, 1988	U. T. Board of Regents' Approval of Policies
May 31, 1988	Ten draft copies of Legislative Budget Requests (bound) due to System Administration
June 13-22, 1988	Budget Hearings with System Administration
June 27, 1988	Thirty-five copies of First Submission Legislative Budget Requests (unbound) due to System Administration for binding
July 1, 1988	Filing Date - First Submission of Legislative Budget Requests
August - September	Hearings with staffs of Legislative Budget Board and Governor's Office of Management and Budget
September 26, 1988	Forty copies of Second Submission Legislative Budget Requests (unbound) due to System Administration for binding
October 3, 1988	Filing Date - Second Submission of Legislative Budget Requests

REPORT AND RECOMMENDATIONS OF THE ACADEMIC AFFAIRS COMMITTEE (Pages 50 - 70).--Committee Chairman Baldwin reported that the Academic Affairs Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Academic Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Arlington: Approval to Increase the Compulsory Student Services Fee Effective with the Fall Semester 1988 (Catalog Change).--The Board, upon recommendation of the Academic Affairs Committee, approved an increase in the Compulsory Student Services Fee at The University of Texas at Arlington from \$6.50 per semester credit hour, with a maximum of \$78, to \$7 per semester credit hour, with a maximum of \$84 for any one regular long session or eleven week summer session and from \$3.25 to \$3.50 per semester credit hour, with a maximum of \$42 for a summer short session, to be effective with the Fall Semester 1988.

It was ordered that the next appropriate catalog published at U. T. Arlington be amended to conform to this action.

2. U. T. Austin: Approval of an Exception to Part One, Chapter III, Section 31, Subsection 31.1 of the Regents' Rules and Regulations (Retirement and Modified Service) to Allow Full-Time Employment of Dr. Enrique Anderson-Imbert for the 1988-89 Fall Semester Only.--Upon recommendation of the Academic Affairs Committee, an exception was made to Part One, Chapter III, Section 31, Subsection 31.1 of the Regents' Rules and Regulations, relating to retirement and modified service, to permit the full-time employment beyond the mandatory retirement age of Dr. Enrique Anderson-Imbert, Professor Emeritus of Harvard University, at The University of Texas at Austin for the 1988-89 Fall Semester only.

Dr. Anderson-Imbert, who is 78, will be a Visiting Professor in the Department of Spanish and Portuguese at U. T. Austin.

3. U. T. Austin: Proposed Appointment to the Third Sid W. Richardson Foundation Regents Chair in Mathematics in the College of Natural Sciences Effective September 1, 1988 (Withdrawn).--The item related to a proposed appointment to the Third Sid W. Richardson Foundation Regents Chair in Mathematics in the College of Natural Sciences at The University of Texas at Austin to be effective September 1, 1988, was withdrawn.

4. U. T. Austin: Appointment of (a) Dr. James Duban to the William David Blunk Memorial Professorship; (b) Dr. Harvey M. Sussman as Initial Holder of the R. P. Doherty, Sr. Centennial Professorship in Communication in the College of Communication; (c) Dr. James O. Jirsa to the Janet S. Cockrell Centennial Chair in Engineering in the College of Engineering; (d) Mr. Robert S. Strauss to the Lloyd M. Bentsen, Jr. Chair in Government/Business Relations in the Lyndon B. Johnson School of Public Affairs; (e) Dr. Standish Meacham, Jr. as Initial Holder of the Alice Jane Drysdale Sheffield Regents Professorship in History in the College of Liberal Arts; (f) Dr. Roger E. Scrutton as Initial Holder of the Getty Oil Company Centennial Chair in Geological Sciences in the College of Natural Sciences and (g) Dr. Beverly M. Henry to the James R. Dougherty, Jr. Centennial Professorship in Nursing Service Administration in the School of Nursing Effective as Indicated.--The Academic Affairs Committee recommended and the Board approved the following appointments to endowed academic positions at The University of Texas at Austin effective September 1, 1988, unless otherwise indicated:

- a. Dr. James Duban, Associate Professor of English, to the William David Blunk Memorial Professorship for the 1988-89 academic year only
- b. Dr. Harvey M. Sussman, Professor, Departments of Speech Communication and Linguistics, as initial holder of the R. P. Doherty, Sr. Centennial Professorship in Communication in the College of Communication
- c. Dr. James O. Jirsa, Phil M. Ferguson Professor in Civil Engineering and Director of the Phil M. Ferguson Structural Engineering Laboratory, to the Janet S. Cockrell Centennial Chair in Engineering in the College of Engineering

Dr. Jirsa will relinquish the Phil M. Ferguson Professorship in Civil Engineering on the effective date of the new appointment.
- d. Mr. Robert S. Strauss, Visiting Professor, reappointed to the Lloyd M. Bentsen, Jr. Chair in Government/Business Relations in the Lyndon B. Johnson School of Public Affairs for the 1987-88 Spring Semester only effective immediately
- e. Dr. Standish Meacham, Jr., Professor and Chairman of the Department of History, as initial holder of the Alice Jane Drysdale Sheffield Regents Professorship in History in the College of Liberal Arts
- f. Dr. Roger E. Scrutton, Lecturer in Applied Geology, University of Edinburgh, Scotland, as initial holder of the Getty Oil Company Centennial Chair in Geological Sciences in the College of Natural Sciences for the 1988 Fall Semester only

Dr. Scrutton's appointment as Visiting Professor in the Department of Geological Sciences will be effective September 1, 1988.

- g. Dr. Beverly M. Henry, Associate Professor, College of Nursing at the University of Florida, Gainesville, Florida, to the James R. Dougherty, Jr. Centennial Professorship in Nursing Service Administration in the School of Nursing.

Dr. Henry's appointment as Professor in the School of Nursing will be effective September 1, 1988.

5. U. T. Austin: Approval to Name (a) New Joint Men's and Women's Academic Center in L. Theo Bellmont Hall the D. X. Bible Academic Center and (b) Concert Hall of the Performing Arts Center the Nancy Lee and Perry R. Bass Concert Hall (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.2, Naming of Facilities Other Than Buildings).--Approval was given to name the following facilities at The University of Texas at Austin in accordance with the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.2, relating to the naming of facilities other than buildings:

- a. The new joint men's and women's academic center in L. Theo Bellmont Hall as the D. X. Bible Academic Center

The naming of this Center is in memory of Mr. D. X. Bible, head football coach at U. T. Austin from 1937-1946, who died in 1980.

The D. X. Bible Academic Center will provide a central tutoring location for athletes, especially high risk athletes, and will include study carrels, soundproof study areas, computer stations and a small library.

- b. The concert hall of the Performing Arts Center as the Nancy Lee and Perry R. Bass Concert Hall.

The concert hall is being named to recognize Mr. and Mrs. Perry R. Bass' numerous contributions to U. T. Austin and for their continuing support and understanding of many program areas at the University.

6. U. T. Austin: Approval to Increase Parking and Traffic Enforcement Fees Effective with the Fall Semester 1988 (Catalog Change).--The Board approved increases in The University of Texas at Austin parking and traffic enforcement fees effective with the Fall Semester 1988 as set forth below:

	<u>1988-89 Fees</u>
Category 1 (Parking in reserved or handicapped spaces)	\$50
Category 2 (Speeding, permit misuse, ignoring traffic controls and related violations)	25
Category 3 (Illegal or improper parking violations)	15
Category 4 (Miscellaneous violations)	10

Late charges regarding enforcement of parking and traffic fees were increased from \$2 and \$3 to \$5.

More detailed descriptions of traffic violations and enforcement fees in each category are included in U. T. Austin's April 1988 institutional Docket, Section VII, Driving and Parking Offenses.

These increases in traffic enforcement fees are in concert with the City of Austin charges as well as in recognition that higher charges do deter people from violating the parking rules. The increased revenues will help offset rising costs and place enforcement costs on violators versus the permit holder only.

It was ordered that the next appropriate catalog and Parking and Traffic Regulations and Information brochures published at U. T. Austin be amended to conform to this action.

7. U. T. Austin: Approval of Amendments to Declaration of Trust with the Board of Operating Trustees of Texas Student Publications.--Upon recommendation of the Academic Affairs Committee, the Board approved amendments to Paragraphs 5 A, 5 B, 5 C, 11 and 17 of the Declaration of Trust with the Board of Operating Trustees of Texas Student Publications at The University of Texas at Austin.

The amendments to the foregoing referenced paragraphs will allow a broader group of students and faculty to be eligible for membership on Texas Student Publication's Board of Operating Trustees and allow a larger segment of the student body to be eligible to vote on the membership.

It was reported that the next appropriate Handbook of Operating Procedures published at U. T. Austin will be amended to reflect this action.

The Declaration of Trust, as amended, is set forth below in its entirety:

DECLARATION OF TRUST
with Board of Operating Trustees of
Texas Student Publications
(All amendments through April 1988)

Texas Student Publications, Inc., acting by and through the undersigned as officers and directors, and the undersigned as officers and directors hereby convey, assign and transfer all assets of Texas Student Publications, Inc., of every kind and character, including, but not limited to, cash, bank accounts, personal property and real property, to the Board of Regents of The University of Texas System (hereinafter referred to as "Trustees") in trust, subject to the terms and conditions of this instrument.

1.

There is hereby created an Operating Board of Trustees, hereinafter called "Operating Trustees," who shall operate as hereinafter provided.

2.

All assets of Texas Student Publications, Inc., are hereby delivered to the Trustees and recorded in the accounting records of The University of Texas at Austin, to be used solely for the maintenance and support of the Texas student publications described in Paragraph 4 below. The recording, budgeting and expenditure of these assets will be in accordance with the Trustees' Rules and Regulations for the management of this type of funds and account.

3.

The operations of student publications on the campus of The University of Texas at Austin are under the control and jurisdiction of the Operating Trustees, constituted as hereinafter set out. All actions of the Operating Trustees and all business connected with student publications, which are defined for the purpose of this Declaration of Trust as all media, print or electronic, on the campus of The University of Texas at Austin conducted by them shall be pursuant to, subject to and in accord with Trustees' Rules and Regulations.

4.

The Operating Trustees are responsible for the issuance, publication and distribution of the student publications on the campus of The University of Texas at Austin. Such publications presently consist of The Daily Texan, The Summer Texan, The Texas Ranger Magazine, Cactus, Peregrinus, Texas Engineering and Science Magazine, and Riata. The Operating Trustees may authorize other publications.

5.

The Board of Operating Trustees is composed of eleven voting members, composed as follows:

- A. Three students out of the College of Communication of The University of Texas at Austin, elected by registered students in The University of Texas at Austin. Said election is to be held concurrently with the Spring student government election each year pursuant to the rules established by the Operating Trustees. No student shall be eligible to be a candidate for a position on the Board of Operating Trustees unless he or she has completed or will have completed by the end of the Spring semester in which the election is held twelve hours of College of Communication courses, is in good standing (not on scholastic probation), and has completed at least one semester in residence in the long term at The University of Texas at Austin. The eligibility of a candidate must be certified to by the Dean of the College of Communication prior to the time of said election.
- B. Three students elected at-large from the student body of The University of Texas at Austin at the same time as the editor of The Daily Texan, pursuant to Section 11 hereof. If the President of the Students' Association is not one of the students elected at the election, then the President of the Students' Association shall serve as an ex-officio member of the Board of Operating Trustees without vote. A student who qualifies as a candidate under Section 5 A, shall be neither qualified as a candidate nor eligible to serve as an at-large member of the Board.
- C. Two members of the faculty out of the voting faculty of the College of Communication and one member of the faculty out of the voting faculty of the College of Business Administration, all three to be appointed directly by the President of The University of Texas at Austin.
- D. Two professional journalists appointed by the President of The University of Texas at Austin.

6.

Voting members of the Board of Operating Trustees shall serve a term of two years beginning June 1 of each calendar year. No voting member shall serve more than four years consecutively. However, in order to provide staggered terms, the following procedure shall be used concerning the first Board of Operating Trustees under this section, to take office June 1, 1972.

- A. The four journalism students elected from the Department of Journalism shall draw lots in the presence of a quorum of the Board of Operating Trustees to determine which two shall serve initial terms of one year and which two shall serve initial terms of two years.

- B. The two undergraduate students elected at-large from the student body of The University of Texas at Austin shall draw lots in the presence of a quorum of the Board of Operating Trustees to determine which one shall serve an initial term of one year and which one shall serve an initial term of two years.
- C. The President of The University of Texas at Austin shall appoint one of the faculty out of the Department of Journalism for an initial term of one year, and he shall appoint the other journalism faculty member for an initial term of two years. The President of The University of Texas at Austin shall appoint the remaining faculty member for an initial term of two years.
- D. The President of The University of Texas at Austin shall appoint one of the professional journalists for an initial term of one year, and shall appoint the other professional journalist for an initial term of two years.

7.

Should any voting member or members of the Board of Operating Trustees resign, become ineligible or for any other reason fail to serve, if such member be one who was appointed by the President of The University of Texas at Austin, such President, after consultation with the Operating Trustees, shall appoint a successor, and if such member be one who is otherwise selected, then a majority of the Operating Trustees, after consultation with the President, shall appoint a successor trustee, and in the event of a tie vote by the Operating Trustees, the President shall make such appointment. Each successor trustee shall possess the qualifications of his predecessor in office. If the vacancy occurs at least two weeks prior to the deadline for filing in the Spring student publications election during the first year of the member's term, the appointed successor trustee shall serve only until May 31. The remaining year of the term shall be filled by the election of a successor trustee in the Spring student publications election. If the vacancy occurs after two weeks prior to the deadline for filing in the Spring student publications election during the first year of the member's term, the appointed successor trustee shall serve the remainder of the term.

8.

In addition to the aforementioned voting members of the Board of Operating Trustees, the following persons shall serve as ex-officio, non-voting members: the Dean of Students or the Dean's representative; the Editorial Manager of The Daily Texan; the General Manager of the publications; the Editor and Managing Editor of The Daily Texan; and the student editors and/or managers of all other publications published by the Operating Trustees.

9.

Until the selection of the initial eleven-member Board of Operating Trustees as set out under Paragraph 5 hereof, there shall be nine (9) Operating Trustees as follows:

<u>Name</u>	<u>Address</u>
Mr. Bob Binder	Students' Association Union Bldg. 323 The University of Texas at Austin Austin, Texas 78712
Dr. Norris Davis	3303 River Road Austin, Texas 78703
Dr. Charles Bonjean	Route 8, Box 428 Austin, Texas 78703
Dr. Eugene Sauls	5801 Westslope Austin, Texas 78731
Dr. Frank Pierce	4202 Venabo Austin, Texas 78731
Mr. David Stok	2208 Nueces Austin, Texas 78705
Mr. David Mincberg	2600 Rio Grande Austin, Texas 78705
Mr. Tim Donahue	3509 Cherry Lane Austin, Texas 78703
Mr. John Fox	401 West 38th Austin, Texas 78705

10.

The officers of the Board of Operating Trustees shall be a President, a Vice-President and a Secretary, and such other officers as the Board of Operating Trustees may from time to time find necessary to carry on the business of the publications. Officers shall be elected from among the voting members of the Board of Operating Trustees at the first meeting after June 1 of each year. Officers' terms shall be for one year, but a person is eligible to serve an additional one year term.

11.

Concurrently with the student government elections, there shall be a student publications election on the campus of The University of Texas at Austin. At such election there shall be elected the Editor of The Daily Texan by the students of The University of Texas at Austin, but voting members of the Board of Operating Trustees shall appoint the Editor of The Daily Texan in the case of a vacancy. The eligibility of a candidate for Editor of The Daily Texan must be certified to by the Operating Trustees on standards set out in their Handbook prior to the time of said election. The Operating Trustees shall set out in its Handbook the conditions under which said elections may be held, including length of the campaign. The Editor of The Daily Texan shall serve for a term of one year beginning on June 1. There shall also be elected at this election the student members of the Board of Operating Trustees as provided in Section 5 B.

12.

Subject to the provisions of this instrument, in the performance of all of its duties and in the exercise of all of its powers, the Board of Operating Trustees shall be subject to the direction of the Regents' Rules and Regulations. The Board of Operating Trustees shall conduct its meetings in strict adherence to Roberts' Rules of Order.

13.

There shall be an Executive Committee of the Board of Operating Trustees to be composed of three faculty members and two students to be elected by the Board of Operating Trustees from its voting membership.

14.

The Executive Committee shall appoint a general manager who shall be selected annually during the month of May for the fiscal year beginning September 1. The Executive Committee shall determine the compensation of the General Manager. The duties of the General Manager shall be prescribed by the Executive Committee, subject to the basic policies set forth by the Operating Trustees. The Editorial Manager(s) will be appointed by the Executive Committee, subject to basic policies set forth by the Operating Trustees. The duties of the Editorial Manager(s) shall be prescribed by the Executive Committee, subject to basic policies set forth by the Operating Trustees. The Editorial Manager of The Daily Texan shall be authorized to coordinate the activities between The Daily Texan and the Department of Journalism so as to secure the most effective use of the journalism laboratories and classes in the preparation of material for The Daily Texan. The Executive Committee shall fix the compensation of all editorial workers on student publications subject to the final approval of the Operating Trustees. The Executive Committee shall appoint and fill all vacancies for Editor, Manager and Managing Editor of every publication, except The Daily Texan, and shall fix their compensation subject to final approval of the Operating Trustees at their next regular meeting.

15.

The Executive Committee is authorized to implement and is responsible for implementation of the policies of the Operating Trustees between meetings of the Operating Trustees.

16.

A definitive relationship between the Department of Journalism of The University of Texas at Austin and The Daily Texan published by the Operating Trustees must exist. Accordingly, the President of The University of Texas at Austin shall promulgate an operating procedure to establish this relationship. The operating procedure may be amended from time to time by mutual agreement between the Department of Journalism, through its chairman, and the Operating Trustees, with the concurrence of the President of The University of Texas at Austin. In the event the Chairman of the Department and the Board of Operating Trustees are unable to agree on amendments, the President of The University of Texas at Austin shall make the final decision.

17.

There shall be established within the Board of Operating Trustees a Review Committee which shall be composed of one member of the College of Communication faculty, one College of Communication student, and one professional journalist. Such members are to be elected by the Operating Trustees out of the membership of the Board of Operating Trustees. All appeals on material withheld from publication by the Editorial Manager, or respective publications supervisors, shall be considered by the Review Committee within 24 hours of the action. A decision of the Review Committee may be appealed to the Operating Trustees, but seven affirmative votes of the Operating Trustees are required to overrule said decision of the Review Committee. In all such matters, the actions of the Operating Trustees shall be final and complete without review outside the Operating Trustees.

18.

It shall be the duty of the Board of Operating Trustees to furnish on request to the President of The University of Texas at Austin, the Chancellor of The University of Texas System and the Board of Regents of The University of Texas System, within two weeks of such request, any special reports requested by such officials.

19.

Copies of the minutes of all meetings of the Operating Trustees shall be delivered promptly to the President of The University of Texas at Austin for distribution to the Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Secretary to the Board of Regents and such members of The University of Texas at Austin administration as the President of The University of Texas at Austin may direct. No action of the Operating Trustees shall have any force or effect unless included in the minutes and until it has been approved by the President of The University of Texas at Austin, except actions of the Operating Trustees pertaining to the decisions of the Review Committee, and except as to actions of the Operating Trustees with respect to the appointment, discipline or removal of editors and/or managers, which actions need only be reported in the minutes for information, but are not reviewable outside the Board of Operating Trustees.

20.

No budget or budget amendment adopted by the Operating Trustees shall have any force or effect until such budget or budget amendment has been approved by the Board of Regents.

21.

No expenditure shall be made by the Operating Trustees unless it is made in accordance with and pursuant to a budget item that has been previously adopted by the Operating Trustees and approved by the Board of Regents.

22.

Within ninety days following the close of each fiscal year, the President of The University of Texas at Austin shall be furnished for distribution to the Chancellor and to the members of the Board of Regents, the Executive Secretary to

the Board of Regents and to such members of The University of Texas at Austin administration as the President of The University of Texas at Austin may direct, at least fifteen copies of a complete audit of the fiscal year.

23.

All employees, editors, editorial workers and staff members employed to work on student publications under the control and jurisdiction of the Operating Trustees including all employees of the corporation known as Texas Student Publications, Inc. holding office or employed as of the effective date of this Declaration of Trust shall continue in office or employment (unless changed by the Operating Trustees in accordance with the Declaration of Trust).

24.

Subject to Section 23 of this Declaration of Trust, the Operating Trustees shall have the authority: (1) to appoint the Managing Editor of The Daily Texan from among qualified students; (2) to take disciplinary action against the employees, editors, editorial workers and staff members of student publications, including the removal from office after due notice, for a violation of the policies of the Operating Trustees or for nonperformance of duties; such removal shall require a majority vote (action of the Operating Trustees in the matter of the appointment, discipline and removal of editors shall be final and complete); provided however, that no action taken by the Operating Trustees with respect to the employment, dismissal, salary or duties and responsibilities of either the General Manager or the Editorial Manager(s) shall have any force or effect until it has been approved by the Board of Regents; and (3) to determine the character and policies of all student publications.

25.

Since all funds utilized in the operations of student publications are under the direct control of an agency of the University, the Operating Trustees, the Vice President for Business Affairs of The University of Texas at Austin, and the Director of The University of Texas at Austin Personnel Office shall immediately make arrangements for assuring that all appropriate personnel are placed under the budgetary and personnel regulations applicable to other University of Texas at Austin employees.

26.

The Operating Trustees shall promulgate and implement a handbook which shall contain the operating policies of the Operating Trustees.

27.

The provisions of this instrument may be amended only with the concurrence of Trustees and a majority of the Operating Trustees.

28.

Trustees, by the execution of this instrument, accept the assets hereby conveyed and delivered, subject to all of the terms and provisions of this instrument.

8. U. T. El Paso: Authorization to Establish a Ph.D. Degree in Electrical Engineering and to Submit the Program to the Coordinating Board for Approval (Catalog Change).-- In order to meet the needs of the growing community of computer systems professionals in the El Paso region, authorization was granted to establish a Ph.D. degree in Electrical Engineering at The University of Texas at El Paso and to submit the program to the Texas Higher Education Coordinating Board for approval. Implementation of the program will be in Fall 1989 or upon Coordinating Board approval, whichever is later.

This Ph.D. program in Electrical Engineering will have a sharply focused specialization in Computer Systems Engineering and will be administered by the Department of Electrical Engineering and Computer Science within the College of Engineering. Students entering the program will have a Bachelor of Science in Electrical Engineering or a degree in a closely related field.

The program will build upon a strong set of graduate level engineering courses which are a part of existing master's level programs in Electrical Engineering and Computer Science and upon a research base of over \$1.1 million expenditures per year. To initiate the program, U. T. El Paso anticipates adding only six new courses and two additional faculty members. There are currently 22 faculty members in Electrical Engineering and Computer Science, 18 of whom are members of the graduate faculty. In addition to these faculty, it is anticipated that some faculty in other departments, especially Mechanical and Industrial Engineering, will advise students on their dissertation projects.

This Ph.D. degree program has been a part of U. T. El Paso's strategic plan since 1982.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. El Paso will be amended to reflect this action.

9. U. T. El Paso: Approval to Appoint (a) Dr. S. K. Varma, (b) Dr. Roberto A. Osegueda, (c) Dr. Jack A. Dowdy and (d) Dr. Andrew H. P. Swift as Mr. and Mrs. MacIntosh Murchison Fellows in Engineering (Mr. and Mrs. MacIntosh Murchison Chairs in Engineering) in the College of Engineering Effective for the 1988 Calendar Year Only.--The Board, upon recommendation of the Academic Affairs Committee, appointed the following faculty members of the College of Engineering at The University of Texas at El Paso as Mr. and Mrs. MacIntosh Murchison Fellows in the four Mr. and Mrs. MacIntosh Murchison Chairs in Engineering effective for the 1988 calendar year only:

Dr. S. K. Varma, Assistant Professor of Metallurgical Engineering
Dr. Roberto A. Osegueda, Assistant Professor of Civil Engineering
Dr. Jack A. Dowdy, Professor of Mechanical and Industrial Engineering
Dr. Andrew H. P. Swift, Associate Professor of Mechanical and Industrial Engineering.

Under terms of the endowment for the four Mr. and Mrs. MacIntosh Murchison Chairs in Engineering, funds may be used to award fellowships in Engineering to qualified faculty for periods up to one year when vacancies exist in the endowed chairs.

10. U. T. San Antonio: Approval of Cross-Town Air Force ROTC Agreement Among Southwest Texas State University, Trinity University, and the Commandant, Air Force ROTC, San Antonio, Texas.--Approval was given to the Cross-Town Air Force ROTC Agreement set out on Pages 62 - 66 among Southwest Texas State University, The University of Texas at San Antonio, Trinity University and the Commandant, Air Force ROTC, San Antonio, Texas.

This agreement, executed by the appropriate officials of the institution and facility to be effective upon approval by the U. T. Board of Regents, will continue the Air Force ROTC General Military Course and the Professional Officer Course at U. T. San Antonio and extend the courses to qualified students at Trinity University who desire to earn appointments as commissioned officers in the United States Air Force.

A Cross-Town Air Force ROTC Agreement among Southwest Texas State University, U. T. San Antonio, Trinity University and the Commandant, Air Force ROTC was previously approved by the U. T. Board of Regents in December 1982, but was withdrawn by Trinity University.

CROSS-TOWN AGREEMENT TO EXTEND AIR FORCE ROTC INSTRUCTION TO STUDENTS AT INSTITUTIONS NOT HOSTING AIR FORCE ROTC

This agreement is made by and between Southwest Texas State University (hereinafter referred to as "SWT", which hosts Air Force ROTC Detachment B40), The University of Texas at San Antonio (hereinafter referred to as "UTSA", which is an Air Force ROTC Nonhost Teaching Location, Trinity University (hereinafter referred to as "Trinity") which does not host an Air Force ROTC unit, and the Commandant, Air Force ROTC. It is the purpose of this agreement to make the Air Force ROTC General Military Course and the Professional Officer Course available to qualified students at Trinity who desire to earn appointments as commissioned officers in the United States Air Force.

AGREEMENT

1. Contingent upon acceptance of this agreement and upon the initial and continuing fulfillment of all the conditions enumerated in paragraphs 2, 3, 4, and 5 following, the Commandant, Air Force ROTC will:

a. Provide Air Force ROTC instruction in the General Military Course and the Professional Officer Course to qualified and selected applicants who are students at Trinity. Air Force ROTC

instruction will be provided those selected students at Trinity on the UTSA campus.

b. Enroll qualified students at Trinity who are selected for the General Military Course and the Professional Officer Course as members of the Air Force ROTC Nonhost Teaching Location at UTSA.

c. Provide uniforms, in accordance with the existing contract agreement between SWT and UTSA, and the Secretary of the Air Force, for all Air Force ROTC cadets who are enrolled as members of the Air Force ROTC Nonhost Teaching Location at UTSA.

d. Provide subsistence allowance, in accordance with existing policies, to all Air Force ROTC cadets who are enrolled as members of the Air force ROTC Nonhost Teaching Location at UTSA.

e. Provide tuition and fees, in accordance with existing policies:

(1) To UTSA for all Air force ROTC cadets on scholarship status who are enrolled as members of the Air Force ROTC Nonhost Teaching Location at UTSA.

(2) To Trinity for all Air Force ROTC cadets on scholarship status who are enrolled as members of the Air Force ROTC Nonhost Teaching Location at UTSA under the terms and conditions of a separate education service agreement between the Department of the Air Force and Trinity.

2. Contingent upon the acceptance of this agreement and upon fulfillment of the conditions enumerated in paragraph 1 above, SWT agrees:

To pay out of its Commutation Fund sums due for necessary uniforms and accessories provided to all members of the Air Force ROTC unit at UTSA, to the extent such funds are made available by the Department of the Air Force; provided, however, no sums shall

be paid out of said Commutation Fund prior to acknowledgment of receipt of such uniforms and accessories by an authorized representative of Air Force ROTC Detachment 840.

3. Contingent upon the acceptance of this agreement and upon fulfillment of the conditions enumerated in paragraph 1 above, UTSA agrees:

a. To provide adequate classroom and related administrative facilities to support the Aerospace Studies instruction of all enrolled members of its Air Force ROTC unit who receive instruction on its campus.

b. To report estimated and actual costs of tuition and fees for each fiscal year to the Air Force ROTC Nonhost Teaching Location at UTSA. This report will be the basis for funding obligations for each fiscal year.

4. Contingent upon the acceptance of this agreement and upon fulfillment of the conditions enumerated in paragraph 1 above, Trinity agrees:

a. to include an appropriate publications announcement of the Aerospace Studies courses of Air Force ROTC available to its students.

b. To grant appropriate academic credit applicable toward graduation for the successful completion of courses offered by the Department of Aerospace Studies at UTSA.

c. To report estimated and actual costs of tuition and fees for each fiscal year to the Air Force ROTC Nonhost Teaching Location at UTSA under a separate education service agreement between the Department of the Air Force and Trinity. This report will be the basis for funding obligations for each fiscal year.

5. Trinity affirms and represents that:

a. It is accredited to award baccalaureate degrees by the following regional association: Southern Association of Colleges and Schools.

b. For good and valid mutual consideration, and as a condition precedent to acceptance and continuation of this agreement, Trinity warrants and represents that it does not, and will not, discriminate in any way with respect to the admission or subsequent treatment of students on the basis of race, color, sex, or national origin. It is further mutually agreed that a violation of this covenant, as determined by the Secretary of the Air Force or a designee, may be regarded as a breach of this agreement, justifying termination thereof, at no cost to the government, by the Secretary or designee.

6. All parties agree that:

a. This agreement becomes effective March 1, 1988.

b. This agreement may be terminated on the 31st day of May of any year by any party giving the other parties at least six months' written notice of such intent.

c. This agreement between SWT, UTSA, Trinity and AFROTC does not change or influence the separate agreement now in effect between SWT, UTSA, and AFROTC.

SOUTHWEST TEXAS STATE UNIVERSITY

By: Robert L. Hardesty
President Robert L. Hardesty

Date: 5 Feb 88

THE UNIVERSITY OF TEXAS AT
SAN ANTONIO

By: James W. Wagener
James W. Wagener, President

Date: 2/9/88

TRINITY UNIVERSITY

By: Edward C. Roy
Edward C. Roy
Vice President for
Academic Affairs

Date: January 22, 1988

FOR AIR FORCE ROTC Detachment 840

By: Bennie Blansett, Jr.
BENNIE BLANSETT, JR, Colonel, USAF
Professor of Aerospace Studies

Date: 5 Feb 88

FOR THE COMMANDANT, AIR FORCE ROTC

By: _____

Date: _____

FORM APPROVED:

By: Francis A. Fiedler
UT System Office of General Counsel

CONTENT APPROVED:

By: James P. Duncan James P. Duncan
Executive Vice Chancellor for
Academic Affairs

Date: 3-15-88

CERTIFICATE OF APPROVAL

I hereby certify that the foregoing AGREEMENT was approved by the Board of Regents of The University of Texas System on 14th day of April, 1988.

By: Arthur H. Dilly
Executive Secretary to the Board
of Regents of The University of
Texas System
ARTHUR H. DILLY

11. U. T. Tyler: Agreement of Collaboration with the University of Hamburg, Federal Republic of Germany.--
The Board, upon recommendation of the Academic Affairs Committee, approved the Agreement of Collaboration set out on Pages 67 - 70 by and between The University of Texas at Tyler and the University of Hamburg, Federal Republic of Germany.

This agreement undertakes the development of collaborative programs of research and study for the mutual benefit of faculty and students of both institutions in the areas of the humanities, social sciences, physical and natural sciences, international relations, technology, music and the arts, administrative auxiliary medical professions, science and public health.

AGREEMENT OF COLLABORATION
BETWEEN
THE UNIVERSITY OF HAMBURG, FEDERAL REPUBLIC OF GERMANY
AND
THE UNIVERSITY OF TEXAS AT TYLER, UNITED STATES OF AMERICA

1. The University of Hamburg and The University of Texas at Tyler agree to undertake the development of collaborative programs of research and study for the mutual benefit of faculty and students of both institutions.
2. The principal purposes of this collaboration are:
 - a) to advance human knowledge and to promote scientific development in areas selected by mutual agreement;
 - b) to encourage collegial relationships between members of the two universities so as to facilitate improved mutual understanding of the two institutions and of the regions and societies within which each of them functions;
 - c) to permit and support - when appropriate - comparative approaches to and analysis of scientific problems;
 - d) to create opportunities to strengthen academic work within each of the universities through knowledge of and collaborative involvement with academic strength of the other;
 - e) to allow members of the two universities to consider opportunities to work in collaboration with respect to scientific and academic programs that may involve universities and/or scientific institutions in other nations;
 - f) to facilitate interdisciplinary research and study within and between the collaborating universities.
3. The primary focus of this agreement is on the exchange of faculty and students, with intent to collaborate in research and study. It shall encompass such exchanges and collaborations whenever these are deemed to be appropriate and beneficial by mutual agreement.

4. Collaboration under this agreement shall encompass the general areas of the humanities, social sciences, physical and natural sciences, international relations, technology, music and the arts, administrative auxiliary medical professions, science, and public health.
 - a) It is the intent of this agreement that specific programs of collaboration be developed within any one or more of these general areas, formalized in writing and incorporated into the agreement in the form of specific appendixes. Each of these programs shall contain data about the subject and the scientific method of collaboration, exchanges, time schedule and financing.
 - b) The initial program of collaborative work will be proposed immediately following the acceptance of the agreement by both universities.
5. The collaboration established in this agreement is based on the principle of equal partnership, and this principle shall govern the sharing of cost and effort between the two universities, as follows:
 - a) Every effort shall be made to arrange comparable reciprocity in programs and exchanges under this agreement.
 - b) When members of one university travel to the other in the framework of a program mutually agreed upon, the fundamental financial guideline shall be that the sending institution shall process the costs of travel and the costs of maintenance in situ. The receiving institution shall assist with arranging for suitable lodging.
 - c) Every effort shall be made to avoid the need for the exchange of financial payments between the two universities.
 - d) If expenditures external to both universities are required to support a program or programs, these costs should be shared equally between the two universities as much as possible.
6. This agreement shall encourage members of both universities to seek external sources of support for programs and exchanges which are part of the agreement whenever this is possible and appropriate. This shall be done in accord with the procedures established within each university. Solicitation of external support may be done separately by members of each university for their own participation or for joint efforts, or jointly for the benefit of both universities.

7. For purposes of implementation and supervision of this agreement, a committee shall be created within each of the universities. The composition and scope of activity of each committee shall be determined autonomously by each university to accommodate the circumstances particular to itself, subject to the following guidelines:
- a) The chairman of each committee shall be the President of the university.
 - b) The two committees or representatives authorized by them shall meet jointly at least once during each academic year beginning in 1987, and the location of these meetings shall alternate annually between the two universities.
 - c) Every two years beginning in 1989 the two committees shall prepare and distribute a joint report of the progress of collaborative work under this agreement.
 - d) Additions and amendments to this agreement, and its possible extension beyond the academic years 1988-90 shall be recommended to each of the universities by joint action of the two committees, such action to be taken either during the course of joint meetings or by mutual agreement in writing.
8. This agreement shall take effect during the academic year 1987-88 and shall be valid for an initial period of five years, i.e., through the academic year 1991-92. During this period it shall be subject to cancellation by either university on one year's notice. It is understood that an academic year covers the time from September 1 - August 31 respectively.

Signed in Tyler, Texas on _____, in two copies, each in the English and German languages, both texts being equally authentic.

For the
The University of Texas
at Tyler,
Tyler, Texas

For the
University of Hamburg

Dr. George F. Hamm
President

Dr. Peter Fischer-Appelt
President

APPROVED AS TO FORM:

John L. Darrouzet, Attorney
Office of General Counsel
The University of Texas System

APPROVED AS TO CONTENT:

Dr. James P. Duncan
Executive Vice Chancellor for
Academic Affairs
The University of Texas System

CERTIFICATE OF APPROVAL

I hereby certify that the foregoing Agreement was approved by the Board of Regents of The University of Texas System on the _____ day of _____, 1988, and that the person whose signature appears above is authorized to execute such agreement on behalf of the Board.

Executive Secretary to the Board
of Regents of The University of
Texas System

REPORT AND RECOMMENDATIONS OF THE HEALTH AFFAIRS COMMITTEE (Pages 71 - 74).--Committee Chairman Yzaguirre reported that the Health Affairs Committee had met in open session to consider those items on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Health Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Southwestern Medical Center - Dallas: A. John Rush, M.D., Appointed Initial Holder of the Betty Jo Hay Chair in Mental Health Effective Immediately.--Upon recommendation of the Health Affairs Committee, the Board appointed A. John Rush, M.D., Professor of Psychiatry, as initial holder of the Betty Jo Hay Chair in Mental Health at The University of Texas Southwestern Medical Center at Dallas effective immediately.

2. U. T. Southwestern Medical Center - Dallas: Approval to Name Room V5.106 in the School of Allied Health Sciences Building the L. Ruth Guy Medical Laboratory Sciences Library (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.2, Naming of Facilities Other Than Buildings).--In accordance with the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.2, relating to the naming of facilities other than buildings, approval was given to name Room V5.106 in the School of Allied Health Sciences Building at The University of Texas Southwestern Medical Center at Dallas the L. Ruth Guy Medical Laboratory Sciences Library.

The naming of this room is in recognition of Dr. L. Ruth Guy, Professor Emeritus, who served as the first Chairman of the Department of Medical Laboratory Sciences at the U. T. Southwestern Medical Center - Dallas and donated her library of scientific books and journals to that department upon her retirement in 1982.

3. U. T. Medical Branch - Galveston: Appointment of (a) Martin C. Robson, M.D., as Initial Holder of the Truman Graves Blocker, Jr., M.D. Distinguished Chair in Plastic Surgery and (b) Charles M. Stiernberg, M.D., as Initial Holder of the J. F. Seinsheimer, Jr. and Jessie Lee Seinsheimer Professorship in Otolaryngology Effective Immediately.--The Board appointed the following individuals to the indicated endowed academic positions at The University of Texas Medical Branch at Galveston effective immediately:
 - a. Martin C. Robson, M.D., Professor in the Departments of Surgery and Microbiology and Chief of the Division of Plastic Surgery, as initial holder of the Truman Graves Blocker, Jr., M.D. Distinguished Chair in Plastic Surgery

 - b. Charles M. Stiernberg, M.D., Deputy Chairman of the Department of Otolaryngology and Chief of the Division of Head and Neck Surgery, as initial holder of the J. F. Seinsheimer, Jr. and Jessie Lee Seinsheimer Professorship in Otolaryngology.

4. U. T. Health Science Center - Houston: Approval to Appoint (a) Frank M. Yatsu, M.D., as Initial Holder of the Roy M. and Phyllis Gough Huffington Chair in Neurology and (b) Herbert L. DuPont, M.D., as Initial Holder of the Mary W. Kelsey Professorship in the Medical Sciences Effective Immediately.--Approval was given to appoint the following individuals to endowed academic positions at The University of Texas Health Science Center at Houston effective immediately:

- a. Frank M. Yatsu, M.D., Professor and Chairman of the Department of Neurology, as initial holder of the Roy M. and Phyllis Gough Huffington Chair in Neurology

See Page 90 related to the establishment of this Chair.

- b. Herbert L. DuPont, M.D., Professor and Interim Chairman, Department of Internal Medicine, as initial holder of the Mary W. Kelsey Professorship in the Medical Sciences.

5. U. T. M.D. Anderson Cancer Center: Authorization to Change the Name of (a) The University of Texas System Cancer Center to The University of Texas M.D. Anderson Cancer Center, (b) The University of Texas M.D. Anderson Hospital and Tumor Institute at Houston to The University of Texas M.D. Anderson Hospital and The University of Texas M.D. Anderson Tumor Institute, and (c) The University of Texas Science Park to The University of Texas M.D. Anderson Science Park, and (d) to Amend the Regents' Rules and Regulations, Part One, Chapter VIII, Section 4, Subsection 4.(15) (Institutions and Entities Composing the System).--Upon recommendation of the Health Affairs Committee, the Board changed the name of The University of Texas System Cancer Center to The University of Texas M.D. Anderson Cancer Center with the short title to be U. T. M.D. Anderson Cancer Center with the following designations to be used for the component parts of the institution with the shortened title as shown in parenthesis:

The University of Texas M.D. Anderson Hospital
(U. T. M.D. Anderson Hospital)
The University of Texas M.D. Anderson Tumor Institute
(U. T. M.D. Anderson Tumor Institute)
The University of Texas M.D. Anderson Science Park
(U. T. M.D. Anderson Science Park).

Further, it was noted that the Executive Secretary to the Board would make the appropriate editorial changes in the Regents' Rules and Regulations, Part One, Chapter VIII, Section 4, Subsection 4.(15) (Institutions and Entities Composing the System).

The use of "U. T. M.D. Anderson Cancer Center" provides consistent identification in both the scientific and lay communities, improves marketing and private fund development of the institution and abates confusion which existed with the previous designation.

6. Report by Executive Vice Chancellor for Health Affairs Mullins on (a) Special Committee on Post-Secondary Medical, Dental and Allied Health Education and (b) Medicaid in Texas.--Committee Chairman Yzaguirre called on Executive Vice Chancellor for Health Affairs Mullins to brief the Board on the progress of the Special Committee on Post-Secondary Medical, Dental and Allied Health Education and the status of Medicaid in Texas.

Executive Vice Chancellor Mullins reported that the Special Committee on Post-Secondary Medical, Dental and Allied Health Education, established by HCR 107, 70th Legislature, met in Houston, Texas, on March 23-25, 1988, and heard testimony on the following issues:

- a. State funding for Baylor College of Medicine
- b. Resident teaching bill
- c. Special needs for physicians and long-term care facilities
- d. Texas Eminent Scholars Program
- e. Medical liability issues that face this State and the faculty related to indigent patient care.

Executive Vice Chancellor Mullins stated that the Committee toured the Texas Tech University campuses on April 6-8, 1988, and heard testimony in Amarillo and Lubbock on the following issues:

- a. Research
- b. Family practice and rural health
- c. Applicants to medical schools and where the graduates of the institutions are going to practice medicine
- d. Cost of medical education in this State
- e. Medical liability as it impacts on Texas Tech.

These Committee hearings will continue through mid-summer and a report for consideration by the Legislature is to be written by the first of September.

At the conclusion of the foregoing presentation and with the aid of slides, Executive Vice Chancellor Mullins presented a comprehensive overview on the status of Medicaid in Texas. He noted that Medicaid is administered by the Texas Department of Human Resources and that the State of Texas is 48th in terms of funding of Medicaid.

Dr. Mullins reviewed the following aspects of the Medicaid program: eligibility requirements, budget (federal and state funds), distribution of Medicaid dollars (hospitals, nursing homes, physicians and pharmacists), required benefits paid by Medicaid (inpatient and outpatient hospital bills, lab and x-ray bills, skilled nursing facilities, home health care programs, family planning programs, doctors' bills, and regular check-ups for minors), and recipients of Medicaid benefits [Aid for Families with Dependent Children (AFDC) related categories and Supplemental Security Income (SSI) related categories].

Dr. Mullins noted that the Select Committee on Medicaid and Family Services, which was established by House Concurrent Resolution 137 (HCR 137), is to examine and evaluate various options available to the State which will enhance the potential for expanded health services and explore ways to attract the maximum amount of federal dollars to fund the cost of those programs. The draft recommendations of the Committee include the following:

- a. The Department of Human Services should implement a Medicaid expansion to cover pregnant women and children up to 100% of (federal) poverty (guidelines).
- b. The Department of Human Services should implement the Medicaid option to guarantee continuous eligibility of pregnant women for prenatal services, delivery and postnatal care.
- c. The Department of Human Services should implement ten to twelve presumptive eligibility pilots distributed geographically across the state in urban and rural areas, using MIHIA (Maternal and Infant Health Improvement Act) and non-MIHIA providers.
- d. The Department of Human Services should implement a resources test for pregnant women and children based on modified Food Stamps Program requirements.
- e. The Department of Human Services should cover children through age three below 100% of poverty and should phase-in coverage for all poor children below school age.
- f. The Department of Human Services should modify the services provided to women and children to cover maternity clinic services, improved family planning services, risk assessment and MIHIA-type services such as nutrition counseling, patient education, psycho-social counseling and case coordination.

REPORT AND RECOMMENDATIONS OF THE BUILDINGS AND GROUNDS COMMITTEE (Pages 75 - 80).--Committee Chairman Hay reported that the Buildings and Grounds Committee had met in open session to consider those items on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, all actions set forth in the Minute Orders which follow were recommended by the Buildings and Grounds Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. El Paso - Former Main Library Building - Remodeling for Department of Geological Sciences (Project No. 210-671): Approval of Preliminary Plans; Approval for Submission to the Coordinating Board; and Authorization to Prepare Final Plans.--Following a brief overview by President Natalicio, Mr. George DuSang, representing the Project Architect, Carroll, DuSang and Rand, El Paso, Texas, presented the preliminary plans for the remodeling of the former Main Library Building at The University of Texas at El Paso to the Buildings and Grounds Committee.

Based upon this presentation and the recommendation of the Academic Affairs and Buildings and Grounds Committees, the Board:

- a. Approved preliminary plans for the remodeling of the former Main Library Building for the Department of Geological Sciences at U. T. El Paso at an estimated total project cost of \$6,800,000
- b. Authorized submission of the project to the Texas Higher Education Coordinating Board
- c. Authorized the Project Architect to prepare final plans and specifications to be presented to the U. T. Board of Regents for consideration at a future meeting.

The remodeling of the 87,648 gross square foot former library facility will provide for most of the laboratory, office and support facilities of the Department of Geological Sciences. The interior of the building can be remodeled to provide the laboratory space necessary for modern equipment, faculty offices, lecture, reading and study rooms and archival and equipment storage facilities. The proposal includes upgrading or expansion to meet the needs of the department and repair of the exterior of the building where necessary.

Upon relocation of the geological sciences to this building, U. T. El Paso's immediate needs for additional laboratory space will have been met. Some laboratory space currently occupied by the Department of Geological Sciences can be used by the chemistry and physics departments.

This project is included in the Capital Improvement Program at \$4.7 million, with \$300,000 appropriated to date. The appropriated amount is adequate for completion of plans and specifications which are scheduled to be completed by October. At that time, U. T. El Paso will have sufficient information on which to base recommendations for financing the additional construction costs involved.

2. U. T. San Antonio - U. T. Institute of Texan Cultures - San Antonio - Renovation of Public Areas, Second Segment (Project No. 404-614): Approval of Final Plans and Authorization to Advertise for Bids and for Executive Committee to Award Contracts.--Upon recommendation of the Buildings and Grounds Committee, the Board:

- a. Approved final plans and specifications for the second segment of the Renovation of Public Areas at The University of Texas Institute of Texan Cultures at San Antonio at an estimated total project cost of \$679,000
- b. Subject to approval by the Coordinating Board, authorized the Office of Facilities Planning and Construction to advertise for bids upon completion of final review
- c. Authorized the Executive Committee to award all contracts associated with this project within the authorized total project cost.

This project is within the scope of the Capital Improvement Program approved by the U. T. Board of Regents in October 1985, and has been approved by the Texas Higher Education Coordinating Board.

See item 3 below related to the third segment of renovation.

3. U. T. San Antonio - U. T. Institute of Texan Cultures - San Antonio - Renovation of Public Areas, Third Segment (Project No. 404-614): Authorization for Project; Completion of Final Plans and Specifications, Advertisement for Bids and Award of Contracts by U. T. San Antonio Administration; and Appropriation Therefor.--The Buildings and Grounds Committee recommended and the Board:

- a. Authorized a project for the third segment of Renovation of Public Areas at The University of Texas Institute of Texan Cultures at San Antonio at an estimated total project cost of \$787,000
- b. Authorized completion of final plans and/or specifications, advertisement for bids and award of contracts by The University of Texas at San Antonio Administration with its own forces or through contract services as required, in consultation with the Office of Facilities Planning and Construction
- c. Appropriated \$787,000 from Permanent University Fund Bond Proceeds for total project funding.

The third segment of work to be performed will include (1) replacement of projection screens and equipment in dome area, (2) complete replacement of building roof, (3) carpet replacement in high traffic areas and (4) an additional paved drive area to allow large delivery and service vehicles to maneuver.

It was noted that the items contained in this project do not require approval by the Texas Higher Education Coordinating Board, since some items are equipment replacement and the costs of the others are below the minimum requiring Coordinating Board consideration.

See Page 76 related to the second segment of renovation of public areas.

4. U. T. Health Science Center - San Antonio - Research Building (Project No. 402-666): Approval of Preliminary Plans; Authorization for Submission to the Coordinating Board; Authorization to Prepare Final Plans; and Additional Appropriation Therefor.--Following opening remarks by President Howe, Mr. James Foster, representing the Project Architect, Marmon Barclay Souter Foster Hays, San Antonio, Texas, presented the preliminary plans for the Research Building at The University of Texas Health Science Center at San Antonio to the Buildings and Grounds Committee.

Based upon this presentation, the Board, upon recommendation of the Health Affairs and Buildings and Grounds Committees:

- a. Approved preliminary plans for the construction of the Research Building at the U. T. Health Science Center - San Antonio at an estimated total project cost of \$20,000,000 (excluding equipment)
- b. Authorized submission of the project to the Texas Higher Education Coordinating Board
- c. Authorized the Project Architect to complete final plans and specifications to be presented to the U. T. Board of Regents for consideration at a future meeting
- d. Appropriated \$500,000 from Permanent University Fund Bond Proceeds for fees and administrative expenses through completion of final plans and specifications. Previous appropriations had been \$450,000 from the same source.

The new Research Building will be a five-level, 124,250 gross square foot facility providing imaging devices, laboratories, offices, classrooms and animal holding facilities designed to support a research imaging center, a clinical pharmacy and pharmacology research program and an eye research center. The facility will be constructed near the existing campus on a new 25 acre tract to be conveyed to the U. T. Health Science Center - San Antonio by the San Antonio Medical Foundation.

This Research Building is part of the package, which includes the U. T. Institute of Biotechnology, being cooperatively developed with the Texas Research and Technology Foundation, San Antonio, Texas. The total estimated project costs for the Research Building (\$28.5 million) and the U. T. Institute of Biotechnology (\$13.0 million) are \$41.5 million. These costs include a \$3.0 million endowment for the U. T.

Institute of Biotechnology and \$8.5 million for scientific and research equipment in the Research Building.

The sources of funding for this \$41.5 million cooperative construction program are set forth below:

Texas Research and Technology Foundation (private sources)	\$26.0M
U. T. Permanent University Fund Bond Proceeds	10.0M
U. T. Austin Pharmacy Foundation (private sources)	1.0M
Federal Grants	<u>4.5M</u>
TOTAL	\$41.5M

Secretary's Note: The formal closing to execute the several documents finalizing this cooperative effort took place on April 22, 1988. These documents are on file in the Office of the Board of Regents.

5. U. T. Austin - Balcones Research Center - Microelectronics and Engineering Research Building (Project No. 102-660): Report on Planning Progress.--At the February 1988 U. T. Board of Regents' meeting, the preliminary plans for the construction of the Microelectronics and Engineering Research Building at the Balcones Research Center of The University of Texas at Austin were approved and the Project Architect, Graeber, Simmons & Cowan, Austin, Texas, was authorized to prepare final plans and specifications for presentation to the Board at a future meeting.

In order to keep the Board fully advised regarding the planning and design efforts to maintain the Microelectronics and Engineering Research Building as a state-of-the-art facility, the Board instructed President Cunningham to provide it with a planning progress report at the April meeting.

In accordance with that directive, Committee Chairman Hay called on President Cunningham to give the Board a status report on the design work.

President Cunningham introduced Dr. Herbert Woodson, Acting Dean of the College of Engineering, Dr. Al Tasch and Dr. Ben Streetman and noted that these individuals were very instrumental in the design plans for this building. A summary of their report is set forth below.

Dr. Tasch commented on the progress in the planning and design of the new Microelectronics and Engineering Research Building. He pointed out that the latest plans had been extensively reviewed twice since the last meeting of the Board of Regents in San Antonio on February 11. Continued attention was given to ensuring that the new building cleanroom would be based on state-of-the-art technology. Dr. Tasch also mentioned that The University of Texas at Austin was one of four universities to receive a grant from the Semiconductor Research Corporation for enhancing the curriculum in Manufacturing Engineering. The grant is \$50,000 the first year and \$100,000 in each of the two succeeding years. Finally, Dr. Tasch said that U. T. Austin had submitted a proposal for a SEMATECH Center of Excellence which would have annual funding for five years in the range of \$300,000 to \$1,000,000. He speculated that the chances of winning this Center were good.

Dr. Streetman commented that a proposal for a Science and Technology Research Center has been submitted to the National Science Foundation, based upon the expected availability of this new research building. The National Science Foundation proposal is for \$22 million over five years, for the synthesis and analysis of Electronic Materials.

Dr. Tasch and Dr. Streetman emphasized that the working relationships between those responsible for the SEMATECH facility and for the Microelectronics and Engineering Research Building were excellent and that the cooperation would result in technically superior facilities for both construction projects.

Secretary's Note: Subsequent to the meeting and on further inquiry from Regent Moncrief regarding the planning process for the Microelectronics and Engineering Research Building, the memorandum set forth below, which was dated April 25, 1988, was directed to President Cunningham and a copy provided to Regent Moncrief. It is included here to complement and supplement the report given at the meeting.

TO: President William H. Cunningham

FROM: Dr. Al Tasch *A. Tasch*

SUBJECT: Letter of April 18 from W.A. "Tex" Moncrief, Jr., to Dr. Cunningham

This memorandum is in response to the question raised by Regent Moncrief in his letter to you (copy enclosed) regarding the wisdom of delaying the construction of the new Microelectronics and Engineering Research Building in order to capitalize more completely on the SEMATECH experience. My response is lengthy but this important question has been raised several times, and I want to address the issue as completely as possible.

Regent Moncrief has brought to our attention the 18 April article in The Dallas Morning News (copy enclosed) in which SEMATECH company executive Jim Peterman was quoted as saying that the original plan was to build a 30,000-square-foot clean room that "would not be state-of-the-art." The Dallas Morning News article is not as complete as the Austin American-Statesman article of 17 April (copy enclosed). The Austin American-Statesman article further points out that SEMATECH changed its strategy and plans regarding the construction of the first cleanroom facility and a second, larger cleanroom. The initial SEMATECH plan (which was also specified in SEMATECH's site selection requirements in 1987) was to move as quickly as possible into an interim cleanroom facility in order to begin building semiconductor chips by the end of 1988. This interim facility was to be 30,000-square-feet and be capable of minimum geometries down to 0.7-0.8 microns. The second, larger, and much more permanent cleanroom facility would be completed and ready for move-in at the end of 1989. It would have to be capable of chip manufacturing at dimensions of 0.5 micron and smaller.

The revised SEMATECH strategy now calls for the first cleanroom (under construction now) to be a more permanent, larger facility, and to delay building the second, larger facility by two-three years. As a result, the first cleanroom facility must be capable of chip manufacturing down to 0.5 micron dimensions since it will be used for a longer period of time. Because of the larger size of the cleanroom and the need for it to handle much more 0.5 micron chip manufacturing, there were some differing opinions among the architects, engineers, and SEMATECH personnel as to the ability of the initially planned structure to have sufficient vibration isolation margins for chip manufacturing at 0.5 micron dimensions. This main issue and other secondary issues associated with the logistical support of a substantially larger cleanroom facility (42,000 - 58,000-square-feet versus initially 30,000-square-feet) resulted in additional steps being taken in construction in order to ensure that this cleanroom facility would be based on proven state-of-the-art technology.

The major steps taken primarily focused on the guaranteed achievement of excellent vibration isolation, the most critical requirement for submicron chip fabrication. There were other steps also taken which relate to the larger size of the cleanroom, volume manufacturing, and more extensive fabrication activity. The key vibration isolation construction details were the use of a

slab-on-grade foundation floor (this was actually in the original SEMATECH 30,000-square-foot plan) and the "floating" or suspending of air-handling equipment above the cleanroom in order to avoid any risk of transmission of harmful vibrations from this equipment down to the cleanroom slab. It is important to understand that these same features and approaches exist in the new Microelectronics and Engineering Research (MER) Building plans. Moreover, they were planned from the very beginning of the MER Building project, not recently added.

I have spoken at length with David Graeber, the chief architect for both the SEMATECH and the MER Building, Charles Linn of Anthony, DeBartolo, and Pan (subcontracted architect/engineering firm for the MER Building), and with Frank Huback, the vibration engineer consultant also for both the SEMATECH and the MER Buildings. Frank Huback emphasized that the MER Building is "every bit as state-of-the-art as the SEMATECH cleanroom facility." In fact, the University MER Building cleanroom will be used to fabricate devices with substantially smaller dimensions. Mr. Huback also said that the MER Building cleanroom "will support all known lithographic technologies" used for defining submicron dimensions. He went further to say that if we desire to incorporate more advanced technological approaches for going beyond the state-of-the-art, the University would have to embark on a research program to design, build, and evaluate new construction approaches. Then after any new approaches were developed and verified to improve the state-of-the-art, these new approaches could be implemented in a cleanroom. This exercise would involve several years and considerable expense to the University. Mr. Huback suggested that it would be more appropriate for a large company such as SEMATECH to undertake such a major endeavor.

From the above discussion and inputs from experts such as Frank Huback, there is no doubt in my mind (or their mind) that our planned MER Building is state-of-the-art. There will be differences compared to the SEMATECH cleanroom facility such as liquid chemical distribution systems, automation, etc. However, these are differences required by virtue of the fact that SEMATECH is focusing on large volume, low cost chip manufacturing whereas the MER Building cleanroom activity will focus on longer range, fundamental materials, process, and device research. Regent Moncrief's concern is very worthy of attention. Certainly, none of the users wants to move into a new facility which will not be world-class. And for this reason those of us working with the architects, engineers, consultants, and University of Texas system have reviewed many times the plans to ensure that we have a long lasting world-class University research center.

I hope that the details in this memorandum will shed more light on the issue raised by Regent Moncrief and allay the concerns that have been expressed. If I can be of further assistance do not hesitate to call upon me.

REPORT AND RECOMMENDATIONS OF THE LAND AND INVESTMENT COMMITTEE (Pages 80 - 214).--Committee Chairman Ratliff reported that the Land and Investment Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, all actions set forth in the Minute Orders which follow were recommended by the Land and Investment Committee and approved in open session and without objection by the U. T. Board of Regents.

The execution of documents authorized in this report will be in accordance with the Regents' Rules and Regulations, Part Two, Chapter IX, Section 1.3 as set forth below:

- 1.3 Authority to Execute Instruments Relating to Land and Mineral Interests.--The Chairman of the Board, the Vice-Chairmen, the Chancellor, or his or her delegate, and the Executive Vice Chancellor for Asset Management are each authorized to execute conveyances, deeds, surface and/or mineral leases, easements, rights-of-way, oil and gas division orders, and transfer orders, geophysical and material source permits, water contracts, pooling and unitization agreements, and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, control, and disposition of any real estate or mineral interest held or controlled by the Board as a part of the PUF or as a part of any trust or special fund.

I. PERMANENT UNIVERSITY FUND

Investment Matters

Report on Clearance of Monies to the Permanent University Fund for January and February 1988 and Report on Oil and Gas Development as of February 29, 1988.--The following reports with respect to (a) certain monies cleared to the Permanent University Fund for January and February 1988, and (b) Oil and Gas Development as of February 29, 1988, were submitted by the Executive Vice Chancellor for Asset Management:

	<u>January 1988</u>	<u>February 1988</u>	<u>Cumulative Through February of this Fiscal Year (1987-1988)</u>	<u>Cumulative Through February of Preceding Fiscal Year (1986-1987)</u>	<u>Per Cent Change</u>
Permanent University Fund					
Royalty					
Oil	\$4,686,362.16	\$ 4,112,276.87	\$28,556,683.04	\$ 22,796,800.59	25.27%
Gas	1,723,241.19	2,317,069.27	11,917,982.70	11,063,991.28	7.72%
Sulphur	10,000.00	15,000.00	65,091.65	60,000.00	8.49%
Water	30,849.04	22,567.35	292,782.01	270,918.63	8.07%
Brine	4,118.90	5,067.94	26,412.91	16,793.78	57.28%
Trace Minerals	0.00	0.00	0.00	0.00	--
Rental					
Oil and Gas Leases	(1,955.03)	1,320.45	359,864.00	395,387.00	-8.98%
Other	0.00	500.00	1,000.00	5,012.28	-80.05%
Sale of Sand, Gravel, Etc.	738.00	0.00	3,525.30	400.00	--
 Total University Lands Receipts Before Bonuses	<u>6,453,354.26</u>	<u>6,473,801.88</u>	<u>41,223,341.61</u>	<u>34,609,303.56</u>	<u>19.11%</u>
Bonuses					
Oil and Gas Lease Sales	0.00	2,042,345.34	3,567,241.98	3,007,941.58	18.59%
Amendments and Extensions to Mineral Leases	0.00	0.00	0.00	(6,293.56)	--
 Total University Lands Receipts	<u>6,453,354.26</u>	<u>8,516,147.22</u>	<u>44,790,583.59</u>	<u>37,610,951.58</u>	<u>19.09%</u>
Gain or (Loss) on Sale of Securities	<u>(1,424,165.15)</u>	<u>7,045,483.13</u>	<u>36,715,627.65</u>	<u>112,129,840.36</u>	<u>-67.26%</u>
 TOTAL CLEARANCES	<u>\$5,029,189.11</u>	<u>\$15,561,630.35</u>	<u>\$81,506,211.24</u>	<u>\$149,740,791.94</u>	<u>-45.57%</u>

Oil and Gas Development - February 29, 1988

Acreage Under Lease - 700,023

Number of Producing Acres - 551,598

Number of Producing Leases - 2,401

II. COMMON TRUST FUND

U. T. System: Approval to Amend Articles III, IV and VI of The Charter of The University of Texas System Common Trust Fund.--Upon recommendation of the Land and Investment Committee, the Board approved the following changes, effective as of the fiscal year beginning September 1, 1987, in Articles III, IV and VI of The Charter of The University of Texas System Common Trust Fund:

ARTICLE III

Asset Valuation

2. f. Cash and temporary investments with less than a year to maturity shall be valued at their book value on the general ledger.

ARTICLE IV

Admissions and Withdrawals

3. Any withdrawals from the Fund require prior approval of the Board of Regents except withdrawals from the Amortization Account or the Income Reserve Account established in Article VI and withdrawals necessary to correct recording errors. Additions and withdrawals from these reserve accounts and to correct errors shall take place at the close of business on the last business day of the quarter. All other withdrawals shall be valued at the market value of the assigned units on the quarterly evaluation date following the approval by the Board of Regents. Withdrawals shall be paid in cash as soon as practicable after such valuation.

ARTICLE VI

Fund Accounting

4. Any net cash income for a quarter which exceeds the distribution amount for the quarter shall be retained in the Income Reserve Account of the Fund.

These revisions to the Charter will improve the fairness of the pricing of units of the Common Trust Fund and establish the standard endowment fund practice of accounting for income reserve funds.

III. TRUST AND SPECIAL FUNDS

Gifts, Bequests and Estates

1. U. T. Arlington: Establishment of the Automation and Robotics Research Institute Endowment and the Automation and Robotics Research Institute Chair.--The Land and Investment Committee recommended and the Board established (a) the Automation and Robotics Research Institute Endowment and (b) the Automation and Robotics Research Institute Chair with \$1,000,000 each at The University of Texas at Arlington with previously approved gifts and pledges from the Fort Worth Chamber Foundation, Inc., Fort Worth, Texas.

Gifts in the amount of \$1,000,000 have already been received to fully fund the Automation and Robotics Research Institute Endowment. Additional gifts and pledges, yet to be received but expected to total \$1,000,000 by December 1, 1990, will fund the Automation and Robotics Research Institute Chair. A proposal for naming this Chair will be submitted at a future date.

2. U. T. Arlington: Acceptance of Gifts from Various Donors and Establishment of the Roger C. Dycus Memorial Scholarship in Support of Student Publications.--Upon recommendation of the Land and Investment Committee, the Board accepted \$10,000 in gifts from various donors and established the Roger C. Dycus Memorial Scholarship in support of Student Publications at The University of Texas at Arlington.

Income earned from the endowment will be used to reward and retain talented newspaper students at U. T. Arlington. The Roger C. Dycus Memorial Scholarship will consist of one or two awards in the amount of \$300 to \$750 to be granted on the basis of the recipient's value to the Student Publications newspaper, The Shorthorn, and the journalism profession. The scholarship will be administered by a committee of professional journalists who worked on the newspaper as students.

3. U. T. Austin: R. H. Bing Fellowships in Mathematics and The Malcolm and Minda Brachman Fellowship in Mathematics in Honor of R. H. Bing in the College of Natural Sciences - Approval to Designate Previously Approved Matching Funds Under The Regents' Endowed Teachers and Scholars Program for Addition Thereto and to Reduce Previously Accepted Pledge by Mr. James M. Vaughn, Jr. Vaughn Foundation Fund, Houston, Texas, and Matching Funds Under The Regents' Endowed Teachers and Scholars Program (No Publicity).--Approval was given to designate \$50,000 in previously approved matching funds from The Regents' Endowed Teachers and Scholars Program for serial addition to five R. H. Bing Fellowships in Mathematics and The Malcolm and Minda Brachman Fellowship in Mathematics in Honor of R. H. Bing in the College of Natural Sciences at The University of Texas at Austin.

Further, a \$50,000 pledge, payable by August 31, 1989, by Mr. James M. Vaughn, Jr. Vaughn Foundation Fund, Houston, Texas, for addition to the six Fellowships was reduced to \$25,000 and previously approved matching funds of \$25,000 from The Regents' Endowed Teachers and Scholars Program will be returned to that Program.

With approval of these actions, all six endowments will now be funded at \$100,000 each.

It was requested that no publicity be given to this matter.

4. U. T. Austin: Acceptance of Bequest and Trust Distribution from the Estates of Harold C. and Mary D. Bold, Austin, Texas; Establishment of the Harold C. and Mary D. Bold Regents Professorship of Cryptogamic Botany (Phycology) in the College of Natural Sciences and Eligibility for Matching Funds Under The Regents' Endowed Teachers and Scholars Program and Establishment of the Mary D. Bold Regents Professorship of Music in the College of Fine Arts.--The Board, upon recommendation of the Land and Investment Committee, accepted a \$50,000 bequest and a \$50,000 trust distribution for a total of \$100,000 from the Estates of Harold C. and Mary D. Bold, Austin, Texas, and established the Harold C. and Mary D. Bold Regents Professorship of Cryptogamic Botany (Phycology) in the Department of Botany, College of Natural Sciences, at The University of Texas at Austin.

Further, \$100,000 of the bequest and trust distribution will be matched under The Regents' Endowed Teachers and Scholars Program and will be used to establish the Mary D. Bold Regents Professorship of Music in the Department of Music, College of Fine Arts, at U. T. Austin.

A final report and recommendation regarding a possible residual estate distribution for establishment of a scholarship fund in music will be submitted when information becomes available.

5. U. T. Austin: Establishment of the Class of 1962 Scholarship in the School of Law.--At the request of the Law School Foundation (an external foundation), the Class of 1962 Scholarship was established in the School of Law at The University of Texas at Austin in accordance with the Regents' Rules and Regulations. The funding for this Scholarship (\$10,000) will be retained by the Law School Foundation and will be administered per the agreement between the Foundation and the U. T. Board of Regents.

Income earned from the endowment will be awarded at the discretion of the Dean of the School of Law or his designated representative.

6. U. T. Austin: Acceptance of Gifts from the Henry J. Kaiser Family Foundation, Menlo Park, California, and Various Donors and Establishment of the Wilbur J. Cohen Professorship in Health and Social Policy in the Lyndon B. Johnson School of Public Affairs and Eligibility for Matching Funds Under The Regents' Endowed Teachers and Scholars Program.--The Land and Investment Committee recommended and the Board accepted a \$100,000 gift from the Henry J. Kaiser Family Foundation, Menlo Park, California, and gifts of \$57,166 from various

donors for a total of \$157,166 and established the Wilbur J. Cohen Professorship in Health and Social Policy in the Lyndon B. Johnson School of Public Affairs at The University of Texas at Austin.

Further, \$78,583 of the gifts will be eligible for matching under The Regents' Endowed Teachers and Scholars Program and will be used to increase the endowment to a total of \$235,749.

7. U. T. Austin: Raymond V. and Lucy Cruce Endowed Scholarship in Engineering in the College of Engineering - Approval to Amend Use of Income.--Approval was given to amend the use of income from the Raymond V. and Lucy Cruce Endowed Scholarship in Engineering in the College of Engineering at The University of Texas at Austin to include awards to both deserving undergraduate and graduate students in the College of Engineering.

This amendment serves to fulfill the donor's original intention in allowing the College of Engineering to maintain maximum flexibility in awarding the scholarships.

8. U. T. Austin: Acceptance of Gift from Mr. and Mrs. Pat E. Clark, Houston, Texas, and Establishment of the Dean's Scholar Susan Clark Leadership Award Fund in the College of Natural Sciences.--Upon recommendation of the Land and Investment Committee, the Board accepted a \$10,000 gift from Mr. and Mrs. Pat E. Clark, Houston, Texas, and established the Dean's Scholar Susan Clark Leadership Award Fund in the College of Natural Sciences at The University of Texas at Austin.

Income earned from the endowment will be used as an award for excellence in scholarship and leadership.

9. U. T. Austin: Acceptance of Gift of Securities and Cash from the Dyche Foundation, Houston, Texas, and Establishment of the Back Sandra Dyche Endowed Presidential Scholarship and the W. E. Dyche Endowed Presidential Scholarship in the School of Law and Eligibility for Matching Funds Under The Regents' Endowed Student Fellowship and Scholarship Program.--The Board accepted a gift of various securities valued at \$30,597.98 and \$21,527.61 in cash for a total of \$52,125.59 from the Dyche Foundation, Houston, Texas, and established the Back Sandra Dyche Endowed Presidential Scholarship with \$26,062.79 and the W. E. Dyche Endowed Presidential Scholarship with \$26,062.80 in the School of Law at The University of Texas at Austin.

Income earned from the Back Sandra Dyche Endowed Presidential Scholarship will be used to award scholarships to qualified law students with preference given to those of Korean descent or at the discretion of the Dean of the School of Law. Income earned from the W. E. Dyche Endowed Presidential Scholarship will be used to award scholarships to law students at the discretion of the Dean.

Further, \$26,062.79 in matching funds will be allocated under The Regents' Endowed Student Fellowship and Scholarship Program and will be used to increase the two endowments, respectively, with \$13,031.39 and \$13,031.40 of the funds.

10. U. T. Austin: Richard J. Gonzalez Regents Chair in Economic Progress Based on Freedom and Private Enterprise in the College of Liberal Arts - Approval to Transfer Previously Designated Matching Funds Under The Regents' Endowed Teachers and Scholars Program to the Clint W. Murchison, Sr. Chair of Free Enterprise in the College of Engineering.--In accordance with the donor's request, approval was granted to transfer \$644,812.16 in previously designated matching funds from The Regents' Endowed Teachers and Scholars Program in the Richard J. Gonzalez Regents Chair in Economic Progress Based on Freedom and Private Enterprise in the College of Liberal Arts to the Clint W. Murchison, Sr. Chair of Free Enterprise in the College of Engineering at The University of Texas at Austin.

11. U. T. Austin: Acceptance of Gifts and Pledges from Various Donors and Establishment of the Lorrin Kennamer Endowed Presidential Scholarship for Future Teachers in the College of Education and Eligibility for Matching Funds Under The Regents' Endowed Student Fellowship and Scholarship Program.--The Land and Investment Committee recommended and the Board accepted \$20,040 in gifts and \$4,960 in pledges from various donors for a total of \$25,000 and established the Lorrin Kennamer Endowed Presidential Scholarship for Future Teachers in the College of Education at The University of Texas at Austin.

Income earned from the endowment will be used to award scholarships to deserving undergraduate and graduate students in the College of Education.

Further, \$12,500 in matching funds will be allocated under The Regents' Endowed Student Fellowship and Scholarship Program as gifts and pledges are received and will be used to increase the endowment for a total of \$37,500.

12. U. T. Austin: Ronald D. Krist Endowment Fund in the School of Law - Acceptance of Additional Gift from Mr. Ronald D. Krist, Houston, Texas, and Eligibility for Matching Funds Under The Regents' Endowed Student Fellowship and Scholarship Program.--The Board, upon recommendation of the Land and Investment Committee, accepted a \$15,000 gift from Mr. Ronald D. Krist, Houston, Texas, and a \$7,500 transfer of previously reported gifts from current restricted funds for addition to the Ronald D. Krist Endowment Fund in the School of Law at The University of Texas at Austin.

Further, \$7,500 in matching funds will be allocated under The Regents' Endowed Student Fellowship and Scholarship Program and will be used to increase the endowment to a total of \$55,000.

13. U. T. Austin: Audre and Bernard Rapoport Regents Chair of Liberal Arts in the College of Liberal Arts - Acceptance of Transfer of Funds and Eligibility for Matching Funds Under The Regents' Endowed Teachers and Scholars Program (No Publicity).--Upon recommendation of the Land and Investment Committee, the Board accepted a \$43,923.18 transfer of previously reported gifts from current restricted funds for addition to the Audre and Bernard Rapoport Regents Chair of Liberal Arts in the College of Liberal Arts at The University of Texas at Austin.

Further, the \$43,923.18 transfer will be eligible for matching under The Regents' Endowed Teachers and Scholars Program and funds will be used to increase the endowment for a total of \$601,618.

It was requested that no publicity be given to this matter.

14. U. T. Austin: Richardson Savings & Loan Association/Clifton W. Cassidy III Centennial Professorship in Savings and Loans in the College of Business Administration and the Graduate School of Business - Approval to Redesignate as the Richardson Savings and Loan Association Centennial Professorship in Finance.--Approval was given to redesignate the Richardson Savings & Loan Association/Clifton W. Cassidy III Centennial Professorship in Savings and Loans in the College of Business Administration and the Graduate School of Business as the Richardson Savings and Loan Association Centennial Professorship in Finance at The University of Texas at Austin.

This redesignation was made in accordance with the donor's request.

15. U. T. Austin: Acceptance of Gift and Pledge from Mrs. Ina Riggs Brundrett, Tyler, Texas, and Corporate Matching Funds from Exxon Educational Foundation, Florham Park, New Jersey, and Establishment of the I. F. Riggs Memorial Endowed Presidential Scholarship in Education in the College of Education and Eligibility for Matching Funds Under The Regents' Endowed Student Fellowship and Scholarship Program.--The Board accepted a \$2,500 gift and \$12,500 pledge, payable by December 31, 1988, from Mrs. Ina Riggs Brundrett, Tyler, Texas, and \$10,000 in corporate matching funds from the Exxon Educational Foundation, Florham Park, New Jersey, for a total of \$25,000 and established the I. F. Riggs Memorial Endowed Presidential Scholarship in Education in the College of Education at The University of Texas at Austin.

Income earned from the endowment will be used to award scholarships to deserving undergraduate and graduate students in the College of Education.

Further, \$12,500 in matching funds will be allocated under The Regents' Endowed Student Fellowship and Scholarship Program as gifts and pledges are received and will be used to increase the endowment for a total of \$37,500.

16. U. T. Austin: Establishment of the Z. T. Scott Family Chair in Drama and the Z. T. Scott Family Endowment for the Performing Arts in the College of Fine Arts.--The Land and Investment Committee recommended and the Board established the Z. T. Scott Family Chair in Drama in the College of Fine Arts at The University of Texas at Austin with proceeds of \$500,500 from the sale of the Scott House - Sweetbrush.

Further, interest earned on designated fund account balances in the amount of \$500,500 will be used to match the proceeds and to establish the Z. T. Scott Family Endowment for the Performing Arts in the College of Fine Arts to support the professional performing art series offered by U. T. Austin.

17. U. T. Austin: Jean Andrews Smith Centennial Visiting Professorship in Human Nutrition and the Jean Andrews Smith Centennial Visiting Professorship in Tropical and Economic Botany in the College of Natural Sciences - Approval to Redesignate as the Jean Andrews Centennial Visiting Professorship in Human Nutrition and the Jean Andrews Centennial Visiting Professorship in Tropical and Economic Botany.--The Board, upon recommendation of the Land and Investment Committee, redesignated the Jean Andrews Smith Centennial Visiting Professorship in Human Nutrition and the Jean Andrews Smith Centennial Visiting Professorship in Tropical and Economic Botany in the College of Natural Sciences at The University of Texas at Austin as the Jean Andrews Centennial Visiting Professorship in Human Nutrition and the Jean Andrews Centennial Visiting Professorship in Tropical and Economic Botany in accordance with the donor's request.
18. U. T. Austin: Acceptance of Gift and Pledge from an Anonymous Donor and Establishment of the Structural Geology and Tectonics Fund in the College of Natural Sciences.--Upon recommendation of the Land and Investment Committee, the Board accepted a \$20,000 gift and an \$80,000 pledge, payable in four annual installments, from an anonymous donor for a total of \$100,000 and established the Structural Geology and Tectonics Fund in the Department of Geological Sciences, College of Natural Sciences, at The University of Texas at Austin.
- Income earned from the endowment will be used primarily to assist students being trained in structural geology and tectonics and for unrestricted use by faculty and students whose research and teaching activities are in this area.
19. U. T. Austin: Establishment of the Thompson & Knight Harold F. Kleinman Scholarship in the School of Law.--At the request of the Law School Foundation (an external foundation), the Board established the Thompson & Knight Harold F. Kleinman Scholarship in the School of Law at The University of Texas at Austin in accordance with the Regents' Rules and Regulations. The funding for this Scholarship (\$10,000) will be retained by the Law School Foundation and will be administered per the agreement between the Foundation and the U. T. Board of Regents.
- Income earned from the endowment will be awarded to a student on the basis of need or a demonstrated seriousness toward the study of law.
20. U. T. Austin: Acceptance of Gift and Pledges from Times Mirror Foundation, Los Angeles, California, and KTBC - TV, Austin, Texas, Owned by Times Mirror Broadcasting, Los Angeles, California, and Establishment of the Times Mirror Minority Scholarship Fund in the College of Communication and Eligibility for Matching Funds Under The Regents' Endowed Student Fellowship and Scholarship Program.--The Board accepted a \$25,000 gift and \$45,000 pledge, payable by August 31, 1991, from the Times Mirror Foundation, Los Angeles, California, and a \$30,000 pledge from KTBC - TV, Austin, Texas, owned by Times Mirror Broadcasting, Los Angeles, California, payable by August 31, 1991, for a total of \$100,000 and established the Times Mirror Minority Scholarship Fund in the College of Communication at The University of Texas at Austin.

Income earned from the endowment will be used to award scholarships to deserving minority students in the College of Communication.

Further, \$50,000 in matching funds will be allocated under The Regents' Endowed Student Fellowship and Scholarship Program and will be used to increase the endowment for a total of \$150,000.

21. U. T. Austin: Establishment of the John S. Watson/Charles T. Newton, Jr. Scholarship in the School of Law.--The Board, at the request of the Law School Foundation (an external foundation), established the John S. Watson/Charles T. Newton, Jr. Scholarship in the School of Law at The University of Texas at Austin in accordance with the Regents' Rules and Regulations. The funding for this Scholarship (\$15,200) will be retained by the Law School Foundation and will be administered per the agreement between the Foundation and the U. T. Board of Regents.

Income earned from the endowment will be awarded to a third year law student in financial need who has accepted a position as a state or federal judicial clerk following graduation.

22. U. T. El Paso: Acceptance of Gifts from Various Donors and Establishment of the International Mining Days Scholarship Fund.--The Land and Investment Committee recommended and the Board accepted \$10,000 in gifts from various donors and established the International Mining Days Scholarship Fund at The University of Texas at El Paso.

Income earned from the endowment will be used to award scholarships in accordance with the Endowed Presidential Scholarship guidelines.

23. U. T. El Paso: Acceptance of Gifts from Various Donors and Establishment of the Dr. W. Turrentine Jackson History Fund.--The Board, upon recommendation of the Land and Investment Committee, accepted \$10,000 in gifts from various donors and established the Dr. W. Turrentine Jackson History Fund at The University of Texas at El Paso.

Income earned from the endowment will be used by the Dean of the Graduate School in cooperation with the Chairman of the History Department to select worthy and deserving graduate students for scholarships.

24. U. T. Medical Branch - Galveston: The John Sealy Memorial Endowment Fund for Biomedical Research - Acceptance of Additional Gift from The Sealy & Smith Foundation for the John Sealy Hospital, Galveston, Texas.--Upon recommendation of the Land and Investment Committee, the Board accepted a \$5,000,000 gift from The Sealy & Smith Foundation for the John Sealy Hospital, Galveston, Texas, and a \$5,000,000 transfer of institutional funds for a total of \$10,000,000 for addition to The John Sealy Memorial Endowment Fund for Biomedical Research at The University of Texas Medical Branch at Galveston, bringing the endowment to a total of \$20,000,000.

This transfer of U. T. Medical Branch - Galveston institutional funds is authorized by a Rider in the current Appropriations Bill.

Distributions from the Fund, as outlined in the previously established Endowment Agreement, will be used to support biomedical research, defined as "all investigative endeavors into the biological and physical systems that relate to the understanding, prevention and treatment of human diseases and trauma."

On behalf of the Board, Committee Chairman Ratliff expressed appreciation and special praise to The Sealy & Smith Foundation for its most generous and continuous support of medical research and the U. T. Medical Branch - Galveston and noted that the Foundation's partnership with the U. T. System and the people of Texas has had a major impact on the practice of medicine in the State of Texas.

25. U. T. Health Science Center - Houston: Approval to Apply Funds from Sale of Previously Reported Gift of Securities from Mr. and Mrs. Roy M. Huffington, Houston, Texas, and to Establish the Roy M. and Phyllis Gough Huffington Chair in Neurology and the Roy M. and Phyllis Gough Huffington Chair in Gerontology; Addition to the Isla Carroll Turner Professorship in Gerontology, All in the U. T. Medical School - Houston, and Eligibility for Matching Funds Under the Texas Eminent Scholars Program.--The Board accepted a \$1,000,000 transfer of funds representing the proceeds of the sale of a previously reported gift of 1,000 shares of Huffington Corporation convertible preferred stock valued at \$1,000,000 from Mr. and Mrs. Roy M. Huffington, Houston, Texas, and a \$200,000 transfer of MSRDP funds for The University of Texas Health Science Center at Houston to be used as follows:

- a. Addition of \$200,000 from the \$1,000,000 gift to increase the previously established endowment for the Isla Carroll Turner Professorship in Gerontology for a total of \$300,000
- b. Establishment of the Roy M. and Phyllis Gough Huffington Chair in Neurology with \$500,000 of the previously reported gift and an annual transfer of MSRDP funds to match the income earned on this Chair
- c. Establishment of the Roy M. and Phyllis Gough Huffington Chair in Gerontology with \$300,000 of the previously reported gift and a \$200,000 transfer of MSRDP funds for a total of \$500,000.

Further, the actual income which will be earned on the \$1,000,000 previously reported gift will be certified for matching under the Texas Eminent Scholars Program as set out in Chapter 51, Subchapter I of the Texas Education Code.

See Page 72 related to an appointment to the Roy M. and Phyllis Gough Huffington Chair in Neurology.

26. U. T. Health Science Center - Houston: Acceptance of Gift from Mrs. T. Deborah Chang-Tung, Honolulu, Hawaii, and Establishment of the Research Projects in Academic Surgery Endowment.--The Land and Investment Committee recommended and the Board accepted a \$10,000 gift from Mrs. T. Deborah Chang-Tung, Honolulu, Hawaii, and a \$10,000 transfer of MSRDP funds for a total endowment

of \$20,000 and established the Research Projects in Academic Surgery Endowment at The University of Texas Health Science Center at Houston.

Income earned from the endowment will be used to support general surgical residents who want to pursue an academic career in surgery. It is the donor's wish that method of distribution, amount, and number of awards made be left to the discretion of the Department of Surgery.

27. U. T. Health Science Center - San Antonio: Acceptance of Gifts from Various Donors and Establishment of the John J. Hinchey Professorship in Orthopaedics and Eligibility for Matching Funds Under the Texas Eminent Scholars Program.--Approval was given to accept \$61,700 in gifts from various donors and a \$50,000 transfer of MSRDP funds for a total endowment of \$111,700 and to establish the John J. Hinchey Professorship in Orthopaedics at The University of Texas Health Science Center at San Antonio.

Income earned from the endowment will be used to support the Professorship. A nominee for holder of the Professorship will be presented at a later date.

Further, the actual income which will be earned on \$61,700 will be certified for matching under the Texas Eminent Scholars Program as set out in Chapter 51, Subchapter I of the Texas Education Code.

28. U. T. M.D. Anderson Cancer Center: Acceptance of Gift and Pledge from the David Bruton, Jr. Charitable Trust, Dallas, Texas, and Establishment of the David Bruton, Jr. Fellowship in Clinical Pastoral Education.--The Board, upon recommendation of the Land and Investment Committee, accepted a \$130,000 gift and a pledge of \$130,000, payable in 1988, for a total of \$260,000 from the David Bruton, Jr. Charitable Trust, Dallas, Texas, and established the David Bruton, Jr. Fellowship in Clinical Pastoral Education at The University of Texas M.D. Anderson Cancer Center.

Income earned from the endowment will be used to support the Fellowship.

29. U. T. M.D. Anderson Cancer Center: Acceptance of Bequest from the Estate of Lessley S. Keese, Beaumont, Texas.--Upon recommendation of the Land and Investment Committee, the Board accepted a bequest estimated at \$700,000 comprised of cash and mineral interests, with distributions received to date of \$409,022.90, from the Estate of Lessley S. Keese, Beaumont, Texas, for the benefit of The University of Texas M.D. Anderson Cancer Center with a designation of funds and final report to be made at a later date.

30. U. T. M.D. Anderson Cancer Center: Acceptance of an Undivided 19.8% Interest in 4,800 Acres of Land on Padre Island in Kleberg County, Texas, from Mrs. Virginia Jones Mullin, Tucson, Arizona; Authorization for the Office of Asset Management to Negotiate the Sale of the Property; and Authorization for the Executive Vice Chancellor for Asset Management to Execute All Documents Pertaining to the Sale.--The Board accepted a gift of land from Mrs. Virginia Jones Mullin, Tucson, Arizona, conveying an undivided 19.8% interest in 4,800 acres on Padre Island in Kleberg County, Texas, including her individual interest as well as her interest as the sole stockholder in four corporations. The donor's estimated value of this property donation is in excess of \$1.0 million. This deed includes the conveyance of the surface as well as her right, title, and interest in oil, gas and other minerals and also includes all present and future accretions, relictions and other alluvial additions to these lands. Proceeds from the sale of the property will be used for the benefit of The University of Texas M.D. Anderson Cancer Center.

Further, the Office of Asset Management was authorized to negotiate the sale of the property at fair market value and the Executive Vice Chancellor for Asset Management was authorized to execute all documents pertaining to the sale.

IV. INTELLECTUAL PROPERTY

1. U. T. Austin: Approval of Patent and Technology License Agreement with Parker Kinetic Designs, Inc. (PKD), a Texas Corporation, Austin, Texas.--The Land and Investment Committee recommended and the Board (a) approved a new Patent and Technology License Agreement and accompanying Shareholders Agreement by and between The University of Texas at Austin ("U. T. Austin") and Parker Kinetic Designs, Inc., a Texas corporation ("PKD"), Austin, Texas, as set out on Pages 93 - 114 and (b) approved in principle the future transfer by U. T. Austin of one-half (i.e, five percent) of its equity in PKD to the inventors of the technologies licensed in the License Agreement, the timing of this transfer and allocation of equity among the inventors to be submitted to the U. T. Board of Regents for approval at a future meeting.

A license agreement with Parker Kinetic Designs ("PKD") was originally approved by the U. T. Board of Regents at its April 1983 meeting. Under the new License Agreement, PKD is granted a royalty-bearing, exclusive, worldwide license under licensed subject matter, defined as homopolar generators, compulsators, and ancillary electromagnetic equipment that have been developed by the Center for Electromechanics at U. T. Austin as of January 1, 1988, to make, have made, use, sell and have sold products using the patents and technology in licensed subject matter. Approximately twenty-three issued patents and pending patent applications are included in licensed subject matter and are listed in Attachment A to the License Agreement.

PATENT AND TECHNOLOGY

LICENSE AGREEMENT

THIS AGREEMENT is made this 1st day of January, 1988 ("Effective Date") by and between the BOARD OF REGENTS, THE UNIVERSITY OF TEXAS SYSTEM, an agency of the State of Texas, 201 West 7th Street, Austin, Texas 78701, ("UNIVERSITY") and Parker Kinetic Designs, Inc., a Texas corporation, 10711 Burnett Road, Suite 310, P. O. Box 27350, Austin, TX 78755 ("LICENSEE"),

W I T N E S S E T H:

Whereas UNIVERSITY owns certain PATENTS related to the LICENSED SUBJECT MATTER listed in Attachment A;

Whereas UNIVERSITY also owns TECHNOLOGY related to the LICENSED SUBJECT MATTER;

Whereas UNIVERSITY wishes to have the inventions covered by the PATENTS and included in the TECHNOLOGY developed and used for the benefit of the inventor, UNIVERSITY, and the public; and

Whereas LICENSEE wishes to obtain a license under such PATENTS and TECHNOLOGY to practice such inventions.

NOW THEREFORE, in consideration of the mutual covenants and premises herein contained, the parties hereto agree as follows:

I.

DEFINITIONS

As used in this License Agreement ("Agreement"), the following terms shall have the meanings indicated:

1.1 LICENSED SUBJECT MATTER shall mean homopolar generators, compulsators and ancillary electromagnetic equipment that have been developed by the Center for Electromechanics at the University of Texas at Austin as of

the effective date of this Agreement and as are included in PATENTS and TECHNOLOGY.

1.2 PATENTS shall mean those United States and foreign patents and patent applications including any division, continuation, continuation-in-part or reissue thereof, or substitute therefore, and the letters patent that may be issued thereon and which are listed in Attachment A.

1.3 TECHNOLOGY shall mean any invention, discovery, know-how, process, procedure, method, protocol, formula, technique, drawing, or other valuable technical information ancillary to the LICENSED SUBJECT MATTER. TECHNOLOGY also shall include design and analytical support and consultation at the discretion of the Director of the Center for Electromechanics.

1.4 LICENSED PRODUCT(S) shall mean any product(s) covered by one or more claims of the PATENTS or produced by a method covered by one or more claims of such PATENTS, or utilizing any TECHNOLOGY.

1.5 SALE(S) (or SOLD) shall mean any disposition of a LICENSED PRODUCT for value to a party other than LICENSEE or a sublicensee hereunder.

1.6 GROSS SALES shall mean LICENSEE'S billings on SALES of LICENSED PRODUCTS and components or replacement parts for LICENSED PRODUCTS, less any customary discounts (such as O.E.M.) allowed and actually taken, sales and/or use taxes or their equivalent, import or export duties or their equivalent, outbound transportation prepaid or allowed, insurance, installation charges, amounts allowed or credited due to returns (not exceeding the original billing) and the imputed interest factor under any lease. GROSS SALES shall not be reduced due to taxes other than sales and/or use taxes.

1.7 SERVICE AND RESEARCH AGREEMENT shall mean that certain agreement between the parties hereto to be negotiated and effective in the future under which contracted research services are provided to LICENSEE by UNIVERSITY through the Center for Electromechanics at the University of Texas at Austin and under which contracted services are provided to UNIVERSITY'S Center for Electromechanics by LICENSEE.

1.8 SHAREHOLDERS AGREEMENT shall mean that certain agreement among the UNIVERSITY, PKD, and Parker Drilling Company executed contemporaneously herewith, which shall govern the rights and obligations of the shareholders of LICENSEE with regard to the stock of LICENSEE.

1.9 SALE(S) TO THE FEDERAL GOVERNMENT shall mean any sales of LICENSED PRODUCT(S) (i) to the government of the United States of America or any subdivision thereof; or (ii) funded by the United States Government.

II.

TERMINATION OF PRIOR AGREEMENT

2.1 The prior Patent License Agreement effective February 1, 1983, as subsequently amended and assigned, shall be deemed terminated upon the complete execution of this Agreement, with such termination being effective as of the effective date of this Agreement. All payments required under the prior Patent License Agreement as of the date of termination will be made as provided therein.

III.

GRANT OF LICENSE

3.1 UNIVERSITY grants an exclusive worldwide License to LICENSEE under LICENSED SUBJECT MATTER to make, have made, use, sell, and have sold LICENSED PRODUCTS. The License granted to LICENSEE is subject to

UNIVERSITY's right to publish the general scientific findings from research related to PATENTS and TECHNOLOGY and use PATENTS and TECHNOLOGY for research, teaching and other academic UNIVERSITY purposes.

3.2 LICENSEE shall have the right to grant sublicenses consistent with this Agreement provided that LICENSEE shall be responsible for the operations of its sublicensees relevant to this Agreement as if such operations were carried out by LICENSEE, including the payment of royalties or Government Contract Payments whether or not paid to LICENSEE by the sublicensee; and provided further that LICENSEE shall consult with UNIVERSITY through the Director of Center for Electromechanics at the University of Texas at Austin as to technical feasibility of any proposal prior to granting any such sublicense. LICENSEE shall have the obligation to non-exclusively sublicense in accordance with this Agreement the right to manufacture LICENSED PRODUCTS to any responsible company identified by UNIVERSITY: which desires such right; which demonstrates to UNIVERSITY its ability to fully comply with the terms of the sublicense; and, to whom LICENSEE is unable to meet the demand of such company for LICENSED PRODUCTS on reasonable delivery terms. Such sublicense shall be limited in scope to the manufacture of LICENSED PRODUCTS which LICENSEE is unable to make. In the event LICENSEE is compelled to grant a sublicense to a party identified by the UNIVERSITY, LICENSEE shall contractually obligate said sublicensee to pay all royalties and Government Contract Payments directly to UNIVERSITY and LICENSEE shall not be liable for such royalties and Government Contract Payments payable by sublicensee.

3.3 The parties recognize that LICENSEE may encounter patents held by third parties which are superior to both UNIVERSITY'S and LICENSEE'S PATENTS and that a cross-license between LICENSEE and such a third party

may be necessary in order to enable LICENSEE to market LICENSED PRODUCTS. In that event LICENSEE has the right to enter into cross-licensing agreements with third parties and to grant cross-licenses under any and all of the PATENTS, provided:

(a) UNIVERSITY is consulted beforehand and is reasonably satisfied that the third party does in fact hold a patent that limits LICENSEE'S competitiveness in marketing LICENSED PRODUCTS;

(b) The rights received by LICENSEE under such a cross-licensing agreement substantially cover LICENSED PRODUCTS and are not directed to other products;

(c) UNIVERSITY incurs no financial or legal liabilities under the cross-license;

(d) Any money or the value of any equipment received by LICENSEE in exchange for such cross-license is treated as GROSS SALES for LICENSED PRODUCT or as a sublicense whichever provides the greater return to UNIVERSITY;

(e) The cross-license provides that UNIVERSITY has the option of terminating any rights thereunder for any reason.

(f) Nothing contained in this paragraph 3.3 shall prevent LICENSEE from granting a sublicense under paragraph 3.2 of this Agreement.

3.4 At the time a patent application is filed therefor or a patentability opinion or report is rendered, whichever is earlier, UNIVERSITY shall disclose to LICENSEE under appropriate confidentiality agreements such (1) future developments, modifications or improvements to homopolar generators and compulsators originating at UNIVERSITY'S Center for Electromechanics which, if made, used, or sold, absent a license from UNIVERSITY, would

constitute an infringement of any claim of then existing United States patent applications or patents comprising PATENTS, and (2) future developments, modifications or improvements in electromagnetic equipment ancillary to homopolar generators and compulsators originating at UNIVERSITY'S Center for Electromechanics ((1) and (2) being referred to herein as "Improvements"). LICENSEE shall have an option for three (3) months from the date of disclosure thereof to notify UNIVERSITY in writing that it desires to add such Improvements to the License of this Article III subject to the terms of this Agreement.

3.5 Both LICENSEE and UNIVERSITY are obligated to the transfer of TECHNOLOGY and mutually covenant to aid and assist in every reasonable manner the effective transfer of licensed TECHNOLOGY. The UNIVERSITY shall furnish to the LICENSEE all unrestricted information and documents in the possession of the UNIVERSITY regarding the LICENSED SUBJECT MATTER as will enable LICENSEE to generally commercially utilize and exploit the LICENSED SUBJECT MATTER including consultation regarding specific applications of the LICENSED SUBJECT MATTER as applied to specific customers, clients or projects, but such consultation shall not include those contracted research services provided to LICENSEE by the UNIVERSITY under the Services and Research Agreement.

IV.

WARRANTY; SUPERIOR OBLIGATIONS

4.1 UNIVERSITY represents and warrants that it is the owner of the entire right, title, and interest in and to PATENTS and TECHNOLOGY, and that it has the sole right to grant licenses under such PATENTS and TECHNOLOGY and that it has not heretofore granted licenses thereunder to any other person.

4.2 LICENSEE understands that some of the PATENTS and TECHNOLOGY licensed hereunder were developed under a funding contract with or grant from the Government of the United States of America and that UNIVERSITY has certain obligations relative thereto. This Agreement is explicitly made subject to UNIVERSITY'S obligations under such contracts (or laws or regulations relating thereto) and, to the extent that there is a conflict between any such contracts (or laws or regulations relating thereto) and this Agreement, the terms of such contracts (or laws or regulations relating thereto) shall prevail.

V.

PAYMENTS AND REPORTS

5.1 On all sales, other than SALE(S) TO THE FEDERAL GOVERNMENT, LICENSEE shall pay UNIVERSITY an earned royalty of six percent (6%) of its or its sublicensee's GROSS SALES of LICENSED PRODUCTS. Such earned royalty shall be due for the calendar quarter in which the LICENSED PRODUCT is finally accepted or paid for by the customer, whichever occurs first.

5.2 On SALES TO THE FEDERAL GOVERNMENT, LICENSEE shall pay UNIVERSITY as earned royalty, twenty percent (20%) of its or its sublicensee's negotiated fee ("Government Contract Payments") on sales of LICENSED PRODUCTS. Such Government Contract Payments shall be due in the calendar quarter in which the LICENSEE receives reimbursement for all or part of its negotiated fee. If LICENSEE receives partial payment of the fee in a quarter, it shall only be obligated to pay UNIVERSITY its proportionate share of the fee received during that quarter.

5.3 It is contemplated that LICENSEE shall enter into contracts or undertake projects which require LICENSEE to provide LICENSED PRODUCTS and products and services unrelated to the LICENSED SUBJECT MATTER.

As to such contracts UNIVERSITY shall only be entitled to royalties under Paragraph 5.1 based on actual SALES of LICENSED PRODUCTS; on such contracts UNIVERSITY shall only be entitled to its Government Contract Payment under Paragraph 5.2 on the portion of the LICENSEE's negotiated fee which is related to LICENSED PRODUCTS actually provided. LICENSEE shall not be required to pay the UNIVERSITY a royalty or Government Contract Payment on any portion of a SALE that is unrelated to the LICENSED SUBJECT MATTER.

5.4 During the Term of this Agreement and for one (1) year thereafter, LICENSEE shall keep complete and accurate records of its and its sublicensees' SALES of LICENSED PRODUCTS under the license granted in this Agreement, in sufficient detail to enable the earned royalties payable under Paragraph 5.1 and the Government Contract Payments due under Paragraph 5.2 to be determined. LICENSEE shall permit UNIVERSITY or its representatives, at UNIVERSITY'S expense, to periodically examine its books, ledgers, and records during regular business hours for the purpose of and to the extent necessary to verify any report required under this Agreement.

5.5 Within thirty (30) days after March 31, June 30, September 30, and December 31 of each year, LICENSEE shall deliver to UNIVERSITY a true and accurate report, giving such particulars of the business conducted by LICENSEE and its sublicensees, if any exist, during the preceding three (3) calendar months under this License Agreement as are pertinent to an accounting for royalty payments and Government Contract Payments hereunder. Such report shall include at least (a) the quantities of LICENSED PRODUCTS that it has SOLD; (b) the billings thereon that comprise GROSS SALES, or the applicable negotiated fee on SALES TO THE FEDERAL GOVERNMENT; (c) the calculation of earned royalties or Government Contract Payments; and (d)

the total earned royalties or Government Contract Payments so computed and due UNIVERSITY. Simultaneously with the delivery of each such report, LICENSEE shall pay to UNIVERSITY the amount, if any, due for the period of such report. If no payments are due, it shall be so reported. If the reason that no payments are due is the result of the exercise of the waiver provided in paragraph 5.9 below, LICENSEE shall so state in the report.

5.6 Beginning on the first anniversary date of this Agreement and continuing through the tenth anniversary date of this Agreement LICENSEE shall pay to UNIVERSITY an annual fixed royalty (in addition to earned royalties pursuant to paragraph 5.1 and Government Contract Payments pursuant to paragraph 5.2) in the amount of one hundred thousand dollars (\$100,000.00). Up to fifty percent (50%) of each of the first four (4) fixed royalty payments may be deferred at the sole option of the LICENSEE. Any fixed royalty payments deferred by LICENSEE shall be due and payable on the fifth anniversary date of this Agreement. All fixed royalty payments shall cease after the tenth anniversary date of this Agreement. Such cessation of payments shall not affect the exclusivity of LICENSEE's License hereunder.

5.7 All amounts payable hereunder by LICENSEE shall be payable in United States funds.

5.8 If a licensed issued patent (comprised in PATENTS) is held invalid by virtue of a final, nonappealable judgment entered by a court in litigation with a third party, the UNIVERSITY and LICENSEE may reopen negotiations as to the earned royalty rate specified in Paragraph 5.1, the Government Contract Payments specified in Paragraph 5.2 and/or the fixed royalty payment in Paragraph 5.6 upon written notification that the foregoing is actually affecting LICENSEE'S competitive position relative to LICENSED PRODUCTS.

Further, in the event that the UNIVERSITY is unable to obtain rights in Patent #4,200,831 (DOE Case #S-49,995) which will allow LICENSEE to practice the other PATENTS relating to compulsator technology without infringing on the Department of Energy's rights under patent #4,200,831 (DOE Case #S-49,995) the UNIVERSITY and LICENSEE shall re-open negotiations as to the earned royalty specified in Paragraph 5.1, the Government Contract Payments specified in Paragraph 5.2 and the fixed royalty payment for years six through ten specified in Paragraph 5.6.

5.9 Notwithstanding anything to the contrary herein, the UNIVERSITY does hereby agree to waive the earned royalties provided in paragraph 5.1 and/or the Government Contract Payments provided for in paragraph 5.2 on ten million dollars (\$10,000,000.00) of GROSS SALES of LICENSED PRODUCTS. The decision as to which SALES OF LICENSED PRODUCTS or SALES OF LICENSED PRODUCTS TO THE FEDERAL GOVERNMENT are to be included in this waiver shall be within the sole discretion of LICENSEE. However, LICENSEE shall notify UNIVERSITY in writing of the exercise of such waiver pursuant to this paragraph.

5.10 LICENSEE shall reimburse UNIVERSITY for all its reasonable out-of-pocket expenses incurred in filing, prosecuting and maintaining PATENTS licensed hereunder and shall pay all such future expenses so long as and in such countries as its license remains in effect. UNIVERSITY shall keep LICENSEE advised as to the progress of such filings and prosecutions and will provide LICENSEE a reasonable opportunity to participate in decisions regarding expenses with respect thereto, obtaining the consent of LICENSEE as to the incurring of further non-routine expenses, such consent not to be unreasonably withheld. LICENSEE shall reimburse UNIVERSITY within thirty (30) days of receipt of a billing statement from UNIVERSITY for such expenses incurred subsequent to January 1, 1988.

Any such expenses incurred prior to January 1, 1988 shall be reimbursed to UNIVERSITY on or before December 31, 1988. In countries other than the United States, LICENSEE shall have the right to request that UNIVERSITY file patent applications therein to the extent that such coverage is available and the further right to approve any extensive patent searches or the filing of patent applications when the expenses of such actions are to be charged to LICENSEE. In any foreign country in which UNIVERSITY desires patent protection but in which LICENSEE does not pay the expenses thereof, the license granted hereunder in such country shall terminate.

VI.

SHARES OF LICENSEE

6.1 Upon final execution of this Agreement and as additional consideration for the License granted herein, LICENSEE shall cause to be issued in the name of the UNIVERSITY common shares of LICENSEE representing ten percent (10%) equity ownership of LICENSEE.

VII.

TERM AND TERMINATION

7.1 The Term of this Agreement shall be from the Effective Date to the full end of the term or terms for which PATENTS or extensions thereof are granted or twenty (20) years whichever is later. For purposes of this paragraph PATENTS shall include any Patents added to this Agreement by Amendment.

7.2 This Agreement will earlier terminate:

(a) automatically if LICENSEE shall become bankrupt or insolvent and/or if the business of LICENSEE shall be placed in the hands of a receiver, assignee, or trustee, whether by voluntary act of LICENSEE or otherwise, at which time all rights shall immediately and automatically revert to UNIVERSITY; or

(b) Upon ninety (90) days written notice from UNIVERSITY, if LICENSEE shall fail to pay any earned royalty, Government Contract Payment, fixed royalty, United States patent expense or foreign patent expense which LICENSEE has agreed to pay pursuant to section 5.10, due hereunder; provided however, LICENSEE may avoid such termination if before the end of such period LICENSEE cures any such breach.

7.3 The UNIVERSITY will keep LICENSEE informed as to the progress of all Patent applications included in Attachment A, as may be amended and will provide LICENSEE with copies of any finally issued claims in such applications.

7.4 Upon termination of this Agreement for any cause, nothing herein shall be construed to release either party of any obligation matured prior to the effective date of such termination, and LICENSEE may, after the effective date of such termination, sell all LICENSED PRODUCTS and parts therefore that it may have on hand at the date of termination, provided that it pays earned royalty thereon as provided in this Agreement.

VIII.

INFRINGEMENT

8.1 UNIVERSITY shall notify LICENSEE, and LICENSEE shall notify UNIVERSITY of any infringement of a PATENT which may come to the attention of UNIVERSITY or LICENSEE. LICENSEE shall have the exclusive right to sue the infringing party, and UNIVERSITY shall join any suit as a party if required. All costs and expenses, including attorneys fees, of any lawsuit instituted by LICENSEE shall be borne by LICENSEE. The amount of any recovery (whether by settlement or judgment) paid to LICENSEE shall belong to and be the sole property of LICENSEE, but subject to payment of

earned royalties pursuant to paragraph 5.1 or Government Contract Payments pursuant to paragraph 5.2, as the case may be.

8.2 If LICENSEE fails to bring suit to prevent any infringement or any allegedly infringing use of which it has knowledge within six (6) months after such knowledge, UNIVERSITY shall have the right after notice to LICENSEE of its intention to do so, to bring suit against the accused infringer in the name of UNIVERSITY, and LICENSEE shall join any such suit as a named party if required. Any such suit brought by UNIVERSITY shall be financed solely by UNIVERSITY, and any recovery therefrom shall belong to and be the sole property of UNIVERSITY.

8.3 In any suit or dispute involving an infringer, the parties shall cooperate fully, and upon the request and at the expense of the party bringing suit, the other party shall make available to the party bringing suit all relevant records, papers, information, samples, specimens, and the like which may be relevant and in its possession.

IX.

ASSIGNMENT

9.1 This Agreement may not be assigned by LICENSEE without the prior written consent of UNIVERSITY. In the event that the controlling interest of LICENSEE is acquired by a party that is not an owner of an equity interest in LICENSEE as of the effective date of this agreement, UNIVERSITY at its election may terminate LICENSEE'S further rights under paragraph 3.4. Excepted from operation of the prior sentence is the acquisition of a controlling interest in LICENSEE by means of a public offering registered with the Securities and Exchange Commission.

X.

PATENT MARKING

10.1 LICENSEE agrees to mark permanently and legibly all LICENSED

PRODUCTS manufactured or sold by it under this Agreement with the number of each issued PATENT applicable thereto.

XI.

GENERAL

11.1 Except for the Service and Research Agreement and the Confidential Information Disclosure Agreement to be executed subsequent hereto and the Shareholders Agreement to be executed contemporaneously herewith, this Agreement constitutes the entire and only agreement between the parties relating to PATENTS and TECHNOLOGY, and all prior negotiations, representations, agreements, and understandings are superseded hereby. No agreements altering or supplementing the terms hereof may be made except by means of written documents signed by the duly authorized representatives of the parties.

11.2 During the term of this Agreement and for a period of five (5) years thereafter, LICENSEE shall not disclose any TECHNOLOGY to third parties without the express written consent of UNIVERSITY except to the extent that such TECHNOLOGY:

- (a) is or later becomes part of the public domain through no fault of LICENSEE;
- (b) was in the possession of LICENSEE prior to receipt from UNIVERSITY;
- (c) is received from a third party having no obligations of confidentiality to UNIVERSITY; or
- (d) is sublicensed under the terms of this Agreement.

This provision shall survive termination of this Agreement.

11.3 LICENSEE shall comply with all applicable laws and regulations in carrying out its activities under this Agreement. In particular, LICENSEE will comply with the Export Control Administration Regulations in all respects.

11.4 LICENSEE shall hold harmless and indemnify The University of Texas System, the University of Texas at Austin, its Board of Regents, officers, employees and agents from and against any claims, demands, or causes of action whatsoever, including without limitation those arising on account of any injury or death of persons or damage to property caused by, or arising out of, or resulting from the negligence, gross negligence or intentional acts of LICENSEE or its officers, employees, agents, representatives, or parties in privity with LICENSEE in the exercise or practice of the license granted hereunder.

11.5 Any notice required by this License Agreement shall be given by prepaid, first class, certified mail, return receipt requested, addressed in the case of UNIVERSITY to:

BOARD OF REGENTS
The University of Texas System
201 West 7th Street
Austin, Texas 78701

ATTN: System Patent Office

with a copy to:

Executive Vice President and Provost
The University of Texas at Austin
Main Building 201
Austin, Texas 78712

or in the case of LICENSEE to:

PARKER KINETIC DESIGNS, INC.
10711 Burnett Road, Ste. 310
P. O. Box 27350
Austin, TX 78755

ATTN: President

11.6 This License Agreement shall be construed and enforced in accordance with the laws of the United States of America and of the State of Texas.

11.7 Failure of either party to enforce a right under this Agreement shall not act as a waiver of that right or the ability to later assert that right relative to the particular situation involved.

11.8 Headings included herein are for convenience only and shall not be used to construe this Agreement.

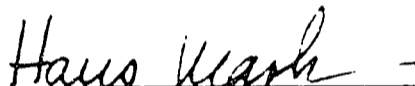
11.9 If any provision of this Agreement shall be found by a court to be void, invalid or unenforceable, the same shall either be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute this Agreement.

ATTEST

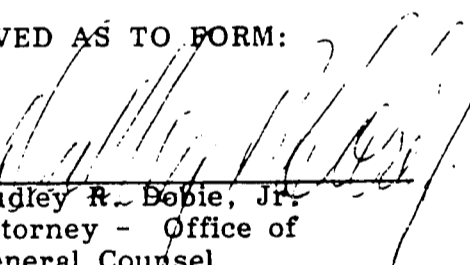
BOARD OF REGENTS, OF THE UNIVERSITY OF TEXAS SYSTEM

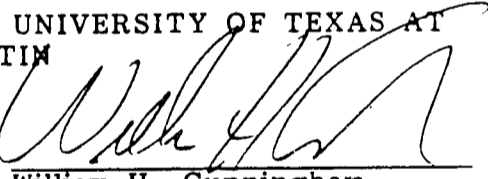
By: 
Arthur H. Dilly
Executive Secretary

By: 

APPROVED AS TO FORM:

APPROVED AS TO CONTENT:

By: 
Dudley R. Bobie, Jr.
Attorney - Office of
General Counsel

THE UNIVERSITY OF TEXAS AT AUSTIN
By: 
William H. Cunningham
President

PARKER KINETIC DESIGNS, INC.

By: 
Cliff W. Drummond
President

ATTACHMENT A
PATENTS/PATENT APPLICATIONS

<u>File No.</u>	<u>Ser. No. or Patent No.</u>	<u>Title</u>	<u>Inventor(s)</u>
UTSB048	4,562,368	Brush Mechanism for Homopolar Generator	William F. Weldon John H. Gully William A. Walls
UTSB049	4,459,504	Brush Actuator for Homopolar Generator	William F. Weldon John H. Gully Kurth Bousman
UTSB050	381,928 & 751,459	Rotor Assembly for Homopolar Generator	William F. Weldon John H. Gully Mark A. Pichot
UTSB051	4,544,874	Homopolar Generator Power Supply System	William F. Weldon John H. Gully
UTSB041	4,571,468	Inductive Store Opening Switch	William F. Weldon
UTSB058	4,621,561	Switch for Inductive Energy Store Transfer Circuit	William F. Weldon
UTSB164	091,656	Staged Opening Switch	William F. Weldon Benjamin M. Rech Raymond C. Zowarka
UTSB316	not yet assigned	Clamped Element Opening Switch with Line-of-Sight Blocker	William F. Weldon Benjamin M. Rech Robert L. Sledge
UTSB073	689,868 & 067,410	Improved Energy Density Homopolar Generator	William F. Weldon
UTSB152	868,547	Method and Apparatus for Spinning Projectiles Fired from a Railgun	William F. Weldon
UTSB216	885,915	Method and Construction for Control of Current Distribution in Railgun Armatures	William F. Weldon Herbert H. Woodson Glen C. Long

ATTACHMENT A (Continued)
Page 2

<u>File No.</u>	Ser. No. or <u>Patent No.</u>	<u>Title</u>	<u>Inventor(s)</u>
UTSB292	not yet assigned	High Performance Electro- magnetic Square-Bore Railgun Launcher	William F. Weldon Damon A. Weeks John H. Gully Raymond C. Zowarka Jim L. Upshaw Michael L. Spann Dennis R. Peterson
*DOE No. S-49,995	4,200,831	Compensated Pulsed Alternator	William F. Weldon
UTSB160	036,541	Rising Frequency Generator	William F. Weldon
UTSB213	030,890	High Energy Pulse Forming Generator	William F. Weldon Siddharth B. Pratap Mircea D. Driga
UTSB277	132,596	Pulsed Generator Incor- porating Output Waveform Flexibility and Pulsed Transformer	William F. Weldon Mircea D. Driga Siddharth B. Pratap
UTSB310	not yet assigned	High Packing Factor, High Mechanical Strength Transposed Conductors	William F. Weldon Mircea D. Driga
UTSB320	not yet assigned	Fiber-Epoxy Composite Flywheel and Shaft Assembly	William A. Walls Elvin G. Estes Stephen M. Manifold Michael L. Spann
UTSB327	not yet assigned	Cycle-Portion Encoder	Robert F. Thelen
UTSB229	039,655	Method and Apparatus for Managing Recoil in Electromagnetic Guns	William F. Weldon
UTSB291	086,706	Traveling Wave Accelerators	William F. Weldon Mircea D. Driga
UTSB042	4,405,965	Current Limiting Device for Overcurrent Protection	William F. Weldon
UTSB304	not yet assigned	Screen Room Ground Fault Detection System Design and Operation	William F. Weldon Richard W. Cook Dennis J. Hildenbrand

* In the event that UNIVERSITY obtains license rights under U.S. Patent No. 4,200,831, UNIVERSITY will include said patent in this listing.

SHAREHOLDERS AGREEMENT

The Shareholders Agreement ("Agreement") is made this 14th day of April, 1988 ("Effective Date") by and between the BOARD OF REGENTS, THE UNIVERSITY OF TEXAS SYSTEM, an agency of the state of Texas, 201 West 7th Street, Austin, TX 78701 ("University"), Parker Drilling Company, a Delaware corporation, 8 East Third Street, Tulsa, OK 74103 ("Parker"), and Parker Kinetic Designs, Inc., a Texas corporation, 10711 Burnett Road, Ste. 310, P. O. Box 27350, Austin, TX 78755 ("PKD").

W I T N E S S E T H

WHEREAS, PKD has issued one hundred (100) of its shares of its common stock; and

WHEREAS, Parker and University each own shares issued by PKD; and

WHEREAS, University's shares were issued as additional consideration for the execution of the License Agreement dated even date herewith, between PKD and University; and

WHEREAS, Parker and the University desire to make provisions with respect to the ownership, transfer, and disposition of the shares of PKD;

NOW THEREFORE in consideration of the mutual covenants and premises herein contained and as additional consideration for the issuance of the shares of PKD to the University, the parties hereto agree as follows:

I.

OPTION TO PURCHASE

1.1 University shall and hereby does grant unto Parker the irrevocable right, privilege and option to purchase University's stock of PKD at any time University receives a firm offer which the University is willing to accept to purchase the same by any other party, for the same price and upon the same terms as such other party offers. This paragraph shall not be applicable to a

transfer of shares to University inventors but shall apply to any subsequent transfers of the stock of PKD by the University inventors.

1.2 University, upon receipt of an offer as described in paragraph 1.1 shall notify Parker, by registered mail at the address provided herein, of such offer and provide Parker with a copy of the same.

1.3 Parker shall have sixty (60) days from its receipt of University's notice to notify University of Parker's intention to exercise its option to purchase University's shares of PKD. Such purchase by Parker shall be for the same number of shares as the third party has offered to purchase. University and Parker shall thereafter enter into an agreement in writing within thirty (30) days of Parker's exercise of its option to purchase.

1.4 University covenants that it will not sell its stock in PKD to any other party until University has conformed to the requirements of this Article I. If Parker fails to notify University of its intention to exercise the option granted herein within the applicable sixty (60) day period, the restrictions set forth in this Article I upon University's or its transferees' shares of PKD shall automatically terminate.

1.5 All certificates for shares of PKD owned by University or its transferees shall be endorsed with the following statement: "The shares represented by this certificate are subject to the terms of an Agreement dated effective January 1, 1988, a copy of which is on file at the office of Parker Kinetic Designs, Inc."

II.

TERM

2.1 This Agreement shall survive and be effective for so long as Parker owns any capital stock of PKD.

(098/dahl1)

III.

MISCELLANEOUS

3.1 Unless otherwise provided herein the terms of this Agreement shall be binding upon and inure, to the benefit of the parties and their respective successors and assigns.

3.2 Except for the Patent and Technology License Agreement executed contemporaneously herewith this Agreement constitutes the entire and only agreement between the parties relating to the capital stock of PKD, and all prior negotiations, representations, agreements, and understandings are superseded hereby. No agreements altering or supplementing the terms hereof may be made except by means of written documents signed by the duly authorized representatives of the parties.

3.3 Unless otherwise provided herein, any notice required by this Agreement shall be given by prepaid, first class, certified mail, return receipt requested, addressed in the case of University to:

BOARD OF REGENTS
The University of Texas System
201 West 7th Street
Austin, Texas 78701

ATTN: System Patent Office

in the case of PKD to:

PARKER KINETIC DESIGNS, INC.
10711 Burnett Road, Ste. 310
P. O. Box 27350
Austin, TX 78755

ATTN: President

in the case of Parker:

PARKER DRILLING COMPANY
8 East Third Street
Tulsa, OK 74103

ATTN: Legal Dept.

or such other addresses as may be given from time to time under the terms of this notice provision.

(098/dahl1)

3.4 This Agreement shall be construed and enforced in accordance with the laws of the United States of America and of the State of Texas.

3.5 Failure of party to enforce a right under this Agreement shall not act as a waiver of that right or the ability to later assert that right relative to the particular situation involved.

3.6 Headings included herein are for convenience only and shall not be used to construe this Agreement.

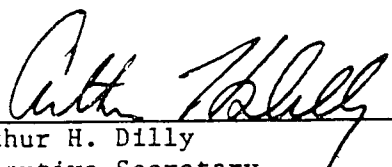
3.7 If any provision of this Agreement shall be found by a court to be void, invalid or unenforceable, the same shall either be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute this Agreement.

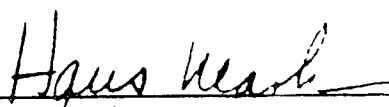
ATTEST

BOARD OF REGENTS,
THE UNIVERSITY OF TEXAS SYSTEM

By:


Arthur H. Dilly
Executive Secretary

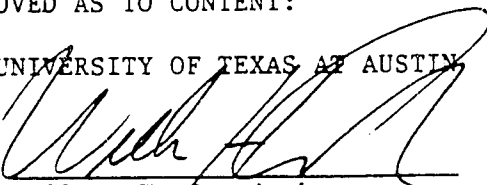
By:


Date: 4/6/88

APPROVED AS TO CONTENT:

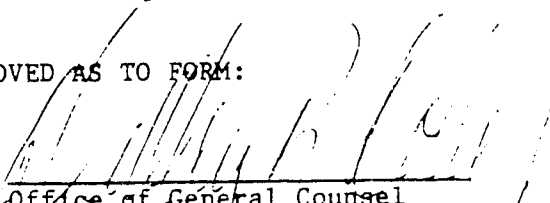
THE UNIVERSITY OF TEXAS AT AUSTIN

By:


William H. Cunningham
President

APPROVED AS TO FORM:

By:


Office of General Counsel


PARKER KINETIC DESIGNS, INC.

By:


President

PARKER DRILLING COMPANY

By:


President

(098/dahl1)

2. U. T. Health Science Center - San Antonio: Approval of Joint Venture Agreement with Rorer Group Inc., a Pennsylvania Corporation, and Gregory R. Mundy, M.D.-- Approval was given to the Joint Venture Agreement set out on Pages 116 - 199 by and among The University of Texas Health Science Center at San Antonio, Rorer Group Inc., a Pennsylvania Corporation, and Gregory R. Mundy, M.D.

Pursuant to Section 51.912 of the Texas Education Code and Part Two, Chapter V, Section 2.47 of the Regents' Rules and Regulations, the Board authorized Dr. Mundy to be employed as an officer by, serve as a director of, and hold equity in the corporation to be formed pursuant to this Joint Venture Agreement. The details of the terms of such employment, directorship and equity ownership shall be reported in accordance with Section 2.481, Chapter V, Part Two of the Regents' Rules and Regulations and Section 51.912(b) and (c) of the Texas Education Code.

This joint venture will form a new corporation to identify and isolate unique bone growth proteins, evaluate the effects of new and existing agents on bone formation in vivo, and develop delivery systems to concentrate bone growth factors at sites of bone damage. The new corporation will be formed under the laws of the State of Delaware with its principal office and facilities to be located in the metropolitan San Antonio, Texas, area. Rorer will fund the corporation to the extent of \$3.0 million for an initial three-year period.

The University will allow Dr. Mundy to own an equity interest in and serve as an officer, board member and scientific director of the corporation. The University will receive ten percent of the capital stock of the corporation together with the right to appoint a member of the board of directors of the corporation and also will receive royalty income in accordance with this percentage of stock ownership from the commercialization of any inventions resulting from the company research.

The intent of the joint venture is not to supplant research efforts of the University, rather to accomplish specific market-oriented product development which is not feasible within the University setting.

JOINT VENTURE AGREEMENT

among

RORER GROUP INC.

GREGORY R. MUNDY, M.D., Ph.D.

and

THE UNIVERSITY OF TEXAS
HEALTH SCIENCE CENTER AT SAN ANTONIO
a component institution
of the University of Texas System

Dated: _____, 1988

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- E. List of Executive Committee Members
- F. Employment Agreement

JOINT VENTURE AGREEMENT

THIS AGREEMENT is made this ___ day of _____, 1988 by and among RORER GROUP INC., a Pennsylvania corporation ("Rorer"), GREGORY R. MUNDY M.D., Ph.D. ("Mundy") and THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO, a component institution of the University of Texas System (the "University") (collectively, the University, Rorer and Mundy are the "Parties" and each a "Party") with reference to the following background:

A. Rorer is itself and through subsidiary corporations engaged in the business of researching, developing, producing and selling pharmaceutical products. It is interested in creating novel drug delivery systems for the treatment of bone injuries, osteoporosis and metabolic bone diseases.

B. Mundy is an expert in the field of bone metabolism. He is a full time employee of the University.

C. The Parties desire to enter into a joint venture pursuant to this Agreement (the "Joint Venture") to conduct research in bone metabolism. The objectives of the Joint Venture will be to create novel drug delivery systems for the treatment of bone injuries, osteoporosis and metabolic bone diseases.

In order to achieve these objectives, the Joint Venture will (1) identify and isolate unique bone growth proteins; (2) test proteins or other factors supplied by other groups using the in vivo systems developed by Rorer for their effects on

osteoblast function in vivo; and (3) develop novel delivery systems to target bone growth factors to sites of bone damage (the "Joint Venture Business").

NOW, THEREFORE, in consideration of the respective covenants, representations and warranties herein contained, and intending to be legally bound, the Parties agree as follows:

ARTICLE I - THE JOINT VENTURE

1.1 Exclusive Entity. The Parties shall form a corporation under the laws of the State of Delaware (the "Company"). The Company shall constitute the exclusive entity for carrying on and conducting the Joint Venture Business, and nothing in this Agreement or in any exhibit to this Agreement is intended to create, or may be construed to create, any legal or business relationship among the Parties other than as expressly contemplated by this Agreement, including, without limitation, the relationship of principal and agent or partner, the existence of which is hereby expressly denied by each Party.

1.2 Purposes. The purpose of the Joint Venture shall be to conduct the Joint Venture Business through the Company.

1.3 Clinical Research. In the event that the Company develops or creates a new chemical entity, a new delivery system or other know-how, whether patentable or not, the Company shall retain Rorer, or its designee, to perform clinical research related to such know-how on terms and conditions acceptable to

Rorer and the Company.

1.4 Management. The Company shall be managed by a Board of Directors consisting of six directors, with the assistance of an Executive Committee consisting of 2 directors. All action taken by the Board of Directors must be approved by at least a majority of directors.

1.5 Personnel. The Company shall enter into an Employment Agreement in the form of Exhibit F hereto with Mundy. The Employment Agreement will provide that Mundy will work in the Company not more than one full work day per week during the term of the Joint Venture. Mundy shall be entitled to compensation from the Company as provided in the Employment Agreement. In addition to Mundy, the Parties currently contemplate that the Company will employ before the end of the Company's first year of operations three scientists, two technicians and one administrative assistant.

1.6 Facilities. The Company shall conduct the Joint Venture Business in the metropolitan San Antonio, Texas, area and the Parties expect the Company to lease space near the University.

1.7 Non-Competition.

1.7.1 General. So long as Rorer and Mundy remain stockholders of the Company, neither Rorer nor Mundy shall, directly or indirectly, unless acting with the prior consent of the Board of Directors of the Company, own, manage, operate,

join, control or participate in the ownership, management, operation, conduct or control of any business which competes with the Joint Venture Business.

1.7.2 Selling Stockholder. In the event either Rorer or Mundy sell their respective interests in the Company pursuant to Section 9.2 or 10.2 (the "Selling Stockholder"), the Selling Stockholder shall not, directly or indirectly, own, manage, operate, join, control or participate in the ownership, management, operation, conduct or control of any business which competes with the Joint Venture Business for three years except in accordance with license agreements existing at the time of the sale of the Selling Stockholder's interest.

1.8 Confidentiality. Each Party hereto shall and shall cause its employees and agents to maintain in confidence, not to use for any purpose other than performance of the Joint Venture Business and not to disclose to any third person or entity any Know-How (as hereinafter defined) developed by the Joint Venture or licensed to the Joint Venture. For purposes of this Section, Know-How shall mean all proprietary and trade secret technology, including developments, discoveries, methods, techniques and other information whether or not patentable, which is owned by a Party hereto and licensed to the Company or developed or obtained in connection with this Joint Venture, but shall not include information which: (a) is or becomes public knowledge (through no failure of a Party hereto to perform its obligations hereunder);

(b) is in the future rightfully received by a Party hereto from a third person free from any obligation to keep it confidential; (c) is approved by the Board of Directors of the Company for release, publication, dissemination or use; or (d) is required by applicable law to be disclosed.

1.9 Employment by the University. The Parties hereto acknowledge that Mundy is a member of the faculty at the University. Mundy agrees not to perform any services related to the Joint Venture Business in University facilities and not to perform for the University or any other person or entity other than the Company, any services related to the Joint Venture Business.

ARTICLE II - THE COMPANY

2.1 Certificate of Incorporation of the Company. Prior to the Closing (as hereinafter defined), Rorer will cause the Certificate of Incorporation of the Company in the form of Exhibit B hereto to be filed with the Delaware Secretary of State.

2.2 Organization of the Company. The following corporate action shall be taken prior to or at the Closing: (a) adoption of the By-Laws of the Company in the form of Exhibit C hereto, (b) election of the persons listed in Exhibit D hereto as directors of the Company, (c) election of the persons listed in

Exhibit E hereto as members of the Executive Committee, (d) approval by the Board of Directors of the Research and Development Agreement in the form of Exhibit A hereto to be executed and delivered by Rorer and the Company, (e) authorization by the Board of Directors of the issuance and delivery of capital stock pursuant to Article III hereof, and (f) such other action of the Company as is contemplated by this Agreement or as is deemed desirable by the Board of Directors.

2.3 Fiscal Year. The fiscal year of the Company shall end on December 31 unless changed by the Board of Directors.

ARTICLE III - SUBSCRIPTIONS OF STOCK OF THE COMPANY

3.1 Authorized Stock.

(a) Upon the filing with the Delaware Secretary of State of the Certificate of Incorporation as contemplated by Section 2.1 hereof, the authorized capital stock of the Company will consist of (i) 500,000 shares of Common Stock, and (ii) 100,000 shares of Convertible Preferred Stock.

(b) The Certificate of Incorporation shall provide for cumulative voting by the stockholders of the Common Stock, and shall include provisions relating to the priorities as to dividend and redemption payments, the rights upon liquidation and the conversion and voting rights of the holders of the Convertible Preferred Stock, all as set forth in Exhibit B hereto.

3.2 Rorer Subscription. Rorer hereby irrevocably subscribes for 100,000 shares of Common Stock of the Company, subject to and in accordance with the provisions of this Agreement, at a cash price of \$.01 per share for a total cash purchase price of \$1,000, plus additional consideration set forth in Section 3.5.1 and to be paid as provided in Section 3.5.1.

3.3 Mundy Subscription. Mundy hereby irrevocably subscribes for 80,000 shares of Common Stock of the Company, subject to and in accordance with the provisions of this Agreement, at a cash price of \$.01 per share for a total cash purchase price of \$800, plus additional consideration as set forth in Section 3.5.2 and to be paid as provided in Section 3.5.2.

3.4 University Subscription. The University hereby irrevocably subscribes for 20,000 shares of Common Stock of the Company, subject to and in accordance with the provisions of this Agreement, at a cash price of \$.01 per share for a total cash purchase price of \$200, to be paid as provided in Sections 3.5.3.

3.5 Payment of Stock Purchase Price.

3.5.1 Payment by Rorer. At the Closing, Rorer shall make the required payment for its Common Stock purchases by (a) paying \$1,000 to the Company and (b) contributing to the Company the equipment listed on Schedule 3.5.1.

3.5.2 Payment by Mundy. At the Closing, Mundy shall make the required payment for his Common Stock purchases by (a)

paying \$800 to the Company and (b) contributing to the Company proprietary know-how and information owned by him relating to research in bone metabolism as set forth in Schedule 3.5.2.

3.5.3 Payment by the University. At the Closing, the University shall make the required payment for its Common Stock purchases by (a) paying \$200 to the Company (b) contributing to the Company proprietary know-how and information owned by the University and Mundy jointly as set forth in Schedule 3.5.2; and (c) providing all necessary consents to authorize Mundy to carry out the terms of this Agreement.

3.6 Investment Representations. The Parties understand that the shares of Common Stock which are subscribed for hereby have not been registered or qualified under the Securities Act of 1933, as amended (the "Act"), or under the securities laws of any state, nor is the Company under any obligation to so register or qualify such shares under the Act or such laws at some future date. Each Party hereto represents and warrants to the Company that the shares of Common Stock are being acquired, and any shares of Convertible Preferred Stock which may be purchased will be acquired, by such Party for investment and not with a view to the distribution or resale thereof except in compliance with any applicable federal and state securities laws. The effect of the foregoing is that such shares must be held indefinitely unless subsequently registered or qualified under the Act and/or the securities laws of any state which may be applicable or unless an

exemption from such registration or qualification is available.

3.7 Certificate Legend. The certificates representing the shares of the Common Stock and the shares of the Convertible Preferred Stock to be issued pursuant to this Agreement will bear the following legend:

"This certificate of stock and the shares represented hereby may not be transferred except in accordance with the provisions of, and such shares are subject to certain purchase and sale rights as provided in a certain agreement among Rorer Group Inc., Dr. Gregory R. Mundy and The University of Texas Health Science Center at San Antonio, dated _____, 1988, and no transfer of such shares shall be made or shall be valid or effective until the provisions of such agreement have been met with respect to such transfer. A copy of such agreement, with amendments, if any, is on file at the principal office of the corporation and will be furnished by the corporation to the holder hereof upon request and without charge."

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended. Such shares have been acquired for investment and may not be sold, transferred, pledged or hypothecated in the absence of an effective registration statement for such shares under the Securities Act of 1933, as amended, unless, in the opinion (which shall be in form and substance satisfactory to the corporation) of counsel satisfactory to the corporation, such registration is not required."

ARTICLE IV - CLOSING

4.1 Closing. The closing (the "Closing") shall take place at the offices of [], [], [] at 10:00 A.M. on _____, 1988, or on such

other date or at such other time and/or place as shall be mutually agreed upon in writing by the Parties.

4.2 Instruments to be Delivered at Closing. At the Closing and subject to the terms and conditions herein contained:

(a) The Company will deliver to Rorer the following:

(i) a certificate or certificates for 100,000 shares of Common Stock; and

(ii) a duly executed counterpart of the Research and Development Agreement.

(b) The Company will deliver to Mundy the following:

(i) a certificate or certificates for 80,000 shares of Common Stock; and

(ii) a duly executed counterpart of the Employment Agreement.

(c) The Company will deliver to the University the following:

(i) a certificate or certificates for 20,000 shares of Common Stock.

(d) Rorer will deliver to the Company the following:

(i) cash and properties referred to in Section 3.5.1 in exchange for the Common Stock of the Company; and

(ii) a duly executed counterpart of the Research and Development Agreement.

(e) Mundy will deliver to the Company the following:

(i) cash and properties referred to in Section 3.5.2 in exchange for the Common Stock of the Company; and

(ii) a duly executed counterpart of the Employment Agreement.

(f) The University will deliver to the Company the following:

(i) cash referred to in Section 3.5.3 in exchange for the Common Stock of the Company.

(ii) a copy of the consent or authorization contemplated by the Rules and Regulations of the Board of Regents of the University of Texas System to permit Mundy to carry out the duties and obligations hereunder.

(iii) a letter from the University of Texas System Office of General Counsel to the effect that all necessary consents by the University to authorize Mundy to perform under this Agreement have been obtained.

ARTICLE V - REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties of Rorer. Rorer represents and warrants to Mundy and the University as follows:

5.1.1 Organization, Power and Standing. Rorer is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has all necessary corporate power and authority to own its properties and

to carry on its business as now owned and operated by it.

5.1.2 Authority. Rorer has full corporate power and lawful authority to execute and deliver this Agreement and the Research and Development Agreement, and to consummate and perform the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Research and Development Agreement by Rorer and the consummation and performance by Rorer of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate and other proceedings; and this Agreement and the Research and Development Agreement shall, when executed and delivered on behalf of Rorer, constitute the valid obligations of Rorer, legally binding upon it in accordance with their terms.

5.1.3 Compliance. No approval or consent of any federal, state, county, local or other governmental agency or body is required in connection with the execution, delivery, consummation and performance by Rorer of this Agreement and the Research and Development Agreement. The execution, delivery, consummation and performance by Rorer of this Agreement and the Research and Development Agreement will not conflict with or result in the breach or violation of any term or provision of, or constitute a default under, the Certificate of Incorporation or By-Laws of Rorer, and will not conflict with or result in the breach or violation of any material term or provision of, or constitute a material default under, any statute, indenture,

mortgage, deed of trust, note agreement or other agreement or instrument to which Rorer is a party or by which Rorer is bound, or any law, order, writ, injunction, decree, rule or regulation of any court or any governmental agency or body.

5.2 Representations and Warranties of Mundy. Mundy represents and warrants to Rorer and the University as follows:

5.2.1 Authority. Mundy has full power and lawful authority to execute and deliver this Agreement and the Employment Agreement and to consummate and perform the transactions contemplated hereby and thereby. This Agreement and the Employment Agreement shall, when executed and delivered on behalf of Mundy, constitute the valid obligations of Mundy, legally binding upon him in accordance with their terms.

5.2.2 Compliance. No approval or consent of any federal, state, other than the University, county, local or other governmental agency or body or any individual, corporation or other entity is required in connection with the execution, delivery, consummation and performance by Mundy of this Agreement and the Employment Agreement. The execution, delivery, consummation and performance by Mundy of this Agreement and the Employment Agreement will not conflict with or result in the breach or violation of any term or provision of, or constitute a default under, any agreement or instrument to which Mundy is a party or by which Mundy is bound (including, without limitation, the employment agreement between Mundy and the University and any

contracts or agreements relating to research grants), or any law, order, writ, injunction, decree, rule or regulation of any court or any governmental agency or body. Mundy shall fully comply with all reporting requirements concerning the Joint Venture Business applicable to University employees resulting from State law or University regulation.

5.3 Representations and Warranties of the University. The University represents and warrants to Rorer and Mundy as follows:

5.3.1 Authority. The University has full power and lawful authority to execute and deliver this Agreement and to consummate and perform the transactions contemplated hereby. This Agreement shall, when executed and delivered on behalf of the University, constitute the valid obligations of the University, legally binding upon it in accordance with its terms.

5.3.2 Compliance. No approval or consent of any federal, state, county, local or other governmental agency or body or any individual corporation or other entity is required in connection with the execution, delivery, consummation and performance by the University of this Agreement. The execution, delivery, consummation and performance by the University of this Agreement will not conflict with or result in the breach or violation of any term or provision of, or constitute a default under, any agreement or instrument to which the University is a party or by which the University is bound, or any law, order, writ, injunction, decree, rule or regulation of any court or any governmental agency or body.

5.4 Damages. Each of the Parties shall be liable for

damages to the other Parties for any material breach of its or his representations, warranties and covenants which results in a failure to perform under this Agreement. This provision shall apply to the University only to the extent authorized by the Constitution and the laws of the State of Texas.

ARTICLE VI - CONDITIONS PRECEDENT TO CLOSING

6.1 Conditions Precedent to the Obligations of Rorer.

All obligations of Rorer under this Agreement are subject to the fulfillment or satisfaction, prior to or at the Closing, of each of the following conditions precedent (any of which may be waived in writing in whole or in part by Rorer):

6.1.1 Performance of Conditions. Mundy and the University shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them prior to or at the Closing.

6.1.2 Employment Agreement. Mundy and the Company shall have executed and delivered the Employment Agreement.

6.1.3 Research and Development Agreement. The Company shall have executed and delivered the Research and Development Agreement.

6.1.4 Certificate of Incorporation and By-Laws of the Company. The Certificate of Incorporation of the Company shall conform to Exhibit B and its By-Laws shall conform to Exhibit C.

6.1.5 Organization of the Company. The Company shall

have been organized in accordance with Section 2.2 and its Board of Directors shall have taken all of the actions referred to in that Section.

6.1.6 Approval of Counsel. All actions, proceedings, resolutions, instruments and documents required to carry out this Agreement or incidental hereto, including appropriate releases and waivers from the National Institute of Health and any agency with possible claims to Mundy's proprietary know-how and information, and all other related legal matters shall have been approved on or before the Closing Date by Morgan, Lewis & Bockius, counsel to Rorer, in the exercise of its reasonable judgment.

6.2 Conditions Precedent to the Obligations of Mundy. All obligations of Mundy under this Agreement are subject to the fulfillment or satisfaction, prior to or at the Closing, of each of the following conditions precedent (any of which may be waived in writing in whole or in part by Mundy):

6.2.1 Performance of Conditions. Rorer and the University shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them prior to or at the Closing.

6.2.2 Research and Development Agreement. Rorer and the Company shall have executed and delivered the Research and Development Agreement.

6.2.3 Employment Agreement. The Company shall have

executed and delivered the Employment Agreement.

6.2.4 Certificate of Incorporation and By-Laws of the Company. The Certificate of the Company shall conform to Exhibit B and its By-Laws shall conform to Exhibit C.

6.2.5 Organization of the Company. The Company shall have been organized in accordance with Section 2.2 and its Board of Directors shall have taken all of the actions referred to in that Section.

6.2.6 Approval of Counsel. All actions, proceedings, resolutions, instruments and documents required to carry out this Agreement or incidental hereto and all other related legal matters shall have been approved on or before the Closing Date by _____, counsel to Mundy, in the exercise of its reasonable judgment.

6.3 Condition Precedent to the Obligations of the University. All obligations of the University under this Agreement are subject to the fulfillment or satisfaction, prior to or at the Closing, of each of the following conditions precedent (any of which may be waived in writing in whole or in part by the University):

6.3.1 Performance of Conditions. Mundy and Rorer shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them prior to or at the Closing.

6.3.2 Employment Agreement. Mundy and the Company

shall have executed and delivered the Employment Agreement.

6.3.3 Research and Development Agreement. Rorer and the Company shall have executed and delivered the Research and Development Agreement.

6.3.4 Certificate of Incorporation and By-Laws of the Company. The Certificate of Incorporation of the Company shall conform to Exhibit B and its By-Laws shall conform to Exhibit C.

6.3.5 Organization of the Company. The Company shall have been organized in accordance with Section 2.2 and its Board of Directors shall have taken all of the actions referred to in that Section.

6.3.6 Approval of Counsel. All actions, proceedings, resolutions, instruments and documents required to carry out this Agreement or incidental hereto, including appropriate releases and waivers from the National Institute of Health and any agency with possible claims to Mundy's proprietary know-how and information, and all other related legal matters shall have been approved on or before the Closing Date by the University of Texas System Office of General Counsel, or its designee, in the exercise of its reasonable judgment.

ARTICLE VII - FUTURE FINANCING

7.1 Third-Party Financing. After the Closing, the Company shall exert its best efforts to obtain debt financing as may be needed by the Company in excess of the payment from Rorer

under the Research and Development Agreement from one or more third parties on a reasonable basis and for the maximum amount of debt which it is reasonable under the circumstances for the Company to service as determined by the Executive Committee. Such third-party financing shall be without recourse, directly or indirectly, to any of the Parties.

7.2 Additional Investment by Rorer. To the extent that funds, in addition to those provided by Rorer under the Research and Development Agreement and those available from third parties, are required to develop and operate the Joint Venture Business, Rorer may, upon request by the Board of Directors of the Company, and in Rorer's sole discretion, provide up to \$5 million additional financing to the Company in exchange for shares of Convertible Preferred Stock of the Company which, if converted, would equal one percent (1%) of the outstanding shares of Common Stock of the Company for each \$1 million of financing provided by Rorer pursuant to this Section 7.2.

ARTICLE VIII - ARBITRATION

8.1 Arbitration.

(a) All disputes, controversies or claims arising out of or related to (i) the interpretation or enforcement of this Agreement, (ii) any agreement contemplated hereby, (iii) any breach, termination or claim of invalidity of this Agreement or other agreements contemplated hereby, or (iv) any deadlock of the

Board of Directors with respect to the conduct or operation of the Company, except with respect to an amendment to this Agreement or to any agreement contemplated hereby, shall be settled finally and without resort to any legal proceedings (except for the enforcement of the arbitral award) by arbitration conducted in accordance with the provisions of Section 8.1(b) hereof. The arbitrator shall resolve all deadlocks of the Board of Directors by determining the course of action which is in the best business interests of the Joint Venture. If any Party believes that a deadlock which has been referred to arbitration by another Party cannot or should not be resolved by an arbitrator's determination as to course of action because it is too subjective, such Party may request that the arbitrator refuse to arbitrate such deadlock on the grounds that it is not appropriate for arbitration under this Section 8.1 and the arbitrator may refuse to arbitrate on such grounds.

Notwithstanding the foregoing, the remedy at law for any breach of the provisions of Articles VIII, IX and X of this Agreement is acknowledged by the Parties to be inadequate, and an aggrieved party seeking relief or remedies for such a breach shall have the right and is hereby granted the privilege, in addition to all other remedies at law or in equity, to temporary or permanent injunctive relief without the necessity of proving actual damage.

(b) Arbitrations under this Section 8.1 shall be

conducted before a single arbitrator in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "AAA"), in Philadelphia, Pennsylvania. The arbitrator shall be selected pursuant to the following procedure. The Party demanding arbitration shall give written notice to the other Parties of the demand for arbitration, which notice shall specify in reasonable detail the nature of the dispute. Within ten days following notice as aforesaid, the Parties shall advise the AAA as to the general nature of the dispute, and shall request the AAA to provide a list of four qualified arbitrators. Within five days following receipt of the list of arbitrators from the AAA, the Party demanding arbitration shall strike the name of one arbitrator. Each Party shall then, in turn, have five days within which to strike the name of one arbitrator, until the name of one arbitrator shall remain. The last remaining arbitrator shall arbitrate the dispute between the Parties. The foregoing procedure shall be completed within 15 days following receipt of the list of arbitrators from the AAA.

All decisions of the arbitrator as to whether a particular deadlock is too subjective for arbitration, as well as all decisions of the arbitrator resolving deadlocks, disputes, controversies, or claims shall be final and binding upon the stockholders of the Company both as to law and to fact and shall be enforceable at law or in equity by any court of competent jurisdiction. Once an issue has been arbitrated pursuant hereto

or determined to be too subjective for arbitration pursuant hereto, the decision of the arbitrator shall be res judicata with respect to such issue.

The stockholders of the Company shall take whatever steps may be necessary to have the decision of the arbitrator carried out. Unless such failure is waived in writing by other Parties to the arbitration, any Party failing to cooperate or failing to abide by the arbitrator's decision(s) with respect to a deadlock of the Board of Directors shall be deemed to terminate the Joint Venture as set forth in Section 10.2 hereof, but shall in no event be liable for damages to such other Parties, it being the intention of the Parties that the sole consequence of such a failure to cooperate or to abide by the arbitrator's decision is the activation of the buy-sell provision of Section 10.2 hereof. Notwithstanding the foregoing, from the date hereof through three full fiscal years of the Company commencing on the date of the Closing, the Parties shall abide by the arbitrator's decision or be liable for damages and injunctive relief.

The Parties agree to cooperate with each other in causing the arbitration to be held in as efficient and expeditious a manner as practicable and in this connection to furnish such documents and make available such of their respective personnel as the arbitrator may request.

(c) All fees and expenses attributable to the conduct of arbitration pursuant to this Section 8.1 shall be paid

by the Company; provided, however, that each Party to the arbitration shall bear its own legal expenses. Notwithstanding the foregoing Arbitration provisions, the University shall have the right and privilege to seek remedies in the courts.

ARTICLE IX - RESTRICTIONS ON DISPOSITION OF COMPANY STOCK

9.1 General Restrictions. None of the Parties shall sell, transfer, assign, pledge or otherwise alienate ("transfer") any of the shares of the Company's capital stock except in accordance with the provisions of this Article IX, and any transfer not in accordance with this Article IX shall be null and void.

9.2 Permitted Transfers to Third Persons.

(a) Rorer may transfer any or all shares of Common Stock and Convertible Preference Stock to any wholly-owned, direct or indirect, subsidiary thereof.

(b) Any Party may transfer all, but not less than all, shares of the stock held by it or him to a third person, only upon satisfaction of the following conditions and in accordance with the following provisions:

(1) The stock to be sold shall have been offered for sale to the non-transferring Parties (the "offerees") by written offer setting forth the price and the terms and conditions of the proposed sale to a third person and the name and address of the prospective

purchaser. The offer shall provide that the offerees may purchase the offered stock at the same price and on the same terms and conditions as the proposed sale described in the offer.

(2) Within 60 days after the receipt of such offer, the offerees may elect to purchase the offered stock and shall give notice of acceptance of the offer to the offering party. Such notice shall specify a date, time and place for the stock closing which shall not be more than 90 days after the date of notice of acceptance of the offer. If more than one offeree desires to purchase the shares held by the offering party, the offerees shall purchase the shares of the offering party on the basis of their proportionate ownership of the Company Common Stock.

(3) Within 60 days after the receipt of such offer, the offerees may consent to the sale of the stock of the offering party to the third person named in the offer at the same price and on the same terms and conditions as the proposed sale described in the offer and shall give notice of such consent to the offering party.

(4) In the event that the offerees have not given notice of their election pursuant to this Section 9.2(b) to the offering party within 60 days after the receipt

of such offer, the offerees shall be deemed to have consented to the sale of the stock of the offering party to the third person named in the offer at the same price and on the same terms and conditions as the proposed sale described in the offer.

(5) If the sale to a third person contemplated by Sections 9.2(b)(3) and 9.2(b)(4) hereof is not completed within 90 days of notice to the offering party of the consent or deemed consent, as the case may be, of the offerees to such sale, the offering party shall no longer be free to sell the stock pursuant hereto and must again comply with the procedures set forth in this Section 9.2(b) prior to transferring its stock to a third person.

(c) As used herein, "Permitted Transferee" shall mean any person to whom stock may be transferred under the terms of this Section 9.2. Before stock may be transferred pursuant to Section 9.2(a) or 9.2(b) hereof to a Permitted Transferee, the party desiring to make such transfer shall deliver to the other stockholders and the Company in form and substance satisfactory to the Company and such other parties in the exercise of their reasonable judgment, the agreement of such Permitted Transferee to be bound by the terms and conditions of this Agreement. Any transfer pursuant to Section 9.2(a) hereof shall not affect the rights and obligations under this Agreement of the transferor.

(d) Notwithstanding the foregoing, the Parties may agree in writing to permit the transfer of any or all shares of the Common Stock and the Convertible Preference Stock upon the terms and conditions set forth in such written agreement among the Parties.

9.3 Voluntary Transfers Among the Parties and the Company. The Parties may transfer their shares of Common Stock and Convertible Preferred Stock to each other or the Company upon such terms and conditions as the Parties may agree.

ARTICLE X - TERMINATION OF JOINT VENTURE

10.1 Unilateral Termination. At any time after the end of three full fiscal years of the Company commencing the date of the Closing or the termination of the Research and Development Agreement, whichever occurs later, either Mundy or Rorer, in its or his sole discretion, may elect to terminate the Joint Venture.

10.2 Buy-Sell Option. In the event that either Mundy or Rorer elects or is deemed to have elected to terminate the Joint Venture, the following procedure shall be followed:

(a) The Party electing to terminate the Joint Venture (the "Initiating Party") shall state in writing the price per share of Common Stock at which it or he shall, at the option of the other stockholders (the "Responding Parties"), either sell all, but not less than all, of its or his Common Stock or buy all, but not less than all, of the Common Stock of the Responding

Parties, such sale or purchase to be on the terms set forth in Section 10.2(c) hereof; provided, however, that if a Party is deemed to have elected to terminate the Joint Venture and such Party does not state a price for the Common Stock as required hereby, the price of the Common Stock for the purposes of this Section 10.2(a) shall be the book value of the Common Stock as of the end of the fiscal year ended immediately preceding the date on which such Party is deemed to have elected to terminate the Joint Venture, as shown on the Company's balance sheet audited by the Company's regular independent certified public accountants.

(b) The Responding Parties shall have a period of 100 days after receipt of written notice from the Initiating Party within which to notify the Initiating Party whether they shall purchase the shares of the Initiating Party or sell their shares to the Initiating Party. If more than one Responding Party desires to purchase the shares held by the Initiating Party, the Responding Parties shall purchase the shares of the Initiating Party on the basis of their proportionate ownership of the Company Common Stock.

(c) Payment for the purchase of shares sold in accordance with this Section 10.2 shall be made in cash or by bank check at the closing of the purchase and sale, which shall occur no later than 90 days after the receipt of notice from the Responding Parties.

(d) The purchaser of the shares of Common Stock

pursuant to this Section 10.2 shall, simultaneously with such purchase, purchase or cause to be repurchased by the Company, on the terms described in Section 10.2(c) hereof, all Convertible Preferred Stock owned by the selling party at the same price as the Common Stock.

ARTICLE XI - MISCELLANEOUS PROVISIONS

11.1 Access.

(a) After the consummation of the transactions herein contemplated, for so long as any of the Parties or a Permitted Transferee owns shares of the Common Stock, the Parties and such Permitted Transferee and their agents shall have access at any reasonable time to all books of account and records of the Company, shall have the right to make copies thereof and to make reasonable inspections of the properties and assets of the Company and its subsidiaries.

11.2 Other Agreements. The Parties acknowledge that the Company will enter into a number of agreements contemplated hereby, which will be attached as exhibits hereto. The Parties further acknowledge and agree that a Party while not bound by the terms of agreements contemplated hereby to which such Party is not a signatory, shall not object to the terms of any such agreements.

11.3 Brokers' and Finders' Fees.

(a) Each of the Parties represents and warrants to the other Parties that all negotiations relative to this Agreement

have been carried on by it or him directly without the intervention of any person, firm, corporation or entity who or which may be entitled to any brokerage fee, finders' fee or other commission in respect of the execution of this Agreement or the consummation of the transactions contemplated hereby, and such Party shall indemnify and hold the other Parties and the Company harmless against any and all claims, losses, liabilities or expenses which may be asserted against the other Parties or the Company or any affiliate thereof as a result of such Party's or any of its affiliates' dealings, arrangements or agreements with any such person, firm, corporation or entity. This hold harmless provision shall apply to the University only to the extent authorized by the Constitution and the laws of the state of Texas.

11.4 Expenses. Except as provided in Sections 5.4 and 8.1, all fees and expenses incidental to the consummation of the transactions contemplated by this Agreement shall be paid by the Company; provided, however, that each Party to this Agreement shall be responsible for the fees and disbursements of its attorneys and accountants in connection with their respective services on behalf of each Party.

11.5 Further Assurances. Subject to the terms and conditions herein provided, each of the Parties shall use its or his best efforts to take, or cause to be taken, such action to execute and deliver, or cause to be executed and delivered, such

additional documents and instruments and to do, or cause to be done, all things necessary, proper or advisable under the provisions of this Agreement and under applicable laws to consummate and make effective the transactions contemplated by this Agreement.

11.6 Entire Agreement. This Agreement sets forth the entire understanding of the Parties with respect to the contemplated transactions. It shall not be changed or terminated orally; and no change or termination hereof shall be effective unless in writing and signed by the Parties. All representations, warranties, covenants and agreements of the Parties contained in this Agreement shall survive the Closing. Any and all previous agreements and understandings between or among any or all of the Parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement.

11.7 Assignment and Binding Effect. Except as set forth in Article IX hereof, this Agreement may not be assigned by any Party hereto without the prior written consent of the other Parties. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective permitted successors and assigns of the Parties. No such assignment shall release the assigning Party from its or his obligations hereunder.

11.8 Waiver. Any term or provision of this Agreement

may be waived at any time by the Party entitled to the benefit thereof, but only by a written instrument executed by such Party or a duly authorized officer of any such Party hereto.

11.9 No Partnership or Agency Relationship. Nothing contained in this Agreement, or otherwise shall be construed as establishing a partnership or agency relationship or rendering any Party hereto liable for the actions or inactions of another Party hereto.

11.10 Notices. Any notice, request, demand, waiver, consent, approval, or other communication which is required or permitted hereunder shall be in writing and shall be deemed given only if delivered personally or sent by registered or certified mail, postage prepaid as follows:

If to Rorer, to:

With required copies to:

If to Mundy, to:

With required copies to:

If to the University, to:

With required copies to:

or to such other address as the addressee may have specified in a notice duly given to the sender as provided herein. Such notice, request, demand, waiver, consent, approval or other communication will be deemed to have been given as of the date so delivered (in case of personal delivery) or five calendar days after being mailed.

11.11 Governing Law. This Agreement and all agreements attached hereto as exhibits shall be interpreted in accordance with the laws of the State of Delaware, unless any agreement attached hereto as an exhibit shall otherwise specifically provide.

11.12 No Benefit to Others. The representations, warranties, covenants and agreements contained in this Agreement are for the sole benefit of the Parties and their successors and assigns, and they shall not be construed as conferring and are not intended to confer any rights on any other persons.

11.13 Section Headings and Gender. All section headings and the use of a particular gender are for convenience only and shall in no way modify or restrict any of the terms or

provisions hereof.

11.14 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and each of the Parties may become a party hereto by executing a counterpart hereof. This Agreement and any counterpart so executed shall be deemed to be one and the same instrument. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

IN WITNESS WHEREOF, the Parties hereto, intending to be legally bound hereby, have duly executed this Agreement as of the day and year first written above.

(Corporate Seal)

RORER GROUP INC.

Attest:

By: _____

By: _____

Witness

Gregory R. Mundy

Attest:

BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Executive Secretary

By: _____
Charles B. Mullins, M.D.
Executive Vice Chancellor
for Health Affairs

Approved as to Form:

Approved as to Content:

By: _____
Dudley R. Dobie, Jr., Attorney
Office of General Counsel
The University of Texas System

By: _____
John P. Howe, III, M.D.
President, The University
of Texas Health Science
Center at San Antonio

Approved by Counsel for Rorer Group Inc. of the arbitration provision
contained in Section 8.1 of this Agreement.

Morgan, Lewis & Bockius

By: _____

Approved by counsel for Gregory R. Mundy, M.D., Ph.D. of the arbitration
provision contained in Section 8.1 of this Agreement.

By: _____

EXHIBIT A

RESEARCH AND DEVELOPMENT AGREEMENT

THIS RESEARCH AND DEVELOPMENT AGREEMENT, dated as of the _____ day of _____, 1988, between RORER GROUP INC., a Pennsylvania corporation ("Rorer"), and _____, a Delaware corporation formed pursuant to a Joint Venture Agreement dated _____, 1988 between Rorer, Gregory R. Mundy, M.D., Ph.D. ("Mundy") and The University of Texas Health Science Center at San Antonio (the "University") (the "Joint Venture Company").

R E C I T A L S

A. Rorer is itself and through subsidiary corporations engaged in the business of researching, developing, producing and selling pharmaceutical products. It is interested in creating novel drug delivery systems for the treatment of bone injuries, osteoporosis and metabolic bone diseases.

B. The Joint Venture Company was formed to continue and further the research done by Mundy in the field of bone metabolism.

C. Rorer and the Joint Venture Company desire to enter into this Agreement pursuant to which the Joint Venture Company will undertake research services described below on behalf of Rorer.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and intended to be legally bound hereby, the parties hereto agree as follows:

1. Research and Development Services.

1.1. During the Term (as defined in Section 3.1 below) of this Agreement, the Joint Venture Company shall provide to Rorer on the terms and conditions set forth herein (the "Services") relating to Joint Venture Business as defined in the Joint Venture Agreement (the "Services").

1.2. The Joint Venture Company shall provide or cause to be provided all facilities, equipment and personnel necessary to render the Services, shall conduct the research and development in a diligent manner and shall use its best efforts to provide the Services. During the Term of this Agreement, the Joint Venture Company shall not without the written consent of Rorer perform or provide consulting, research and development services for itself or for any other person, firm or corporation.

2. Payment for Services.

2.1. Rorer will pay, as compensation for the Services to be rendered by the Joint Venture Company, \$1,000,000 per year during the Term of this Agreement.

2.2. The annual compensation of \$1,000,000 referred to in Section 2.1 above shall be paid to the Joint Venture Company in [four equal quarterly installments]. Upon the request of the Joint Venture Company and in Rorer's sole discretion, Rorer may accelerate payment of the [quarterly installments] and payment of other compensation not yet done.

3. Term.

3.1. The Term of this Agreement shall include the original term which shall commence as of the date first above written and continue for three years, and any extensions pursuant to Sections 3.2, 3.3 and 3.5 below.

3.2 After the second anniversary of the date first above written, either Rorer or the Joint Venture Company may terminate this Agreement upon one year's written notice to the other party unless this Agreement has been extended in accordance with Section 3.3 below. If this Agreement is not terminated in accordance with the preceding sentence, this Agreement shall automatically be extended for 2 years.

3.3 If any time the Joint Venture Company develops, creates or produces a new patentable chemical entity, or a new patentable delivery system, this Agreement shall automatically be extended for an additional term of 3 years. One year prior to the expiration of such extension, either party may terminate this Agreement upon one year's written notice to the other party. If this Agreement is not terminated in accordance with the preceding

sentence, this Agreement shall automatically be extended for 2 years.

3.4. In no event shall the Term of this Agreement be extended at any one time for more than 3 years.

3.5. Notwithstanding any other provision in this Agreement, the Term of this Agreement may be extended by the mutual consent of the parties.

4. Reports and Records.

4.1. The Joint Venture Company shall keep and maintain, in accordance with generally accepted accounting principles and practices consistently applied, proper, accurate and complete records and books of account. The Joint Venture Company agrees to provide Rorer and any agent, employee, accountant, attorney or other representative of Rorer, at any time and from time to time during and after the Term of this Agreement, access to, and to permit the inspection, examination and copying of, any such records and books.

4.2. The Joint Venture Company shall provide [quarterly reports] to Rorer concerning the status and result of the research conducted by it.

4.3. During the Term of this Agreement, Rorer's employees, agents and representatives shall have access to the Joint Venture Company at mutually agreed upon times for disclosure of all information that is the subject of this Agreement.

5. Ownership, License and Royalty.

5.1. All patents, inventions, discoveries, copyrights, trade secrets, know-how, and other intellectual property created, developed, conceived or reduced to practice by the Joint Venture Company or any of its scientists, employees or agents on behalf of the Joint Venture Company during the Term of this Agreement shall be owned by the Joint Venture Company.

5.2. Rorer is hereby granted a right of first refusal to obtain an exclusive license from the Joint Venture Company for any patents and know-how owned by the Joint Venture Company. The license shall be a worldwide license and shall be for the life of the patent. The License Agreement shall be as set forth in Exhibit B hereto which provides, among other things, for royalty payments to the Joint Venture Company, Mundy and the

University in amounts equal to 5%, 4% and 1%, respectively, of Annual Sales (as defined in the License Agreement) per year.

6. Compliance with Laws; Insurance; Taxes.

6.1. The Joint Venture Company covenants and agrees that it will comply in all respects with all laws, rules, regulations and orders applicable to it. Without limiting the generality of the foregoing, the Joint Venture Company agrees that it will not infringe any United States or foreign patent or copyright in favor of any third party in connection with the performance of its obligations under this Agreement.

6.2. The Joint Venture Company, at its expense, shall at all times during the Term of this Agreement maintain property damage, comprehensive general liability and other insurance customary in the business of the Joint Venture Company. In addition, the Joint Venture Company shall purchase and maintain insurance to guard against any risks that might deprive the Joint Venture Company of the continued services of Mundy. The Joint Venture Company shall give Rorer immediate notice of any suit, action or proceeding filed, or prompt notice of any claim made, against the Joint Venture Company arising out of the performance of this Agreement, the risk of which is then uninsured or in which the amount claimed exceeds the amount of any applicable insurance coverage.

6.3. The Joint Venture Company, at its expense, shall pay all federal, state and local taxes, including, without limitation, income, sales, use, excise and similar taxes, assessed against or relating to this Agreement, the amounts paid or payable by Rorer hereunder or assessed against or relating to the business of the Joint Venture Company and for which the Joint Venture Company is liable directly or indirectly.

7. Technical Assistance; Patent Applications.

7.1. The Joint Venture Company shall at any time and from time to time render such technical assistance as shall be reasonably requested by Rorer and as shall be necessary to permit Rorer to enjoy fully the use and benefit of the Services.

7.2. The Joint Venture Company shall retain Rorer for the purpose of processing any patent application.

8. Confidentiality.

8.1. The Joint Venture Company agrees to take reasonable security measures to safeguard and protect the

confidentiality of the research conducted by it, including, without limitation, entering into confidentiality agreements with its employees.

9. Default and Termination.

9.1. The occurrence of any one or more of the following events shall constitute an Event of Default:

- (a) if either party shall (i) commence a case under the federal bankruptcy laws, as now or hereafter constituted, or otherwise seek protection from creditors generally under any federal or state bankruptcy, insolvency, moratorium or similar laws, (ii) have a case or proceeding commenced against it under any of such laws which remains undismissed or unstayed for a period of 90 days after it receives notice or otherwise become aware of such case or proceeding, (iii) suffer the entry of a decree or order appointing, or otherwise consent in any manner to the appointment of, a receiver, liquidator, assignee, custodian, trustee or similar official of such party or for any material portion of such party's property, or (iv) make a general assignment for the benefit of creditors;
- (b) the failure of either party to perform or observe any term, covenant or agreement contained in this Agreement required to be performed or observed and the failure to remedy such performance or observance within 15 days after written notice thereof shall have been given by the non-defaulting party to the defaulting party;
- (c) if it reasonably appears that either party will be unable to carry on its business as a result of a final judgment against such party remaining unsatisfied for 90 days or longer, or execution is levied against such party's business or property; or
- (d) if either party dissolves, liquidates, or discontinues its business operations.

9.2. Termination.

Upon the occurrence of an Event of Default, the non-defaulting party shall be entitled to terminate this Agreement.

10. Independent Contractor. The Joint Venture Company shall at all times under this Agreement be considered an independent contractor of Rorer, maintaining exclusive control of its personnel and operations. The Joint Venture Company shall not hold itself out as, and nothing herein shall be deemed to create or imply that the Joint Venture Company is, an agent, employee, lessee, partner or joint venturer of Rorer.

11. Arbitration. All disputes or controversies between Rorer and the Joint Venture Company hereunder shall be settled by arbitration in Philadelphia, Pennsylvania before a single arbitrator in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The arbitrator shall be selected pursuant to the following procedure. The party demanding arbitration shall give written notice to the other party of the demand for arbitration, which notice shall specify in reasonable detail the nature of the dispute. Within ten days following notice as aforesaid, the parties shall advise the AAA as to the general nature of the dispute, and shall request the AAA to provide a list of five qualified arbitrators. Within five days following receipt of the list of arbitrators from the AAA, the party demanding arbitration shall strike the name of one arbitrator. Each party shall then, in turn, have five days within which to strike the name of one arbitrator, until the name of one arbitrator shall remain. The last remaining arbitrator shall arbitrate the dispute between the parties. The foregoing procedure shall be completed within 20 days following receipt of the list of arbitrators from the AAA. Any award rendered by the arbitrator shall be conclusive and binding upon the parties hereto. Each party shall pay its own expenses of arbitration and the expenses of the arbitrator shall be shared equally; provided, however, that if in the opinion of the arbitrator any claim by Rorer or the Joint Venture Company or any defense or objection thereto by the other party was made in bad faith or was without a reasonable basis, the arbitrator may assess, as part of this award, all or any part of the arbitration expenses of the other party (including reasonable attorneys' fees) and of the arbitrator against the party that raised such claim, defense or objection. This provision for arbitration shall be specifically enforceable by the parties hereto.

12. Miscellaneous.

12.1. Subject to the terms and conditions herein provided, each of the parties hereto shall use its best efforts to take, or cause to be taken, such action, to execute and deliver, or cause to be executed and delivered, such additional documents and instruments and to do, or cause to be done, all things necessary, proper or advisable under the provisions of this Agreement and under applicable law to consummate and to make effective the transactions contemplated by this Agreement.

12.2. This Agreement may not be amended or modified except by an instrument in writing duly executed by the parties hereto.

12.3. If any provision of this Agreement shall be held to be invalid or unenforceable in any jurisdiction, such provision shall be deemed amended to the extent necessary to conform to applicable laws so as to be valid and enforceable or, if it cannot be so amended without materially altering the intention of the parties, this Agreement shall be construed as if such invalid or unenforceable provision had never been contained herein.

12.4. This Agreement shall be construed and enforced in accordance with the laws of the state of [Delaware].

12.5. No delay in exercising any right arising from any breach or failure to perform under this Agreement shall be deemed a waiver thereof unless an express waiver is contained in a writing signed by the party charged with such waiver; and no such waiver shall be deemed to be a waiver of any subsequent breach or failure or any other right or remedy arising under this Agreement.

12.6. All notices, requests, demands and other communications permitted or required hereunder shall be given in writing and may be delivered personally or sent by certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to Rorer:

If to the Joint Venture Company:

All such notices shall be deemed to have been given on the date delivered personally or five days after the date mailed in the manner provided above.

12.7. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute together but one and the same document.

12.8. Neither this Agreement nor any right or obligation arising hereunder may be assigned by either party, in whole or in part, without the prior written consent of the other party in its discretion, except that Rorer may make an assignment to a wholly-owned direct or indirect subsidiary. This Agreement shall be binding upon any assignee and, subject to the restrictions on assignment herein set forth, shall inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed as of the date first above written.

(Corporate Seal)

RORER GROUP INC.

Attest:

By: _____

By: _____

(Corporate Seal)

[JOINT VENTURE COMPANY]

Attest:

By: _____

By: _____

Approved by counsel for Rorer Group Inc. of the arbitration provision contained in Section 11 of this Agreement.

Morgan, Lewis & Bockius

Approved by counsel for [Joint Venture Company] of the
arbitration provision contained in Section 11 of this Agreement.

[Joint Venture Company]

EXHIBIT B

CERTIFICATE OF INCORPORATION
OF

[]

The undersigned incorporator, in order to form a corporation under the General Corporation Law of the State of Delaware, certifies as follows:

FIRST: The name of this corporation is []
(hereinafter called the "Corporation").

SECOND: The registered office of the Corporation is to be located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, in the County of New Castle, in the State of Delaware. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

FOURTH: The Corporation shall be authorized to issue 600,000 shares, consisting of 500,000 shares of Common Stock of the par value of \$.01 per share and 100,000 shares of Convertible Preferred Stock of the par value of \$.01 per share.

A description of each class of shares, and a statement of the preferences, qualifications, limitations, restrictions and the special or relative rights granted to or imposed upon the shares of each class are set forth below.

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A. Common Stock.

(1) Voting Rights. The holders of Common Stock of the Corporation shall be entitled to one vote per share at any annual or special meeting of stockholders for any matter coming before such meeting. The right of the holders of Common Stock to vote for directors shall be governed by the provisions of Article FIFTH hereof. No plan, proposal, act, transaction or other corporate action which requires the vote or consent of stockholders of the Corporation under any provision of law or under the Certificate of Incorporation or By-Laws of the Corporation (as filed or adopted, as the case may be, as of the date hereof and as the same may be amended from time to time) shall be approved, effected or validated without the written consent or the affirmative vote given in person or by proxy at a meeting called for that purpose of the holders of a majority of the outstanding Common Stock.

(2) Dividends. Subject to the terms of this Article FOURTH, dividends may be paid on Common Stock out of any funds legally available for such purpose when and as declared by the Board of Directors of the Corporation.

B. Convertible Preferred Stock.

(1) No Voting Rights. Except as otherwise required by law, no holder of Convertible Preferred Stock shall have by reason thereof any right to notice of, or to vote at, any meeting of stockholders of the Corporation called for the

election of directors or for any other purpose or to express consent or dissent in writing to any plan, proposal, act, transaction or other corporate action to be approved, effected or validated by stockholders, all voting rights in the Corporation being hereby reserved exclusively to the holders of the Common Stock.

(2) Dividends. The holders of Convertible Preferred Stock shall be entitled to receive out of any funds legally available when and as declared by the Board of Directors of the Corporation cash dividends on each share thereof at the rate of ___¢ per annum, and no more. Such dividends shall be cumulative and payable before any dividends shall be paid on the Common Stock. Accumulations of dividends shall not bear interest.

So long as any Convertible Preferred Stock shall remain outstanding, no dividend or other distribution (except in stock of the Corporation of a class ranking junior to the Convertible Preferred stock as to dividends and the distributions of assets upon liquidation) shall be paid or made on the Common Stock, unless (whether or not there shall be funds legally available therefor) all dividends accumulated on shares of Convertible Preferred Stock shall have been declared and paid.

(3) Liquidation Rights. In the event of any liquidation, dissolution or winding up of the Corporation, the holder of an outstanding share of any Convertible Preferred Stock shall be entitled to receive from the assets of the Corporation

available for distribution to its stockholders the amount of all unpaid dividends accumulated on such shares, accrued to the date when such payments shall be made available to the holder thereof, and, if such assets are sufficient to permit the payment in full to such holders of all such dividends, then the amount of \$_____ per share for each outstanding share of Convertible Preferred Stock at the date of such liquidation, dissolution or winding up, and no more, before any distribution of assets shall be made to the holders of Common Stock. If, upon such liquidation, dissolution or winding up, the assets distributable to the holders of Convertible Preferred Stock shall be insufficient to permit the payment in full to such holders of the preferential amounts to which they are entitled, then such assets shall be distributed ratably to the holders of Convertible Preferred Stock.

After payment in full to the holders of Convertible Preferred Stock of the preferential amounts set forth in the preceding paragraph or after monies or other assets sufficient for such payment shall have been deposited by the Corporation with a bank or trust company having capital, surplus and undivided profits aggregating at least \$10,000,000, so as to be and to continue to be available for such payment to the holders of Convertible Preferred Stock, the remaining assets of the Corporation available for payment and distribution to

stockholders shall be paid and distributed to the holders of Common Stock.

Neither a consolidation or merger of the Corporation with or into any other corporation, nor a merger of any other corporation into the Corporation, nor a reorganization of the Corporation, nor the purchase or redemption of all or part of the outstanding shares of any class or classes of the Corporation, nor a sale or transfer of all or any part of its assets shall be considered a liquidation, dissolution or winding up of the Corporation within the meaning of this Section (3).

(4) Redemption. The shares of Convertible Preferred Stock shall not be redeemable.

(6) Conversion. At the option of the holders of Convertible Preferred Stock, each share of Convertible Preferred Stock may be converted into one share of Common Stock of the Corporation provided that the Corporation has filed a registration statement under the Securities Act of 1933, as amended, with the Securities and Exchange Commission.

FIFTH: The business and affairs of the Corporation shall be managed by, or under the direction of, a Board of Directors. The Board of Directors of the Corporation shall consist of six directors. A director need not be a stockholder of the Corporation. At each election of directors, each holder of Common Stock shall be entitled to as many votes as shall equal the number of votes which (except for this provision as to

cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected by him, and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as he may see fit.

SIXTH: Elections of directors need not be by ballot unless the By-Laws of the Corporation shall so provide.

SEVENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders are granted subject to this reservation.

EIGHTH: The original by-laws of the Corporation shall be adopted by the initial incorporator named herein. Thereafter the Board of Directors shall have the power, in addition to the stockholders, to make, alter, or repeal the by-laws of the Corporation.

NINTH: A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware

General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

TENTH: The name and mailing address of the incorporator is: Sylvia Wong, 2000 One Logan Square, Philadelphia, PA 19103.

IN WITNESS WHEREOF, this Certificate has been signed on this ___ day of _____, 1988.

Sylvia Wong

EXHIBIT C

B Y - L A W S

OF

[Joint Venture Company]
(a Delaware Corporation)

ARTICLE I

Offices and Fiscal Year

SECTION 1.01. Registered Office. The registered office of the corporation shall be in the City of Wilmington, County of New Castle, State of Delaware until otherwise established by a vote of a majority of the board of directors in office, and a statement of such change is filed in the manner provided by statute.

SECTION 1.02. Other Offices. The corporation may also have offices at such other places within or without the State of Delaware as the board of directors may from time to time determine or the business of the corporation requires.

SECTION 1.03. Fiscal Year. The fiscal year of the corporation shall end on the last day of December in each year.

ARTICLE II

Meetings of Stockholders

SECTION 2.01. Place of Meeting. All meetings of the stockholders of the corporation shall be held at the registered office of the corporation, or at such other place within or without the State of Delaware as shall be designated by the board of directors in the notice of such meeting.

SECTION 2.02. Annual Meeting. The board of directors may fix the date and time of the annual meeting of the stockholders, but if no such date and time is fixed by the board, the meeting for any calendar year shall be held on the [first Monday of February] in such year, if not a legal holiday, and if a legal holiday then on the next succeeding business day at 10 o'clock A.M., and at said meeting the stockholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting.

SECTION 2.03. Special Meetings. Special meetings of the stockholders of the corporation for any purpose or purposes for which meetings may lawfully be called, may be called at any time by the chairman of the board, a majority of the board of directors, the president, or at the request, in writing, of stockholders owning a majority of common stock of the corporation issued and outstanding and entitled to vote. At any time, upon written request of any person or persons who have duly called a special meeting, which written request shall state the purpose or purposes of the meeting, it shall be the duty of the secretary to fix the date of the meeting to be held at such date and time as the secretary may fix, not less than ten nor more than sixty days after the receipt of the request, and to give due notice thereof. If the secretary shall neglect or refuse to fix the time and date of such meeting and give notice thereof, the person or persons calling the meeting may do so.

SECTION 2.04. Notice of Meetings. Written notice of the place, date and hour of every meeting of the stockholders, whether annual or special, shall be given to each stockholder of record entitled to vote at the meeting not less than ten nor more than sixty days before the date of the meeting. Every notice of a special meeting shall state the purpose or purposes thereof.

SECTION 2.05. Quorum, Manner of Acting and Adjournment. The holders of a majority of the stock issued and outstanding (not including treasury stock) and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute, by the certificate of incorporation or by these by-laws. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At any such adjourned meeting, at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. When a quorum is present at any meeting, the vote of the holders of the majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the applicable statute, the certificate of incorporation or these by-laws, a different vote is required in which case such express provision shall govern and

control the decision of such question. Except upon those questions governed by the aforesaid express provisions, the stockholders present in person or by proxy at a duly organized meeting can continue to do business until adjournment, notwithstanding withdrawal of enough stockholders to leave less than a quorum.

SECTION 2.06. Organization. At every meeting of the stockholders, the chairman of the board, if there be one, or in the case of a vacancy in the office or absence of the chairman of the board, one of the following persons present in the order stated: the vice chairman, if one has been appointed, the president, the vice presidents in their order or rank, a chairman designated by the board of directors or a chairman chosen by the stockholders entitled to cast a majority of the votes which all stockholders present in person or by proxy are entitled to cast, shall act as chairman, and the secretary, or, in his absence, an assistant secretary, or in the absence of the secretary and the assistant secretaries, a person appointed by the chairman, shall act as secretary.

SECTION 2.07. Voting. Except as provided below, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of capital stock having voting power held by such stockholder. At each election of directors, each holder of common stock of the corporation shall be entitled to as many votes as shall equal the number of votes which (except for this provision as to cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected by him, and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as he may see fit. No proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. Every proxy shall be executed in writing by the stockholder or by his duly authorized attorney-in-fact and filed with the secretary of the corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the secretary of the corporation. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the secretary of the corporation.

SECTION 2.08. Consent of Stockholders in Lieu of Meeting. Any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days of the earliest dated consent delivered in the manner required above to the corporation, written consents signed by a sufficient number of holders or members to take action are delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

SECTION 2.09. Voting Lists. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting. The list shall be arranged in alphabetical order showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 2.10. Judges of Election. All elections of directors shall be by written ballot, unless otherwise provided in the certificate of incorporation; the vote upon any other matter need not be by ballot. In advance of any meeting of stockholders the board of directors may appoint judges of election, who need not be stockholders, to act at such meeting or

any adjournment thereof. If judges of election are not so appointed, the chairman of any such meeting may, and upon the demand of any stockholder or his proxy at the meeting and before voting begins, shall appoint judges of election. The number of judges shall be either one or three, as determined, in the case of judges appointed upon demand of a stockholder, by stockholders present entitled to cast a majority of the votes which all stockholders present are entitled to cast thereon. No person who is a candidate for office shall act as a judge. In case any person appointed as judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting, or at the meeting by the chairman of the meeting.

If judges of election are appointed as aforesaid, they shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes, determine and result, and do such acts as may be proper to conduct the election or vote with fairness to all stockholders. If there be three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

On request of the chairman of the meeting or of any stockholder or his proxy, the judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them.

ARTICLE III

Board of Directors

SECTION 3.01. Powers. The board of directors shall have full power to manage the business and affairs of the corporation; and all powers of the corporation, except those specifically reserved or granted to the stockholders by statute, the certificate of incorporation or these by-laws, are hereby granted to and vested in the board of directors.

SECTION 3.02. Number and Term of Office. The board of directors shall consist of such number of directors, not less than [two] nor more than [six], as may be determined from time to time by resolution of the board of directors. So long as University owns Capital Stock in the Company, it shall have at least one seat on the board of directors. Each director shall serve until the next annual meeting of the stockholders and until his successor shall have been elected and qualified, except

in the event of his death, resignation or removal. All directors of the corporation shall be natural persons, but need not be residents of Delaware or stockholders of the corporation.

SECTION 3.03. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute. Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office.

SECTION 3.04. Resignations. Any director of the corporation may resign at any time by giving written notice to the president or the secretary of the corporation. Such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.05. Organization. At every meeting of the board of directors, the chairman of the board, if there be one, or, in the case of a vacancy in the office or absence of the chairman of the board, one of the following officers present in the order stated: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or a chairman chosen by a majority of the directors present, shall preside, and the secretary, or, in his absence, an assistant secretary, or in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary.

SECTION 3.06. Place of Meeting. The board of directors may hold its meetings, both regular and special, at such place or places within or without the State of Delaware as the board of directors may from time to time appoint, or as may be designated in the notice calling the meeting.

SECTION 3.07. Organization Meeting. The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

SECTION 3.08. Regular Meetings. Regular meetings of the board of directors may be held without notice at such time and place as shall be designated from time to time by resolution of the board of directors. If the date fixed for any such regular meeting be a legal holiday under the laws of the State where such meeting is to be held, then the same shall be held on the next succeeding business day, not a Saturday, or at such other time as may be determined by resolution of the board of directors. At such meetings, the directors shall transact such business as may properly be brought before the meeting.

SECTION 3.09. Special Meetings. Special meetings of the board of directors shall be held whenever called by the president or by two or more of the directors. Notice of each such meeting shall be given to each director by telephone or in writing at least 24 hours (in the case of notice by telephone) or 48 hours (in the case of notice by telegram) or five days (in the case of notice by mail) before the time at which the meeting is to be held. Each such notice shall state the time and place of the meeting to be so held.

SECTION 3.10. Quorum, Manner of Acting and Adjournment. At all meetings of the board a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of the board of

directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if all members of the board consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board.

SECTION 3.11. Executive and Other Committees. The board of directors may, by resolution adopted by a majority of the whole board, designate an executive committee and one or more other committees, each committee to consist of two or more directors. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member, and the alternate or alternates, if any, designated for such member, of any committee the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member.

Any such committee to the extent provided in the resolution establishing such committee shall have and may exercise all the power and authority of the board of directors in the management of the business and affairs of the corporation, including the power or authority to declare a dividend or to authorize the issuance of stock, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the Delaware General Corporation Law ("DGCL"), fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), adopting an agreement of merger or consolidation under Section 251 or 252 of the DGCL, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the by-laws of the corporation; and, unless the resolution expressly so provides, no such committee

shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the DGCL. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. Each committee so formed shall keep regular minutes of its meetings and report the same to the board of directors when required.

SECTION 3.12. Compensation of Directors. Unless otherwise restricted by the certificate of incorporation, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

Notice - Waivers - Meetings

SECTION 4.01. Notice, What Constitutes. Whenever, under the provisions of the statutes of Delaware or the certificate of incorporation or of these by-laws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given in accordance with Section 3.09 of Article III hereof.

SECTION 4.02. Waivers of Notice. Whenever any written notice is required to be given under the provisions of the certificate of incorporation, these by-laws, or by statute, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except in the case of a special meeting of stockholders, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice of such meeting.

Attendance of a person, either in person or by proxy, at any meeting, shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

SECTION 4.03. Conference Telephone Meetings. One or more directors may participate in a meeting of the board, or of a committee of the board, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE V

Officers

SECTION 5.01. Number, Qualifications and Designation. The officers of the corporation shall be chosen by the board of directors and shall be a president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of Section 5.03 of this Article. One person may hold more than one office. Officers may be, but need not be, directors or stockholders of the corporation. The board of directors may elect from among the members of the board a chairman of the board and a vice chairman of the board who shall be officers of the corporation.

SECTION 5.02. Election and Term of Office. The officers of the corporation, except those elected by delegated authority pursuant to Section 5.03 of this Article, shall be elected annually by the board of directors, and each such officer shall hold his office until his successor shall have been elected and qualified, or until his earlier resignation or removal. Any officer may resign at any time upon written notice to the corporation.

SECTION 5.03. Subordinate Officers, Committees and Agents. The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as it deems necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as are provided in these by-laws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

SECTION 5.04. The Chairman and Vice Chairman of the Board. The chairman of the board or in his absence, the vice chairman of the board, shall preside at all meetings of the stockholders and of the board of directors, and shall perform such other duties as may from time to time be assigned to them by the board of directors.

SECTION 5.05. The President. The president shall be the chief executive officer of the corporation and shall have general supervision over the business and operations of the corporation, subject, however, to the control of the board of directors. He shall sign, execute, and acknowledge, in the name of the corporation, deeds, mortgages, bonds, contracts or other instruments, authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, or by these by-laws, to some other officer or agent of the corporation; and, in general, shall perform all duties incident to the office of president, and such other duties as from time to time may be assigned to him by the board of directors.

SECTION 5.06. The Vice Presidents. The vice presidents shall perform the duties of the president in his absence and such other duties as may from time to time be assigned to them by the board of directors or by the president.

SECTION 5.07. The Secretary. The secretary, or an assistant secretary, shall attend all meetings of the stockholders and of the board of directors and shall record the proceedings of the stockholders and of the directors and of committees of the board in a book or books to be kept for that purpose; see that notices are given and records and reports properly kept and filed by the corporation as required by law; be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned to him by the board of directors or the president.

SECTION 5.08. The Treasurer. The treasurer or an assistant treasurer shall have or provide for the custody of the funds or other property of the corporation and shall keep a separate book account of the same to his credit as treasurer; collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the corporation; deposit all funds in his custody as treasurer in such banks or other places of deposit as the board of directors may from time to time designate; whenever so required by the board of directors, render an account showing his transactions as

treasurer and the financial condition of the corporation; and, in general, discharge such other duties as may from time to time be assigned to him by the board of directors or the president.

SECTION 5.09. Officers' Bonds. No officer of the corporation need provide a bond to guarantee the faithful discharge of his duties unless the board of directors shall by resolution so require a bond in which event such officer shall give the corporation a bond (which shall be renewed if and as required) in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of his office.

SECTION 5.10. Salaries. The salaries of the officers and agents of the corporation elected by the board of directors shall be fixed from time to time by the board of directors.

ARTICLE VI

Certificates of Stock, Transfer, Etc.

SECTION 6.01. Issuance. Each stockholder shall be entitled to a certificate or certificates for shares of stock of the corporation owned by him upon his request therefor. The stock certificates of the corporation shall be numbered and registered in the stock ledger and transfer books of the corporation as they are issued. They shall be signed by the president or a vice president and by the secretary or an assistant secretary or the treasurer or an assistant treasurer, and shall bear the corporate seal, which may be a facsimile, engraved or printed. Any of or all the signatures upon such certificate may be a facsimile, engraved or printed. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer, transfer agent or registrar, before the certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent or registrar at the date of its issue.

SECTION 6.02. Transfer. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. No transfer shall be made which would be inconsistent with the provisions of Article 8, Title 6 of the Delaware Uniform Commercial Code-Investment Securities.

SECTION 6.03. Stock Certificates. Stock certificates of the corporation shall be in such form as provided by statute and approved by the board of directors. The stock record books and the blank stock certificates books shall be kept by the secretary or by any agency designated by the board of directors for that purpose.

SECTION 6.04. Lost, Stolen, Destroyed or Mutilated Certificates. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

SECTION 6.05. Record Holder of Shares. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

SECTION 6.06. Determination of Stockholders of Record. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or

to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the board of directors. If no record has been fixed by the board of directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by the DGCL, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by the DGCL, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action.

In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights of the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

ARTICLE VII

Indemnification of Directors, Officers and Other Authorized Representatives

SECTION 7.01. Indemnification of Authorized Representatives in Third Party Proceedings. The corporation shall indemnify any person who was or is an authorized representative of the corporation, and who was or is a party, or is threatened to be made a party to any third party proceeding, by reason of the fact that such person was or is an authorized representative of the corporation, against expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such third party proceeding if such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal third party proceeding, had no reasonable cause to believe such conduct was unlawful. The termination of any third party proceeding by judgment, order, settlement, indictment, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the authorized representative did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to, the best interests of the corporation, and, with respect to any criminal third party proceeding, had reasonable cause to believe that such conduct was unlawful.

SECTION 7.02. Indemnification of Authorized Representatives in Corporate Proceedings. The corporation shall indemnify any person who was or is an authorized representative of the corporation and who was or is a party or is threatened to be made a party to any corporate proceeding, by reason of the fact that such person was or is an authorized representative of the corporation, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such corporate action if such person acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such corporate proceeding was pending shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such authorized representative is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 7.03. Mandatory Indemnification of Authorized Representatives. To the extent that an authorized representative of the corporation has been successful on the merits or otherwise in defense of any third party or corporate proceeding or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses actually and reasonably incurred by such person in connection therewith.

SECTION 7.04. Determination of Entitlement to Indemnification. Any indemnification under Section 7.01, 7.02 or 7.03 of this Article (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the authorized representative is proper in the circumstances because such person has either met the applicable standard of conduct set forth in Section 7.01 or 7.02 or has been successful on the merits or otherwise as set forth in Section 7.03 and that the amount requested has been actually and reasonably incurred. Such determination shall be made:

(1) By the board of directors by a majority of a quorum consisting of directors who were not parties to such third party or corporate proceeding, or

(2) If such a quorum is not obtainable, or, even if obtainable, a majority vote of such a quorum so directs, by independent legal counsel in a written opinion, or

(3) By the stockholders.

SECTION 7.05. Advancing Expenses.

(1) Expenses actually and reasonably incurred in defending a third party or corporate proceeding shall be paid on behalf of a director by the corporation in advance of the final disposition of such third party or corporate proceeding upon receipt of an undertaking by or on behalf of the director to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized in this Article.

(2) Expenses actually and reasonably incurred in defending a third party or corporate proceeding shall be paid on behalf of an authorized representative other than a director by the corporation in advance of the final disposition of such third party or corporate proceeding as authorized by the board of directors upon receipt of an undertaking by or on behalf of such authorized representative to repay if it shall ultimately be determined that such

person is not entitled to be indemnified by the corporation as authorized in this Article.

(3) The financial ability of any authorized representative to make a repayment contemplated by this Section shall not be a prerequisite to the making of an advance.

SECTION 7.06. Definitions. For purposes of this Article:

- (1) "authorized representative" shall mean a director or officer of the corporation, or a person serving at the request of the corporation as a director, officer, or trustee, of another corporation, partnership, joint venture, trust or other enterprise;
- (2) "corporation" shall include in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.
- (3) "corporate proceeding" shall mean any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor or investigative proceeding by the corporation;
- (4) "criminal third party proceeding" shall include any action or investigation which could or does lead to a criminal third party proceeding;
- (5) "expenses" shall include attorneys' fees and disbursements;
- (6) "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan;
- (7) "not opposed to the best interest of the corporation"

shall include actions taken in good faith and in a manner the authorized representative reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan;

- (8) "other enterprises" shall include employee benefit plans;
- (9) "party" shall include the giving of testimony or similar involvement;
- (10) "serving at the request of the corporation" shall include any service as a director, officer or employee of the corporation which imposes duties on, or involves services by, such director, officer or employee with respect to an employee benefit plan, its participants, or beneficiaries; and
- (11) "third party proceeding" shall mean any threatened pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, other than an action by or in the right of the corporation.

SECTION 7.07. Insurance. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article.

SECTION 7.08. Scope of Article. The indemnification of authorized representatives and advancement of expenses, as authorized by the preceding provisions of this Article, shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity. The indemnification and advancement of expenses provided by or granted pursuant to this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be an authorized representative and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 7.09. Reliance on Provisions. Each person who shall act as an authorized representative of the corporation

shall be deemed to be doing so in reliance upon rights of indemnification provided by this Article.

ARTICLE VIII

General Provisions

SECTION 8.01. Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock of the corporation, subject to the provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

SECTION 8.02. Annual Statements. The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

SECTION 8.03. Contracts. Except as otherwise provided in these by-laws, the board of directors may authorize any officer or officers including the chairman and vice chairman of the board of directors, or any agent or agents, to enter into any contract or to execute or deliver any instrument on behalf of the corporation and such authority may be general or confined to specific instances.

SECTION 8.04. Checks. All checks, notes, bills of exchange or other orders in writing shall be signed by such person or persons as the board of directors may from time to time designate.

SECTION 8.05. Corporate Seal. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

SECTION 8.06. Deposits. All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as the board of directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees as the board of directors shall from time to time determine.

SECTION 8.07. Corporate Records. At least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of and number of shares registered in the name of each stockholder, shall be open to the examination of any stockholder, for any purpose germane to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Every stockholder shall, upon written demand under oath stating the purpose thereof, have a right to examine, in person or by agent or attorney, during the usual hours for business, for any proper purpose, the stock ledger, books or records of account, and records of the proceedings of the stockholders and directors, and make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business. Where the stockholder seeks to inspect the books and records of the corporation, other than its stock ledger or list of stockholders, the stockholder shall first establish (1) compliance with the provisions of this section respecting the form and manner of making demand for inspection of such document; and (2) that the inspection sought is for a proper purpose. Where the stockholder seeks to inspect the stock ledger or list of stockholders of the corporation and has complied with the provisions of this section respecting the form and manner of making demand for inspection of such documents, the burden of proof shall be upon the corporation to establish that the inspection sought is for an improper purpose.

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its

other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger and the stock list and to make copies or extracts therefrom. The court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the court may deem just and proper.

SECTION 8.08. Amendment of By-Laws. These by-laws may be altered, amended or repealed or new by-laws may be adopted by the stockholders or by the board of directors, when such power is conferred upon the board of directors by the certificate of incorporation, at any regular meeting of the stockholders or of the board of directors or at any special meeting of the stockholders or of the board of directors if notice of such alteration, amendment, repeal or adoption of new by-laws be contained in the notice of such special meeting.

SECTION 8.09. Restriction on Transfer. No stockholder shall sell, transfer or otherwise dispose of such stockholder's shares without first offering said shares to the corporation or to the other stockholders in accordance with the terms of the Joint Venture Agreement dated _____, 1988 by and among all the stockholders of the corporation.

EXHIBIT D

List of Nominees for Directors of the Company

Rorer Representatives:

Mundy Representatives:

University Representative:

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EXHIBIT E

List of Nominees for Executive Committee

1. Gregory R. Mundy
2. James R. Tretter

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EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated _____, 1988, between [the Joint Venture Company], a [Delaware] corporation (the "Company"), with its principal offices at _____ and Gregory R. Mundy M.D., Ph.D. (the "Employee"), with reference to the following RECITALS:

R E C I T A L S

A. The Employee, Rorer Group Inc. ("Rorer") and The University of Texas Health Science Center at San Antonio (the "University") are parties to a Joint Venture Agreement of even date herewith (the "Joint Venture Agreement") pursuant to which the parties thereto agree to form the Company for the purpose of conducting certain business in the field of bone metabolism.

B. The Employee is an expert in the field of bone metabolism.

C. The Employee's execution and delivery of this Employment Agreement is a condition to the obligation of each of the parties to the Joint Venture Agreement to consummate the Joint Venture Agreement.

NOW, THEREFORE, the parties hereto, for the consideration set forth in the foregoing Recitals and the mutual covenants herein contained and intending to be legally bound, agree as follows:

1. Employment. The Company hereby employs the Employee, and the Employee hereby accepts such employment and agrees to perform his duties and responsibilities hereunder, in accordance with the terms and conditions hereinafter set forth.

2. Employment Term. The employment term of this Agreement (the "Employment Term") shall commence as of the date hereof and shall continue for three years, unless terminated sooner in accordance with Section 11 hereof. The Company shall have the right to extend the Employment Term on the same terms and conditions set forth herein to coincide with the term of the Research and Development Agreement of even date herewith between the Company and Rorer. The Employment Term shall include the original Employment Term and any extension thereof.

3. Duties and Responsibilities. The Employee shall perform such services and discharge such duties and responsibilities as may be prescribed from time to time by the Board of Directors or the President of the Company, serve in such capacities, titles and positions with respect to the Company, and perform all duties and accept all responsibilities incidental to any such capacities, titles and position, as the Board of Directors or President of the Company may direct, including, without limitation, performing research relating to (i) the identification and isolation of unique bone growth proteins, (ii) the testing of proteins or other factors for their effects on osteoblast function in vivo, and (iii) the development of novel drug delivery systems to target bone growth factors to sites of bone damage (Joint Venture Business). The Employee shall provide such services for, and consult with and advise, without additional compensation, corporations affiliated with the Company as the Board of Directors or the President of the Company may from time to time specify.

4. Extent of Service. The Employee shall use his best efforts in the business of the Company and devote at least one full day per week to the performance of his services and the discharge of his duties and responsibilities hereunder. The Employee's services initially will be rendered principally in San Antonio, Texas.

5. Compensation. [For all the services rendered by the Employee hereunder, the Company shall pay the Employee a salary at the annual rate of \$_____, less withholding required by law. Such salary shall be payable in installments at such times as the Company customarily pays its other employees (but in any event not less often than monthly).]

6. Business Expense. The Company will reimburse the Employee for all ordinary and reasonable out-of-pocket business expenses incurred by the Employee in connection with his performance of service hereunder during the Employment Term in accordance with the Company's expense approval procedures then in effect and upon presentation to the Company of an itemized account and written proof of such expenses.

7. Inventions, Designs and Product Developments. All inventions, innovations, designs, ideas and product developments (collectively, the "Developments"), developed or conceived by the Employee, solely or jointly with others, whether or not patentable or copy-rightable, at any time during the Employment Term and which relate to the Joint Venture Business as that term is defined in the Joint Venture Agreement or to similar business activities engaged in by the Company and all of the Employee's right, title and interest therein, shall be the exclusive

property of the Company. All patent applications for Developments relating to the Joint Venture Business and which are applied for by the Employee within three years after the expiration of the Employment Term shall be owned by the Company. The Employee hereby assigns, transfers and conveys to the Company all of his right, title and interest in and to any and all such Developments. The Employee shall disclose fully, as soon as practicable and in writing, all Developments to the Board of Directors or President of the Company. At any time and from time to time, upon the request of the Company, the Employee shall execute and deliver to the Company any and all instruments, documents and papers, give evidence and do any and all other acts which, in the opinion of counsel for the Company, are or may be necessary or desirable to document such transfer or to enable the Company to file and prosecute applications for and to acquire, maintain and enforce any and all patents, trademarks, registrations or copyrights under United States or foreign law with respect to any such Developments or to obtain any extension, validation, re-issue, continuance or renewal of any such patent, trademark or copyright. The Company will be responsible for the preparation of any such instruments, documents and papers and for the prosecution of any such proceedings and will reimburse the Employee for all reasonable expenses incurred by him in compliance with the provisions of this Section.

8. Confidential Information. The Employee acknowledges that, by reason of his employment by and service to the Company, he will have access to confidential information of the Company (and its affiliates) ("Confidential Information"). The Employee acknowledges that such Confidential Information is a valuable and unique asset of the Company and covenants that, both during and after the Employment Term, he will not disclose any Confidential Information to any person (except as his duties as an employee of the Company may require) without the prior written authorization of the Board of Directors of the Company.

9. Noncompetition. The noncompetition covenant contained in this Section shall be cumulative and in addition to the noncompetition covenant in the Joint Venture Agreement. The Employee acknowledges that he has specialized knowledge and experience in the Company's business, and that if his knowledge and experience are used to compete with the Company, serious harm to the Company may result. Thus, the Employee agrees that during the Employee's employment by the Company and for a period of three years thereafter, the Employee shall not, unless acting pursuant hereto or with the prior written consent of the Board of Directors of the Company, directly or indirectly, perform services for any person, company or other entity which competes with the business of the Company and shall not own, manage, operate, finance, join, control or participate in the ownership,

management, operation, financing or control of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with any business or enterprise engaged in the same business as the Company, provided, however, that this provision shall not be construed to prohibit the ownership by the Employee of not more than 5% of any class of securities of any corporation which is engaged in the foregoing business having a class of securities registered pursuant to the Securities Exchange Act of 1934. In the event that the provisions of this Section should ever be adjudicated to exceed the time, service or product limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, service or product limitations permitted by applicable law.

10. Equitable Relief. The Employee acknowledges that the restrictions contained in Sections 7, 8 and 9 hereof are, in view of the nature of the business of the Company, reasonable and necessary to protect the legitimate interests of the Company, and that any violation of any provisions of those Sections will result in irreparable injury to the Company. The Employee also acknowledges that the Company shall be entitled to temporary and permanent injunctive relief, without the necessity of proving actual damages, and to an equitable accounting of all earnings, profits and other benefits arising from any such violation, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled. In the event of any such violation, the Company shall be entitled to commence an action for temporary and permanent injunctive relief and other equitable relief in any court of competent jurisdiction and the Employee further irrevocably submits to the jurisdiction of any [Pennsylvania] court or Federal court sitting in [Philadelphia, Pennsylvania] over any suit, action or proceeding arising out of or relating to this Section 10. The Employee hereby waives, to the fullest extent permitted by law, any objection that he may now or hereafter have to such jurisdiction or to the venue of any such suit, action or proceeding brought in such a court and any claim that such suit, action or proceeding has been brought in any inconvenient forum. Effective service of process may be made upon the Employee by mail under the notice provisions contained in Section 12 hereof.

11. Termination.

(a) Partial or Total Disability. In the event that the Employee is unable to perform his duties and responsibilities hereunder to the full extent required by the Board of Directors of the Company by reason of illness, injury or incapacity for six months, the Employment Term may be terminated by the Company and the Company shall have no further liability or

obligation to the Employee hereunder except for unpaid salary and benefits accrued to the date of termination. The Employee agrees, in the event of any dispute under this Section, to submit to a physical examination by a licensed physician selected by the Company, the cost of such examination to be paid by the Company.

(b) Death. In the event that the Employee dies, this Employment Agreement (except for the provisions of Sections 7 and 10 hereof) shall terminate and thereafter the Company shall have no liability or obligation to the Employee, his executors, administrators, heirs, assigns or any other person claiming under or through him except for unpaid salary and benefits accrued to the date of his death.

(c) Cause. Nothing in this Employment Agreement shall be construed to prevent the termination of the Employment Term by the Company for the failure of the Employee to observe or perform any of the terms or provisions hereof or by the Board of Directors or the President of the Company at any time for "cause." For purposes of this Agreement, "cause" shall include but not limited to the failure of the Employee to observe or perform (other than by reason of illness, injury or incapacity) any of the terms or willful misconduct and material neglect of the Company's business.

(d) Termination Without Cause; Wrongful Termination. The Company may terminate the Employment Term at any time without cause, after which termination the Company shall have no liability or obligation to the Employee hereunder except for unpaid salary and benefits accrued to the date of termination [and one-half of Employee's annual salary for the balance of the Employment Term; such salary to be payable in installments at the times the same would have become due but for the termination.] The Company's liability, if any, for payments to the Employee by virtue of any wrongful termination of the Employee's employment pursuant to this Employment Agreement shall be in lieu of and shall not exceed what would be payable to the Employee if the termination had been made under this Section 11(d).

12. Survival. Notwithstanding the termination of the Employment Term pursuant to Section 11 or pursuant to the expiration of its Employment Term, the obligations of the Employee under Sections 7, 8 and 9 hereof shall survive and remain in full force and effect and the Company shall be entitled to equitable relief against the Employee pursuant to the provisions of Section 10 hereof.

13. Employment by the University. The Parties hereto acknowledge that the Employee is a member of the faculty at the University. The Employee agrees not to perform any services

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related to the Joint Venture Business in University facilities and during the Employment Term not to perform for the University or any other person or entity other than the Company, any services directed toward the creation of novel drug delivery systems for the treatment of bone injuries, osteoporosis and metabolic bone diseases.

14. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when mailed by registered or certified mail, return receipt requested, as follows (provided that notice of change of address shall be deemed given only when received): If to the Company, at the Company's address provided on the first page of this Agreement; if to the Employee, at the Employee's address provided on the signature page of this Agreement or to such other names or addresses as the Company or the Employee, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section.

15. Governing Law. This Agreement shall be governed by and interpreted under the laws of the State of Texas without giving effect to any conflict of laws provisions.

16. Contents of Agreement, Amendment and Assignment. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified or terminated except upon written amendment duly executed by the parties hereto. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of the employee hereunder are of a personal nature and shall not be assignable in whole or in part by the Employee.

17. Severability. If any provision of this Employment Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provisions or applications of this Employment Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision in any other jurisdiction.

18. Remedies Cumulative; No Waiver. No remedy conferred upon the Company by this Employment Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law

or in equity. No delay or omission by the Company in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by the Company from time to time and as often as may be deemed expedient or necessary by the Company in its sole discretion.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

Attest:

[]

By: _____

Witness _____

Gregory R. Mundy M.D., Ph.D.

Address

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V. OTHER MATTERS

1. U. T. System: Adoption of Endowment Policy Guidelines and Trust Fund Real Estate Policy Statement.---
At the October 1987 meeting of the U. T. Board of Regents, Land and Investment Committee Chairman Ratliff requested that the Office of the Chancellor undertake a review of The University of Texas System endowment policies and programs.

In accordance therewith, the Board adopted the U. T. System Endowment Policy Guidelines set out on Pages 201 - 204 and the U. T. System Trust Fund Real Estate Policy Statement set out on Pages 205 - 209.

The U. T. System Endowment Policy Guidelines address (a) administrative review of proposed gifts to fund endowments and review of the terms of proposed endowments, (b) investment restrictions requested by a donor and (c) payout and reinvestment policies on endowments. These guidelines state that it is the intent of the Board that each institution adopt policies that ensure partial reinvestment of earned income into the corpus of endowment accounts and that these policies set as a goal reinvestment of at least ten percent of endowment earnings.

The U. T. System Trust Fund Real Estate Policy Statement addresses the review and evaluation of proposed gifts of real estate and the management of trust fund real estate including the authorization for the Executive Vice Chancellor for Asset Management to execute documents required for transactions involving trust fund real estate within specified dollar limits.

See Page 209 related to amendments to the Regents' Rules and Regulations, Part Two, Chapter I which implement the intent of the Endowment Policy Guidelines.

U. T. SYSTEM ENDOWMENT POLICY GUIDELINES

Endowments are a critical element in The University of Texas System's drive to develop and maintain quality in faculty, students and facilities. The U. T. Board of Regents is committed to insuring that these endowments provide, on a permanent basis, stable or growing purchasing power to support their dedicated activities. This goal may be achieved through judicious investment, payout, reinvestment and administrative policies which combine to promote the maintenance of the principal value of each gift in inflation-adjusted terms.

While these Endowment Policy Guidelines contain certain requirements, which are written in this statement using verbs such as "must" and "shall," other statements indicate the preference of the Board and generally are written using conditional verbs such as "should." The Board recognizes that each endowment is unique and that exceptions may, from time to time, be appropriate.

Administrative Policy

- (1) A written donative instrument should be obtained for each new endowment fund established. This instrument would preferably include language encouraged in the Investment Policy and Payout and Reinvestment Policy sections of these Guidelines as well as the following:
 - (a) a statement that these funds shall never become a part of the Permanent University Fund or the general funds
 - (b) a statement allowing any person or entity to make additions to the endowment provided that the additions are made subject to the provisions of the donative instrument, and
 - (c) a statement that if, in the opinion of the Board, future circumstances change so that the purposes for which the endowment is established become illegal, impractical or no longer able to be carried out to meet the needs of the component institution, the Board may designate an alternative use for the endowment payout to further the objectives and purposes of the component institution, giving consideration to the donor's special interest as evidenced by the original purpose of the endowment.

In cases where no donative instrument is obtained, the solicitation letter or document sent to the donor or donor(s) may be used as evidence of donative intent and purposes. Should the donor request or require that the donative instrument be signed by a representative of the Board (or anyone connected with the component or the System), the document may be signed only after acceptance of the endowment by the U. T. Board of Regents. As a practical matter, the donated assets may be obtained and managed by the Office of Asset Management prior to acceptance by the Board.

- (2) The U. T. System will not under any circumstances
 - (a) furnish property appraisals or valuations to donors for tax purposes or
 - (b) knowingly participate

in a transaction in which the value of a gift is inflated above its true fair market value to obtain a tax advantage for a donor. It is the responsibility of the component business office to follow the appraisal and reporting requirements as detailed in the Internal Revenue Code. Proper records will be kept and information returns made on all property held for less than two years.

- (3) Component business offices and development offices, the Office of Asset Management, and the Office of General Counsel should operate in a cooperative manner to insure prompt transmission of information on endowments and of donations to fund endowments. Gifts of cash and marketable securities should be transmitted, in the prescribed manner, to the Office of Asset Management as soon as practicable. A cooperative effort should be made to obtain repurchase provisions in the donative instrument when securities are donated for which the donor or related parties are the primary market. Prompt internal notification of potential bequests and insurance claims should occur to allow U. T. System offices to monitor and pursue prompt collection. Gifts of real estate are to be administered according to the U. T. System Trust Fund Real Estate Policy Statement. Documents establishing a charitable remainder trust or life income fund must be approved by the Office of Asset Management and the Office of General Counsel prior to the execution of the contract and the submission of the endowment to the Board for acceptance.
- (4) Reviews to determine whether an asset to fund an endowment should be recommended for acceptance shall include consideration of any required cash expenses, liabilities, contingent liabilities, and unrelated business income taxes as well as any donor requirements which may result in risk of loss such as use of a donor-selected custodian. The Office of Asset Management must concur that the economic risks are appropriate prior to recommendation to the Board for acceptance of the gift.

Investment Policy

- (1) The Office of Asset Management shall invest all endowment funds donated to U. T. System or its component institutions which are under the sole control of the Board of Regents of the U. T. System. No matching funds or other funds of the U. T. System may be held or managed by a party selected by the donor unless specifically approved by the Board. No endowment shall be accepted in which the donor directs the investment transactions or holdings or may approve (other than by specific investment restrictions in the donative instrument) investment policy or strategy.
- (2) The primary and constant standard for making investment decisions for endowments is the "Prudent Person Rule" which states that the investment manager may trade and retain investments... "that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not

in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital." Any investment restrictions established by the donor in the donative instrument shall be reviewed to determine if the authorized investments satisfy the prudent person standard. Specific written investment policy statements shall be approved by the U. T. Board of Regents for all commingled investment funds managed by the Office of Asset Management.

- (3) It is the specific and strong preference of the Board that all endowment gifts be eligible for commingling for investment purposes with other endowment funds. The Board has established the U. T. System Common Trust Fund, governed by its charter and invested according to the U. T. System Common Trust Fund Investment Policy Statement, to provide for the collective investment of endowment and trust funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time. It follows that specific language in the donative instrument which allows merging or commingling, for investment purposes, should be actively encouraged by all staff members. Any restrictive language precluding such commingling limits the diversification of investments and exposes an endowment to greater risk of loss or relatively poor investment performance. Furthermore, investment restrictions are not necessary in order for the donor to receive accounting and investment performance reports on the endowment fund. The Office of Asset Management shall review and make recommendations on the acceptance of any investment restriction.
- (4) Restrictions by the donor on the sale or timing of the sale of donated property should be viewed as an investment restriction (since they will affect investment performance) and should be actively discouraged. However, any such restrictions which are approved should be included specifically in the donative instrument in order to insure that the agreement is understood by all parties.

Payout and Reinvestment Policy

- (1) The payout from an endowment shall not exceed received cash income unless otherwise specified by the donative instrument. Income shall be defined as dividend, interest, and other income but shall exclude net appreciation, both realized and unrealized. Certain charitable remainder trusts and life income funds may be accepted which do not comply with this policy during the period in which the payout recipient is not the U. T. System or its institutions.
- (2) In order to insure that the Board has the ability to manage payout and reinvestment policies, wording in the donative instrument should be encouraged which specifically allows the following:
 - (a) income earned and received during a year to be retained in the endowment and expended for the purposes of the endowment in subsequent years, and

- (b) the designation of some portion of income from the endowment as a permanent addition to the principal of the endowment at the discretion of the Board or component institution staff.
- (3) The payout and reinvestment amounts, within any limitations imposed by the donative instrument, should be established at levels which attempt to produce expendable funds which are reasonably stable over time, address the needs of the established purpose, and permit the principal of the endowment to maintain or increase its value in inflation-adjusted terms over time. The Board annually establishes a payout level for endowments invested in the U. T. System Common Trust Fund. Most separately invested endowments have specified payout formulas established in the donative instrument. The diversity of payout levels on endowment funds result in the need for specific case-by-case establishment of appropriate reinvestment levels.

In keeping with the Board's commitment to protect and enhance the purchasing power derived from endowment funds, the Board directs U. T. System component institutions to adopt, for incorporation in each institution's Handbook of Operating Procedures, policies and programs to ensure the partial reinvestment of earned income into the corpus of endowment accounts to serve as an ongoing deterrent against erosion of the purchasing power of endowment funds due to inflation.

Specifically, it is the intent of the Board, subject to limits or restrictions set by donors and to the extent consistent with the purpose(s) and current income requirements of individual endowments, that these institutional reinvestment policies set as a goal reinvestment of at least ten percent of the earnings on all institutional endowment accounts collectively, with an expectation that reinvested earnings on individual endowments will range considerably in a particular year due to varying expenditure requirements for each endowment.

Additionally, the Executive Vice Chancellor for Asset Management is instructed to provide to the Board annually a report of the actual performance of institutional endowments, individually and collectively, to provide a measure of the success of this reinvestment requirement and institutionally adopted policies.

- (4) All payout from endowments supporting unfilled academic positions should be reinvested except for amounts necessary to fund costs relating to recruitment activities.

U. T. SYSTEM TRUST FUND REAL ESTATE POLICY STATEMENT

Objectives

The Board of Regents of The University of Texas System accepts gifts and bequests of real estate which have a clear potential of contributing to the programs of the U. T. System and its component institutions. All such interests in real estate are held in a fiduciary capacity for the benefit of the component institution or fund or program designated by the donor and approved by the Board.

Trust Fund Real Estate Defined

For the purpose of this policy statement, trust fund real estate shall be defined to be all real estate other than campus land which is donated or bequeathed to the U. T. System or any of its component institutions regardless of type, location, or designated use of the funds to be derived therefrom.

Policies

- (1) Gifts of real estate to the U. T. System or its component institutions will be accepted if substantial proceeds can be realized in a timely manner relative to the expenses and efforts required to hold, maintain and manage the property until disposition.
 - (a) An evaluation of the return expected from a gift of real estate shall include but not be limited to such factors as income potential, development characteristics, type of property interest, holding costs, management requirements, holding period and location.
 - (b) It is expected that any costs incurred relating to management or sale of the property including disposal will be charged either against income earned by the property or proceeds from the sale of the property as appropriate.
- (2) The authority to accept gifts and bequests of real estate is vested in the U. T. Board of Regents. Title to each property shall be held in the name of the Board of Regents of the U. T. System, not in the name of any component institution, department or individual within the U. T. System.
 - (a) All deeds for real estate owned by the Board shall be filed in the county where the property is located with the original retained in the permanent records which are maintained by the Executive Secretary in the Office of the U. T. Board of Regents.
 - (b) It shall be the policy of the Board to retain direct control of all interests in real estate owned by the U. T. System. Authority to continue as an executor or trustee for an interest in real estate to be conveyed to the U. T. System shall be granted only by specific approval of the Board.

- (c) It shall be the policy of the Board to accept interests in real estate if such ownership will result in 100% interest in the property. Lesser interests will be accepted when a clear benefit to the U. T. System can be demonstrated. Minority interests in minerals will be accepted regardless of size.
- (3) All gifts of real estate must be evaluated and inspected by an authorized representative of the U. T. System Office of Asset Management prior to acceptance by the Board.
- (4) The Board will not accept gifts of real estate if donor restrictions place undue limitations on the U. T. System's ability to own, manage, and dispose of the property.
- (5) The Board will not accept gifts of encumbered property unless:
 - (a) a clear potential for gain can be demonstrated,
 - (b) a source of funds to meet all requirements is dedicated to that purpose, and
 - (c) acceptable terms of the encumbrance exist.
- (6) The Board will not accept gifts of working interests in minerals or partnerships which create liabilities for unrelated business income taxes or operation of the partnership. However, the Board may direct proposed gifts of this nature to one of the appropriate external foundations associated with the U. T. System.
- (7) Once accepted, interests in minerals shall not be sold unless continued ownership is impractical.
- (8) Gifts of real estate shall be considered for retention as investments when:
 - (a) there is an expectation of above-average return including appreciation, or
 - (b) there is a prospect for direct use by an approved program of a component institution.
- (9) The Board will not subordinate its fee simple interest in any holding of trust fund real estate absent extraordinary circumstances.

Management of Trust Fund Real Estate

- (1) Responsibility for the management, leasing and sale of all real estate and improvements located thereon which is held for trust funds is delegated to the Executive Vice Chancellor for Asset Management subject to the Rules and Regulations of the Board of Regents of The University of Texas System and these policies.
- (2) The Executive Vice Chancellor for Asset Management may delegate responsibility for the management of real estate assets to individuals within his or her office and may employ such additional persons as he or she deems appropriate within the authority granted by the Board.

- (3) The Executive Vice Chancellor for Asset Management or his or her designated representative is authorized and empowered on behalf of the Board to take all actions necessary and to execute all documents required to sell, lease or otherwise convey interests in real estate that are received by gift or bequest within the following parameters:
- (a) Sale of surface interests including improvements: Sales price of Five Hundred Thousand Dollars (\$500,000) or less
 - (b) Lease of surface interests including improvements: Term of twenty (20) years or less or total annual rent of One Hundred Thousand Dollars (\$100,000) or less
 - (c) Lease of mineral interests: Bonus consideration of \$50,000 or less
 - (d) In addition to approval as to legal form and documentation by the Office of General Counsel, a positive recommendation from the following officials shall be required for each transaction:
 - (1) Executive Vice Chancellor for Academic Affairs or Executive Vice Chancellor for Health Affairs as appropriate
 - (2) Component institution President or Director
 - (3) Manager of Endowment Real Estate or Real Estate Associate.
 - (e) Any transaction accomplished under this section shall be included as part of the Chancellor's Docket at the next possible meeting of the U. T. Board of Regents and a copy of each transaction shall be transmitted to the Office of the U. T. Board of Regents for inclusion in the permanent record.
- (4) The preferred method of valuation for the purpose of determining sale price or lease rates for surface interests shall be use of an independent appraiser. The value of transactions involving real estate of nominal value may be determined by use of available resources. An appraisal shall not be required when real estate is sold at public auction or by use of sealed bids.

Annual Reports

The Office of Asset Management shall submit a report not less than once a year to the Land and Investment Committee of the U. T. Board of Regents detailing all real estate assets held in trust for the U. T. System. This report shall provide an inventory of real assets held in trust as of the reporting date and shall note all acquisitions, sales and leases which occurred since the preceding report.

Conflict of Interest

Members of the U. T. Board of Regents are frequently persons of wide-ranging business interests. Therefore, a prudent, independent decision process may result in real estate transactions with or involving firms or organizations with whom a member of the Board is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. No member of the Board or employee of the Office of Asset Management may participate in any transaction with the U. T. System involving interests in real estate which such Board member or employee is affiliated other than to convey a gift or bequest to the U. T. System.

Procedures for Acceptance of Gifts of Real Estate

- (1) The authority to accept all gifts of real estate is vested in the U. T. Board of Regents and may be exercised only after evaluation and inspection by the Office of Asset Management of the U. T. System. The Office of Asset Management should be contacted immediately upon identification of a potential gift of real estate in order to determine if the property is acceptable. The Office of Asset Management will obtain a title report on each potential gift to insure that there are no liens or encumbrances on the proposed gift. The fee for this report is usually nominal and shall be charged to the component institution for which the gift is intended.
- (2) Prior to acceptance of a proposed gift of real estate the following should be provided by the donor:
 - (a) Map showing location of property
 - (b) Legal description of property
 - (c) Proof of ownership (deed)
 - (d) Map or survey of subject property
 - (e) List of improvements
 - (f) Current leases, if any
 - (g) List of encumbrances, liens and current expenses, if any
 - (h) Proof of payment of taxes and association fees, if any
 - (i) Commitment for title insurance
 - (j) Recent appraisal and IRS Form 8283 if value declared exceeds \$5,000
 - (k) A written statement from the donor identifying any known waste disposal sites or spills of hazardous waste material on the property or a statement to the contrary
 - (l) Written statement from donor outlining purpose of gift.

(3) Following review of the information provided by the donor a decision to accept or reject the proposed gift will be based on the potential of the property to produce an acceptable return or to contribute directly to approved programs of the component institution in light of:

- (a) Holding costs of every type
- (b) Holding period
- (c) Donor restrictions
- (d) Property valuation
- (e) Management requirements
- (f) Type of property interest.

(4) Upon the determination that ownership of a proposed gift is in the best interest of the U. T. System, the component institution which will benefit from the donation shall initiate a request to the appropriate Executive Vice Chancellor asking that the gift be submitted as an agenda item for acceptance by the U. T. Board of Regents at its next regular meeting.

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter I (General) and Authorization for the Executive Secretary to the Board to Make Appropriate Editorial Changes Therein.--At the October 9, 1987 meeting of the U. T. Board of Regents, Land and Investment Committee Chairman Ratliff requested that the Office of the Chancellor undertake a review of The University of Texas System endowment policies and programs.

As a result of that review, approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter I (General) pertaining to endowments to read as set forth below:

a. Present Sections 1-4 were amended and renumbered as follows:

Sec. 1. Gifts to The University of Texas System.

- 1.1 The authority to accept gifts to the System or to any of the component institutions is vested in the Board.
- 1.2 Recommendations for the acceptance of gifts showing details as to value, form, stipulations regarding use, and provisions for custody and disbursement of funds shall be transmitted by the chief administrative officer to the Office of the Chancellor and by that office, with recommendations, to the Board.
- 1.3 Gifts to Permanent Endowments.
 - 1.31 All gifts to establish permanent endowments of any nature shall be accepted by the Board via the Agenda after review and recommendation by

the Office of the Chancellor, including the Office of Asset Management, of the terms of the endowment and the nature of the donated assets. Gifts to a permanent endowment previously established by the Board may be accepted by the chief administrative officer of a component institution after review and approval by the Office of Asset Management of the nature of the donated asset.

1.32 Permanent endowments will be established at a minimum funding level of \$10,000. Endowments may be established to fund scholarship programs and other educational activities as well as the endowed academic positions specified in Section 3 below.

1.33 All endowment gifts are subject to the ensuing provisions:

1.331 Should the Board determine at any time that the fund is not of sufficient size, and has no foreseeable prospects of growing to sufficient size to justify the continuing costs of maintenance of such fund as a separate fund, then in the Board's discretion the principal of such fund may be expended for or otherwise devoted to the accomplishment, as near as may be possible, of the purposes for which the fund was established.

1.332 A permanent register of Memorial Gifts shall be maintained at each component institution to record gifts, or where the gift or donation is not specifically directed to a component, the register shall be maintained by System Administration.

1.4 Except as provided in other subsections of this Section, the authority to accept gifts to a component institution is delegated to the chief administrative officer when the gift is to a fund, foundation, or enterprise already approved by the Board or is a continuation of a series which has been previously approved by the Board. Each chief administrative officer, or a designee specified in writing, is empowered to accept cash gifts (except endowments) to a component institution of the System in the amount of \$25,000 or less and gifts in kind having a value of \$25,000 or less, within the policies of the Board and Legislature governing the acceptability of gifts, and to deposit such gifts to the appropriate accounts. All gifts (except those described in Subsection 1.5 below) shall be reported by the dockets of each component institution as prescribed by the Board.

- 1.5 A quarterly report of all such gifts of \$25,000 or less showing name and address of donor, amount of cash gift or value of gift in kind, purpose, and date of the gift shall be filed with the Board within thirty (30) days after August 31, November 30, February 28, and May 31 of each year. Such reports will summarize gifts of \$2,500 or less showing only total dollars and number of gifts.
- 1.6 Except as provided in this Section and the preceding Sections, no member of the staff of any institution has the authority to accept gifts to the System or to any of its component institutions. Gifts to the component institutions of books or other objects of very small value and very obvious propriety, without conditions attached, may be accepted by individual members of the staffs provided these gifts are reported to the Board as specified in Subsections 1.4 or 1.5 as appropriate.
- 1.7 Due to the inefficiencies and high costs associated with separately tailoring investment management programs for gifts that are investment-restricted, notwithstanding any other provision of this Chapter, a gift subject to investment restrictions shall be referred to the System Director of Development who shall review the terms of the gift instrument with the Office of Asset Management and the Office of General Counsel prior to acceptance of the gift and/or prior to its recommendation for acceptance by the U. T. Board of Regents.
- 1.8 Neither the System nor any of its component institutions will accept a gift for the benefit of any designated student unless the donor is exempt from Federal Income Taxes as defined by the Commissioner of Internal Revenue.
- 1.9 The acceptance of gifts of real property is prohibited without prior express approval of the Legislature except for establishing scholarships, professorships, or other trusts for educational purposes, provided that such property will not thereafter require legislative appropriations for operation, maintenance, repair, or construction of buildings (Current Appropriations Bill). Acceptance of all gifts of real estate shall be subject to the U. T. System Trust Fund Real Estate Policy Statement.

Sec. 2. Fellowships, Scholarships, and Loan Funds.

- 2.1 After gifts for fellowships, scholarships, and loan funds have been accepted by the Board, as indicated previously, they are administered jointly by designated committees and the business office of each component institution.

- 2.2 In the case of scholarships and fellowships, the appropriate committee, or designated individual, receives applications, makes the necessary inquiries, and determines the award. The committee advises the institutional head of the award who, in turn, approves and forwards the notice of award to the business office. Payments on scholarships and fellowships are made through the business office of the component institution.
- 2.3 In the case of loan funds, the appropriate committee or designated person receives applications for loans, makes the necessary inquiries, and approves or declines the original loan as well as all renewals and extensions. The chairman notifies the business office of the granting of loans, and all records including notes, cash, accounts and collections are thereafter handled by that office. The principal of loan funds is kept intact insofar as possible. The chairman of the awarding committee may be requested by the business office to assist in collection of past due interest or principal.

Sec. 3. Endowment of Academic Positions.

- 3.1 No endowment will be established or announced without prior approval of the Board, and no initial appointment will be made to an endowed chair or professorship without prior approval by the Board via the Agenda. Subsequent new or continuing appointments to the endowed chair or professorship may be approved as a part of the annual operating budget or via the Docket of the Office of the Chancellor. Appointments to endowed fellowships may be approved via the Docket of the Office of the Chancellor, unless included as part of the annual budget approval process.
- 3.2 No negotiations or commitments implying the establishment of the endowment of an academic position will be undertaken by any faculty member or officer of the component institution until the proposal has been formally approved by the chief administrative officer.
- 3.3 Recommendations to the Board concerning acceptance of gifts for endowment of academic positions will be made through the Office of the Chancellor to the Board. Before the final action of the Board, such recommendations will be referred to the Land and Investment Committee as to fiscal arrangements and to the Academic or Health Affairs Committee as to policy.
- 3.4 The six categories of endowed and named academic positions and the minimum funding levels to establish the positions are:
Distinguished University Chairs (\$2,000,000),

Distinguished Chairs (\$1,000,000), Chairs (\$500,000), Distinguished Professorships (\$250,000), Professorships (\$100,000), and Fellowships (\$50,000). All agreements related to endowed academic positions made prior to April 14, 1988, will remain in effect unless a specific request for change is made by the donor and the institution and approved by the Board.

3.41 Distinguished University Chairs, Distinguished Chairs, Chairs, Distinguished Professorships, and Professorships will be established with the minimum funding levels authorized by the Board of Regents or the equivalent in annual contributions arranged according to agreements recommended by the Office of the Chancellor and approved by the Board. The component institution will pay from its funds such amounts as are necessary to set the salary of the holder at a level commensurate with his or her record, experience, and position in the faculty. The endowment income will be used both for salary supplementation and for other professional support of the holder of the endowed position, including assistance in the holder's research. The endowment income also may be used to pay an appropriate part of the salary of the holder of the endowed position commensurate with an authorized reduced faculty work load when required by other duties of the position or when the holder is on part-time or full-time research leave which is otherwise unfunded. It is provided specifically, however, that, in no event, will endowment income be used to supplant any other source of funds used to pay the base salary of the holder of the position when the holder is performing his or her regular duties.

3.42 Endowed Fellowships. The endowed fellowship will be established with a minimum of \$50,000 or the equivalent in annual contributions arranged according to agreements recommended by the Office of the Chancellor and approved by the Board of Regents. Income from the endowment may be used to supplement the salary of the holder of the fellowship, who may be a qualified person of any academic rank irrespective of tenure status, and will also be available for other professional support of the holder. The endowed fellowship will be used to provide temporary support (not to exceed one academic year) of distinguished scholars who are in temporary residence at the component

while participating in planned academic programs; visiting scholars who are in temporary residence at the institution for special academic programs or purposes; component faculty who have made unique contributions to academic life or to knowledge in their academic discipline; and component faculty of any academic rank, irrespective of tenure status, who have been selected for teaching excellence through procedures established by the component institution. Grants for endowed visiting professorships and endowed teaching fellowships of at least \$50,000 already under contractual agreement for the future, bequests included in wills made prior to April 14, 1988, and other prior bona fide arrangements for endowed teaching fellowships and endowed visiting professorships are excepted in this regulation. Grants for endowed lectureships of at least \$20,000 already under contractual agreement for the future, bequests in wills made prior to April 14, 1988, and other prior bona fide arrangements for endowed lectureships are excepted from the minimum amount restriction in this regulation.

3.43 Individual component institutions are not required to utilize all categories of endowed academic positions and may, with advance administrative approval and inclusion in the institutional Handbook of Operating Procedures, limit institutional endowment activity to those position categories which best fit the component goals and mission.

b. Present Sections 5-11 were renumbered as Sections 4-10, respectively.

Further, approval was granted for the Executive Secretary to the U. T. Board of Regents, in consultation with the Office of General Counsel, to make such editorial changes in the remainder of the Regents' Rules and Regulations as may be necessary in order to conform to the foregoing changes related to endowments and to ensure that Chapter I is not gender specific.

These amendments were necessary in order to keep pace with rising costs, to ensure that the U. T. System endowments are competitive with those of other major institutions and to facilitate U. T. System component institutions long-term development goals.

See Page 200 related to U. T. System Endowment Policy Guidelines.

RECONVENE.--At 3:25 p.m., the Board reconvened as a committee of the whole to consider those items remaining on the agenda.

ITEMS FOR THE RECORD

1. U. T. Austin: Approval of Patent License Agreement with Nova Automation Corporation, Austin, Texas.--On December 3, 1987, the U. T. Board of Regents approved a Patent License Agreement by and between the U. T. Board of Regents, for and on behalf of The University of Texas at Austin, and Nova Automation Corporation, Austin, Texas, contingent upon the execution by February 1, 1988, of a shareholders' agreement between the Nova Automation Corporation and the U. T. Board of Regents.

An Interim Shareholders' Agreement was executed on February 1, 1988, to be effective until March 31, 1988, and subsequently, a shareholders' agreement to supersede the interim agreement was executed on April 1, 1988, with an effective date of February 1, 1988. Thus, the contingency related to the Regental approval of this agreement has been satisfied.

2. U. T. Austin: Acceptance of Membership to the Longhorn Associates for Excellence in Women's Athletics Advisory Council.--At the December 1987 U. T. Board of Regents' meeting, the following were approved for membership on The University of Texas at Austin Longhorn Associates for Excellence in Women's Athletics Advisory Council. Their acceptances of membership are herewith reported for the record.

Term Expires

Mr. Tom Adams, San Antonio	1989
Mrs. Sidsel T. Alpert, Dallas	1990
Mrs. Barbara Anderson, Houston	1990
Mr. Jeffries D. Anderson, Houston	1990
Mrs. Louise Appleman, Fort Worth	1990
Mr. Rex G. Baker, Jr., Houston	1990
Ms. Linda S. Ball, Austin	1988
Mrs. Anne M. Ballantyne, San Antonio	1990
Mrs. Ann Barshop, San Antonio	1988
Mrs. Marilyn Clark Baysek, Dallas	1988
Mrs. Mary Adele Beasley, Austin	1990
Mr. Lewis E. Brazelton III, Houston	1990
Mrs. Kathy Brooks, Dallas	1989
Mrs. Marilou Brown, Austin	1989
Ms. Betsy Builta, Austin	1988
Ms. Bobbie J. Caviness, Austin	1989
Mr. Bryan P. Dixon, Fort Worth	1990
Ms. Elizabeth B. Granger, Austin	1990
Mrs. Kathryn B. Head, Dallas	1990
Mr. Stephen S. Head, Dallas	1990
Mrs. Nancy R. Inman, Austin	1990
Mrs. Vesta Marbut, San Antonio	1990
Mrs. Karen A. McCleskey, Dallas	1988
Mr. Randall C. McCleskey, Dallas	1989
Mr. John R. Morris, Fort Worth	1988
Mr. Wade T. Nowlin, Fort Worth	1990

Term Expires

Mr. Forrest Preece, Jr., Austin	1990
Mr. John B. Selman, Austin	1989
Mrs. Debra L. Shtofman, Dallas	1990
Ms. Tobi Taub, Arlington	1990
Mrs. Mary Teeple, Austin	1990
Mrs. Patricia Thomas, Houston	1990
Mrs. Carolyn Townsend, Dallas	1989
Dr. Glenn Welsch (Ph.D.), Austin	1988
Ms. Teri Wenglein-Callender, Houston	1990
Ms. Anne Wynne, Austin	1988

Unfilled Term	(to be determined as filled)
Unfilled Term	(to be determined as filled)
Unfilled Term	(to be determined as filled)
Unfilled Term	(to be determined as filled)

3. U. T. Health Science Center - Houston: Appointment of Advisory Committee for the Selection of a Chief Administrative Officer (President).--The membership of the Advisory Committee for the Selection of a Chief Administrative Officer (President) at The University of Texas Health Science Center at Houston is herewith reported for the record. This Committee had been constituted pursuant to the Regents' Rules and Regulations, Part One, Chapter II, Section 18:

Advisory Committee for the Selection
of a Chief Administrative Officer
for
The University of Texas
Health Science Center at Houston

System Administration Representatives

Executive Vice Chancellor Charles B. Mullins
(Chairman)
Chancellor Hans Mark

Board of Regents

Regent Shannon H. Ratliff
Regent Bill Roden
Regent Mario Yzaguirre

Chief Administrative Officers

John Prentice Howe III, M.D., President, The
University of Texas Health Science Center
at San Antonio
Thomas N. James, M.D., President, The Univer-
sity of Texas Medical Branch at Galveston
Kern Wildenthal, M.D., President, The Univer-
sity of Texas Southwestern Medical Center
at Dallas

Dean's Representative - U. T. Health Science Center -
Houston

John C. Ribble, M.D., Dean, U. T. Medical
School - Houston

Faculty Representatives - U. T. Health Science Center - Houston

Dr. Kathleen Becan-McBride, Professor and Program Director, U. T. Allied Health Sciences School - Houston
Dr. Ralph Frankowski, Professor of Biometry, U. T. Public Health School - Houston
Dr. Linda Kaeser, Associate Professor, U. T. Nursing School - Houston
Dr. Ronald C. Merrell, Professor of Surgery, U. T. Medical School - Houston
Dr. William H. Radentz, Professor of Periodontics, U. T. Dental Branch - Houston

Student Representatives

Miss Michelle Bowman
Mr. Dennis Daniels

Alumni Association Representative

Dr. Thomas J. Goka

Houston Community Representatives

Mr. William C. Harvin
Mr. Allan C. King
Mr. Ralph S. O'Connor

4. U. T. Health Center - Tyler: Development Board - Acceptance of Membership.--At the February 1988 U. T. Board of Regents' meeting, the following were approved for membership to The University of Texas Health Center at Tyler Development Board and their acceptances of membership are herewith reported for the record:

	<u>Term Expires</u>
Mr. Frank M. Burke, Jr., Dallas	1990
Mr. Jack L. Phillips, Gladewater	1988
Mrs. Jack B. (Rose) Strong, Longview	1989

EXECUTIVE SESSION OF THE BOARD OF REGENTS

Chairman Blanton reported that the Board had met in Executive Session in the Executive Conference Room in the Administration Building to discuss matters in accordance with Article 6252-17, Sections 2(e), (f) and (g) of Vernon's Texas Civil Statutes. In response to Chairman Blanton's inquiry regarding the wishes of the Board, the following actions were taken:

1. U. T. Medical Branch - Galveston: Settlement of Medical Liability Litigation - Christina Joslin, et al.--Regent Yzaguirre moved that the Office of the Chancellor and the Office of General Counsel be authorized to settle on behalf of The University of Texas Medical Branch at Galveston the medical liability lawsuit filed by Christina Joslin, et al, in accordance with the proposal presented in Executive Session.

Vice-Chairman Ratliff seconded the motion which prevailed without objection.

2. U. T. M.D. Anderson Cancer Center: Request to Negotiate for Exchange of or for the Purchase or Acquisition by Other Means of Certain Parcels of Real Property in Houston, Harris County, Texas.--Chairman Blanton reported that the Board heard a report related to a negotiated exchange or acquisition by other means of certain parcels of real estate in Houston, Harris County, Texas, for the benefit of The University of Texas M.D. Anderson Cancer Center and that no action by the Board was necessary at this time.

3. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Approval of Amendments to Chapter II, Relating to the Assignment, Duties and Responsibilities of Officers of System Administration; Authorization for System Administration Study Committee and Executive Secretary to the Board to Make Editorial Changes Therein; and Statement by Vice-Chairman Ratliff.--Chairman Blanton called on Vice-Chairman Ratliff who read the following statement related to the proposed amendments to the Regents' Rules and Regulations, Part One, Chapter II:

Statement by Vice-Chairman Ratliff

These amendments to the Regents' Rules and Regulations result, in part, from an ongoing management audit of the U. T. System Administration being conducted by the combined Executive and Finance and Audit Committees of the Board with the advice and counsel of Peat Marwick Main & Co.

In summary, the amendments realign the duties, responsibilities and reporting lines of certain officers of System Administration in the following ways:

1. The Chancellor is affirmed as the chief executive officer of the System.

2. The Executive Vice Chancellors for Academic and Health Affairs continue as strong line officers responsible to the Chancellor for the operations of the academic and health components with access to the Board and a responsibility to work directly with the appropriate committees of the Board.
3. In addition to current management functions, the Executive Vice Chancellor for Asset Management will be responsible for policies on the receipt, disbursement and custody of funds, depository agreements with banks and for the custody of securities owned by the System that are not in the custody of the State Treasurer.
4. The offices of General Counsel and Governmental Relations will continue to be headed by Vice Chancellors and report directly to the Chancellor, but with continued obligations to support the Board and the Executive Vice Chancellors.
5. The existing position of Executive Director for Finance and Administration has been redesignated as a Vice Chancellor for Business Affairs. This position will also report to the Chancellor and will be responsible for managing the operations of the offices of Facilities Planning and Construction, Budget, Comptroller, System Personnel, Police and related business support services.
6. The reporting lines of the component presidents will not change. They will continue to be responsible to the Executive Vice Chancellor for Academic Affairs or Health Affairs, as appropriate, and will have access to the Chancellor on an as needed basis.

With the approval and implementation of this realignment of duties, responsibilities and reporting lines, it is the intention of the Board to:

1. Implement a strong chief executive officer plan of organization.
2. Maintain the Executive Vice Chancellor positions as strong line officers with delegated responsibility for major functional programs.
3. Position the System Administration to move quickly in response to problems and/or opportunities and to operate with optimum efficiency and effectiveness.

4. Improve accountability and concentrate the reporting process to the Board.
5. Maximize the income potential of the investment programs and the management of all System assets by expanding the responsibilities of the Executive Vice Chancellor for Asset Management.
6. Create an organizational structure comparable to that used by the major higher education systems in the United States.

Following this statement, Vice-Chairman Ratliff moved that the amendments to the Regents' Rules and Regulations, Part One, Chapter II, which were discussed in Executive Session and which were now before the Board, be approved with an effective date of June 1, 1988.

This motion includes authority for the System Administration Study Committee to make additional editorial changes which will be reported to the Board.

Vice-Chairman Ratliff further moved that the Executive Secretary to the Board, in consultation with the Office of General Counsel, be authorized to make such other changes in the Regents' Rules and Regulations as are necessary to bring them into conformity with the approved amendments in Part One, Chapter II.

Regent Barshop seconded the motion which carried by unanimous vote.

The Regents' Rules and Regulations, Part One, Chapter II, as approved by the Board to be effective June 1, 1988, are set forth on Pages 221 - 246.

CHAPTER II

ADMINISTRATION

Sec. 1. General Provisions.

1.1 Administration.

The "System Administration" is the administration of The University of Texas System.

1.2 The University of Texas System.

The University of Texas System (herein sometimes called the "System") is composed of the System Administration and those institutions assigned by the Constitution or by the Legislature to be governed by the Board of Regents of The University of Texas System. The System Administration shall be based in Austin.

Sec. 2. Board's Exercise of Authority.

The Board of Regents exercises its powers and authorities in the governance of The University of Texas System through the System Administration, headed by the Chancellor.

Sec. 3. Chancellor.

The Chancellor is the chief executive officer of The University of Texas System. The Chancellor reports to and is responsible to the Board of Regents of The University of Texas System. The Chancellor has direct line responsibility for all aspects of the U. T. System's operations.

3.1 Appointment and Tenure.

The Chancellor shall be elected by the affirmative vote of a majority of the Regents in office and shall hold office without fixed term, subject to the pleasure of the Board.

3.2 Purview and Primary Duties of the Chancellor.

The Chancellor, by delegation from the Board, is authorized to exercise the powers and authorities of the Board in the governance of the System. The Chancellor will normally act through the officers of the System regarding the matters delegated to them by these Rules. The Chancellor, however, shall not be precluded from any direct participation and communication with System Administration officers or staff, institutional officers or staff, faculty members, and groups. The major duties of the Chancellor include:

3.21 Advising and counseling with the Board with respect to the policies, purposes, and goals of the System; acting as executive agent of the Board in implementing its policies; representing the System in all other respects as deemed appropriate to carry out such policies, purposes and goals, and interpreting and articulating the System's

- academic, administrative and developmental policies, programs, needs and concerns to the general public and to other constituencies at the community, state, regional and national levels.
- 3.22 Preparing for recommendation to the Board a strategic plan for The University of Texas System, revised periodically, setting forth recommendations for academic programs, capital expenditures, and the allocation of other financial resources.
- 3.23 Directing the management and administration of System Administration and all component institutions of the System.
- 3.24 Presenting to the appropriate standing committees of the Board and to the Board nominations for all officers of the System, and for all officers of component institutions as provided in these Rules and Regulations.
- 3.25 Periodically reviewing the organization of the System Administration and the component institutions of the System and reporting to the appropriate standing committees of the Board and to the Board recommendations for changes in organization, assignments and procedures.
- 3.26 Preparing and approving appropriate recommendations to the Board and its standing committees along with the recommendation of the appropriate chief administrative officer of a component institution.
- 3.27 Preparing and approving annual operating budgets for the System Administration and the component institutions of the System and submitting such recommendations to the Board.
- 3.28 Preparing and approving biennial legislative submissions to the Legislative Budget Board and to the Governor for the System Administration and the component institutions of the System for the consideration of the Board in accordance with Section 6 of Chapter II of Part Two of these Rules and Regulations.

3.3

Audit.

The Chancellor, as chief executive officer of the System, is responsible for insuring the implementation of appropriate audit and postaudit procedures for the System and System Administration. Accordingly, with regard to his or her audit functions (see Section 7.32 of this Chapter), the Comptroller, in staff capacity, reports directly to the Chancellor.

Sec. 4. Executive Vice Chancellor for Academic Affairs.

The Executive Vice Chancellor for Academic Affairs has line responsibility for the conduct of the academic affairs of the System. The chief administrative officers of the general academic institutions in the System, report to and are responsible to the Executive Vice Chancellor for Academic Affairs. The Executive Vice Chancellor for Academic Affairs reports to and is responsible to the Chancellor. The Executive Vice Chancellor for Academic Affairs has direct access to the Board of Regents and is expected to work directly with the appropriate committees of the Board in discharging the duties of the office.

4.1 Appointment and Tenure.

The Executive Vice Chancellor for Academic Affairs shall be elected by an affirmative vote of a majority of the Regents in office upon nomination by the Chancellor. The Executive Vice Chancellor for Academic Affairs shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions concerning the Executive Vice Chancellor for Academic Affairs are subject to review and approval by the Board.

4.2 Duties and Responsibilities.

The Executive Vice Chancellor for Academic Affairs shall have as a prime responsibility the maintenance of high academic quality in the general academic components of the System. Through the chief administrative officers of the component institutions, he or she shall have responsibility for the budgets, academic planning and programs, facilities programs, facilities planning and construction, and personnel (both academic and nonacademic) of those components. In consultation with the Chancellor, the Executive Vice Chancellor for Academic Affairs shall prepare recommendations and supporting information on such matters for consideration by the appropriate standing committees of the Board and the Board of Regents.

Sec. 5. Executive Vice Chancellor for Health Affairs.

The Executive Vice Chancellor for Health Affairs has line responsibility for the conduct of health-related education and the delivery of health services in the System. The chief administrative officer of each health-related institution in the System reports to and is responsible to the Executive Vice Chancellor for Health Affairs. The Executive Vice Chancellor for Health Affairs reports to and is responsible to the Chancellor. The Executive Vice Chancellor for Health Affairs has direct access to the Board of Regents and is expected to work directly with the appropriate committees of the Board in discharging the duties of the office.

5.1 Appointment and Tenure.

The Executive Vice Chancellor for Health Affairs shall be elected by an affirmative vote of a majority of the Regents in office upon nomination by the Chancellor. The Executive Vice Chancellor for Health Affairs shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions concerning the Executive Vice Chancellor for Health Affairs are subject to review and approval by the Board.

5.2 Duties and Responsibilities.

The Executive Vice Chancellor for Health Affairs shall have as a prime responsibility the maintenance of high academic quality in the health-related teaching institutions and high quality health services in the health-care delivery institutions of the System. Through the chief administrative officers of the component institutions, he or she shall have responsibility for the budgets, academic planning and programs, facilities planning and construction, and personnel (both academic and nonacademic) of those components. In consultation with the Chancellor, the Executive Vice Chancellor for Health Affairs shall prepare recommendations and supporting information on such matters for consideration by the appropriate standing committees of the Board and the Board of Regents.

Sec. 6. Executive Vice Chancellor for Asset Management.

The Executive Vice Chancellor for Asset Management has line responsibility for the conduct of all investments and for the management of the assets of the System. The Manager of University Lands - Oil, Gas, and Mineral Interests, the Manager of University Lands - Surface Interests, the Director for Investments, Director for Endowments and Trusts, and the Director of the University Lands Accounting Office report to and are responsible to the Executive Vice Chancellor for Asset Management. The Executive Vice Chancellor for Asset Management reports to and is responsible to the Chancellor. The Executive Vice Chancellor for Asset Management has direct access to the Board of Regents and is expected to work directly with the appropriate committees of the Board in discharging the duties of the office.

6.1 Appointment and Tenure.

The Executive Vice Chancellor for Asset Management shall be elected by an affirmative vote of a majority of the Regents in office upon nomination by the Chancellor. The Executive Vice Chancellor for Asset Management shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions concerning the Executive Vice Chancellor for Asset Management are subject to review and approval by the Board.

6.2

Duties and Responsibilities.

The Executive Vice Chancellor for Asset Management has responsibility for lands management (including management of trust lands, endowment lands, and management of the Permanent University Fund lands); investments and trusts (including investment and management of trusts, trust assets, and endowments) and management of the investment of the Permanent University Fund. This office has as a prime responsibility the management of the lands, trusts, endowments, and other such funds of the System in such a manner as to maximize the monies available for excellence in all activities of the System. This office also has a prime responsibility for policies on receipt, disbursement, and custody of funds; for terms of depository agreements with banks; and for custody (with the Director of Accounting) for bearer securities owned by System funds that are maintained in bank safety deposit boxes and are not in custody with the State Treasurer. This office in conjunction with the Vice Chancellor and General Counsel prepares debt issues. In consultation with the Chancellor, the Executive Vice Chancellor for Asset Management shall prepare recommendations and supporting information on all such operations for consideration by the appropriate standing committees of the Board and the Board of Regents.

6.3

Offices Reporting to the Executive Vice Chancellor for Asset Management.

6.31 Lands Management.

The Executive Vice Chancellor for Asset Management provides direction and management for all transactions relative to Permanent University Fund lands (hereinafter sometimes referred to as "University Lands"), trust lands, and other noncampus real estate interests owned or controlled by the Board of Regents. In the exercise of those responsibilities, the Executive Vice Chancellor for Asset Management:

- 6.311 Works closely with the Board for Lease of University Lands in the discharge of its duties and responsibilities.
- 6.312 Works closely with the chief administrative officer of a component institution of the System and that officer's delegates with regard to the management of trust lands and other noncampus real estate interests held by the Board of Regents for and on behalf of a particular institution.

6.313 Establishes procedures that insure effective coordination with the Director for Endowments and Trusts with regard to the management of trust lands other than University Lands.

6.314 Directs and manages the operation of the following budgeted activities which are part of the Office of Lands Management:

Board for Lease - University Lands;
University Lands - Oil, Gas, and Mineral Interests;
University Lands Accounting Office;
University Lands - Surface Interests (Oil Field Supervision); and
University Lands - Surface Interests (Leasing and Agricultural Projects).

6.32 Manager of University Lands - Oil, Gas, and Mineral Interests.
Subject to delegation by the Executive Vice Chancellor for Asset Management, the Manager of University Lands - Oil, Gas, and Mineral Interests is responsible for providing field supervision of System operations, activities and transactions involving oil, gas, and mineral development and production on the University Lands. Within limits of authority set by the Executive Vice Chancellor for Asset Management, the Manager's regular duties include:

6.321 Making recommendations to the Board for Lease of University Lands, and the Board of Regents, as appropriate, for periodic oil and gas lease sales of University Lands, and for unitization, pooling and other transactions involving oil and gas leasehold and royalty interests and other mineral interests in University Lands.

6.322 Organizing, directing, guiding, setting objectives and standards for, and assigning and evaluating the work of, all personnel reporting to him or her.

6.323 Reviewing periodically the terms and conditions of forms and transactions involving oil and gas interests in University Lands, and making recommendations with respect thereto to the Executive Vice Chancellor for Asset Management and the Board for Lease of University Lands.

6.324 Reporting regularly to the Executive Vice Chancellor for Asset Management and the Board for Lease of University Lands all activities, developments and problems which could significantly affect System interests and University Lands, together with his or her recommendations with respect thereto.

6.325 Working closely with the Board for Lease of University Lands in the discharge of its duties and responsibilities.

6.326 Coordinating with the Manager of University Lands - Surface Interests in the discharge of their respective duties and responsibilities.

6.33 Manager of University Lands - Surface Interests.

Subject to delegation by the Executive Vice Chancellor for Asset Management, the Manager of University Lands - Surface Interests is responsible for providing field supervision of System operations, activities, and transactions pertaining to surface interests, water rights and oil and gas field operations in or on University Lands. Within limits of authority set by the Executive Vice Chancellor for Asset Management, the Manager's regular duties include:

6.331 Making recommendations to the Board with respect to all transactions involving surface interests in University Lands, including research projects, right-of-way easements, agricultural, grazing and other surface use leases, and geophysical permits.

6.332 Organizing, directing, guiding, setting objectives and standards for, and assigning and evaluating the work of, all personnel reporting to him or her.

- 6.333 Reviewing periodically the terms and conditions of forms and transactions involving surface interests in University Lands, and making recommendations with respect thereto to the Executive Vice Chancellor for Asset Management.
- 6.334 Reporting regularly to the Executive Vice Chancellor for Asset Management all activities, developments and problems which could significantly affect System interests in University Lands, together with his or her recommendations with respect thereto.
- 6.335 Working closely with federal and state agencies in connection with research and development projects and activities, involving utilization and husbandry of University Lands, of mutual interest to the System and such agencies.
- 6.336 Coordinating with the Manager of University Lands - Oil, Gas, and Mineral Interests in the discharge of their respective duties and responsibilities, and acts as oil and gas fields supervisor.

6.34

Investments and Trusts.

The Executive Vice Chancellor for Asset Management and his or her delegates, the Director for Investments, and the Director for Endowments and Trusts implements policies and actions approved by the Board with respect to:

- 6.341 Investing, managing, and administering of all endowment funds belonging to the System and its component institutions, including the Permanent University Fund and all trusts and special funds.
- 6.342 Issuing, managing, and paying all bonds and other evidences of indebtedness issued by the Board for System and its component institutions.
- 6.343 Presenting to the Board through the Chancellor periodic reports of the status and prospect of funds for which he or she has responsibility and

that will be available for expenditure by the System and its component institutions.

6.344 Consulting with the Executive Associate for Economic Affairs with respect to the development of long-range plans for the development and management of the economic resources of the System and its component institutions.

Sec. 7. Vice Chancellor for Business Affairs.

The Vice Chancellor for Business Affairs reports to the Chancellor and is responsible for the direction of those offices and supervision of those areas of responsibility set forth in Section 7.3 of this Chapter. The Vice Chancellor for Business Affairs provides staff assistance to the Chancellor and the Executive Vice Chancellors in the exercise of their responsibilities. The Vice Chancellor for Business Affairs has direct access to the Board of Regents of The University of Texas System and is expected to work directly with the appropriate committees of the Board in discharging the duties of the office.

7.1 Appointment and Tenure.

The Vice Chancellor for Business Affairs shall be appointed by the Board after nomination by the Chancellor. The Vice Chancellor for Business Affairs shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor for Business Affairs are subject to review and approval by the Board.

7.2 Duties and Responsibilities.

The primary responsibilities of the Vice Chancellor for Business Affairs include:

- 7.21 The provision of staff assistance to the Chancellor and the Executive Vice Chancellors in the execution of their responsibilities.
- 7.22 Submitting recommendations to the Chancellor and to the appropriate Executive Vice Chancellor on business operations of the components of the System.
- 7.23 Reviewing and making recommendations on uniform business systems and management.
- 7.24 Submitting recommendations relating to programs for the most efficient management of personnel and resources.
- 7.25 Submitting recommendations for program development for training of personnel in nonacademic areas.
- 7.26 Reviewing and making recommendations on programs of long-range planning for physical facilities and financial resources.

- 7.27 Reviewing and making recommendations relating to police and security matters within the System.
- 7.28 Coordinating the business affairs of the System with other officers and members of the System Administration staff.
- 7.29 In consultation with the appropriate Executive Vice Chancellor, coordinating the activities of business administrative operations of the component institutions.
- 7.2(10) Managing the operations of the offices of Facilities Planning and Construction, Budget, Comptroller, System Personnel, Police, and Special Services.
- 7.2(11) Supervising and coordinating the acquisition of all real property at the component institutions.
- 7.2(12) Directing the management of the purchasing, accounting, equipment inventories, and vouchering operations for the offices of the System Administration and coordinating the building services for the System buildings.
- 7.2(13) Directing the management of the System-wide insurance programs (except the System Plan for Professional Medical Malpractice Self-Insurance), including approval of all policies and coverages, such programs to include:
 - Fire and Extended Coverage;
 - Liability;
 - Health;
 - Life;
 - Accidental Death and Dismemberment;
 - Income Replacement; and
 - Retirement.
- 7.2(14) Performing such other duties as may be assigned by the Chancellor.

7.3 Duties of Officers Reporting to the Vice Chancellor for Business Affairs.

- 7.31 Budget Director.
The Budget Director's primary responsibilities are to plan and develop systems and procedures for uniform budget preparation, budget control and financial reporting. Subject to delegation by the Vice Chancellor for Business Affairs, the major duties of the Budget Director include:
 - 7.311 Formulating procedures governing the preparation and review of all budgets and developing effective methods of presenting approved budgets to appropriate agencies.

- 7.312 Recommending procedures to be followed, including format, schedules of budget preparation, and effective review of budgets.
- 7.313 Preparing budget-writing instructions.
- 7.314 Conducting budget and other related research studies.
- 7.315 Planning systems and procedures for budgetary control and financial reporting.
- 7.316 Controlling and supervising distribution of all budgets and processing and approving (as delegated) interim budget changes.
- 7.317 Preparing periodic budgetary, financial, and special reports, as appropriate.
- 7.318 Serving as liaison with the staff of the Legislative Budget Board, the Governor's Budget and Planning Office, and the Texas Higher Education Coordinating Board.

7.32

Comptroller.

Subject to delegation by the Vice Chancellor for Business Affairs (provided, however, that, in the audit functions, the Comptroller shall report directly to the Chancellor), the Comptroller formulates and recommends procedures to be followed in the business operations of the System for:

- 7.321 Accounting, auditing and reporting, and expenditure control.
- 7.322 Procurement and purchasing.
- 7.323 Management of auxiliary service enterprises.
- 7.324 Data processing systems - including prior approval of equipment acquisitions by purchase or lease.
- 7.325 Accounting and business system development.
- 7.326 Accounting records, forms, procedures, and financial reports, including format for such reports.
- 7.327 Lease contracts for building space.
- 7.328 Approval of the business aspects and overhead rates in research and other contracts with outside agencies.
- 7.329 Conducting postaudits at each component institution.

7.32(10) Supervising the auditing of oil and gas production.

7.33

Director of Accounting.

The Director of Accounting of The University of Texas at Austin serves also as director of accounting for System Administration and is the accounting officer for both The University of Texas at Austin and for System Administration.

With respect to System Administration matters, the Director of Accounting reports to and is responsible to the Comptroller. With respect to other matters, the Director reports to the appropriate officers of The University of Texas at Austin. Subject to delegation by the Vice Chancellor for Business Affairs, the duties of the office include:

7.331 Having responsibility for custody, accounting and reporting of all funds handled by the Director of Accounting's Office for the component institutions outside of Austin, and for System Administration, the Permanent University Fund, the Available University Fund, and trust and special funds.

7.332 For securities owned by System funds and not in custody of the State Treasurer, having custody of registered securities and joint custodian, with the Executive Vice Chancellor for Asset Management, of bearer securities maintained in bank lock boxes.

7.333 Maintaining a full and complete set of records that accurately reflect the balances and transactions of all financial and property accounts of the System (as contracted with such accounts of the component institutions).

7.34

Director of Facilities Planning and Construction.

The Director of Facilities Planning and Construction reports to the Vice Chancellor for Business Affairs. The primary duties and responsibilities of the office include:

7.341 The provision of staff assistance to the Chancellor and the Executive

- Vice Chancellors in the execution of their responsibilities.
- 7.342 Managing the administration and general supervision of any new building construction and initial equipping thereof or any inside or outside repairs, remodeling, rehabilitation, new construction of improvements other than building, or campus planning costing \$300,000 or more; managing any preliminary planning, feasibility studies, or investigations which are estimated to ultimately develop into one of the above projects at any component institution of the System; advising and working with the consultants, architects and engineers employed by the Board subject to the terms and conditions of the contracts with those architects and engineers.
- 7.343 Serving as ex officio member of all faculty building committees at the component institutions.
- 7.344 Preparing and executing all documents relating to the acquisition and the use of funds received from the federal government and state agencies in connection with construction grant awards.
- 7.345 Coordinating the preparation of and approving of all grant applications on approved construction projects filed with governmental agencies.
- 7.346 Coordinating the development of and maintaining of master plans for all component institutions, including but not limited to land utilization, utility and landscape plans.
- 7.347 Developing standards for maintenance of all physical facilities at component institutions.
- 7.348 Directing the negotiation and approval of all utility contracts.

7.35

System Personnel Director.

The System Personnel Director's primary responsibility is to plan, develop, and coordinate System-wide personnel policies and procedures. Subject to delegation by the Vice Chancellor for Business Affairs, the System Personnel Director is responsible for:

- 7.351 Acting as liaison between component institution personnel officers and the System officers regarding all personnel matters relating to classified personnel, administrative staff, and certain matters relating to teaching and/or academic personnel.
- 7.352 Advising the System officers and making recommendations concerning development of methods and procedures designed to maximize the effectiveness of System Personnel Programs.
- 7.353 Reviewing and recommending all classified personnel pay plans for each component institution, including the establishment of proper classification and pay scales consistent with needs and System-wide policies and procedures.
- 7.354 Reviewing and recommending the Personnel Office budgets for each component institution.
- 7.355 Directing the administration of the System Personnel Office, including the Workers' Compensation Insurance section.
- 7.356 Reviewing and recommending to System officers any rules and regulations or changes thereto that, after proper consultation with officers of component institutions, are considered beneficial or necessary for the proper administration of the System-wide Personnel Program.
- 7.357 Establishing employee development and training programs for all component institutions, including particularly supervisory training programs.
- 7.358 Formulating policies and procedures concerning labor relations and employer-employee relationships.

- 7.359 Assisting and establishing personnel data systems and proper practices and procedures concerning the personnel records of all employees.
- 7.35(10) Conducting System-wide wage and salary research studies and formulating data for proper implementation of personnel pay programs.
- 7.35(11) In consultation with the personnel offices of the component institutions, developing and maintaining a System-wide Personnel Pay Plan with uniform titles and account numbers.

7.36

Director of Police.

Subject to delegation by the Vice Chancellor for Business Affairs, the Director of Police is responsible for:

- 7.361 Approving qualifications for police personnel at the component institutions of the System and approving all applicants to a basic or in-service training school or academy.
- 7.362 Approving the organizational structure for police departments at the component institutions of the System.
- 7.363 Establishing and supervising all training programs for System police, including basic and in-service training, as well as on-the-job training at each component institution of the System.
- 7.364 Conducting the System training in accordance with the standards of the Texas Commission on Law Enforcement Officer Standards and Education, in order to maintain accreditation with this state agency.
- 7.365 Maintaining liaison with the Director of Training, Texas Department of Public Safety, and the Coordinator of Training, Federal Bureau of Investigation, and being aware of new training techniques, procedures, programs, and equipment.
- 7.366 Establishing a uniform reporting and record system for police departments at the component

- 7.367 institutions of the System and approving any changes thereto. Conducting periodic inspection of the police departments at the component institutions of the System and evaluating their performance as police agencies.
- 7.368 Formulating and establishing policies and procedures for police operations on a System-wide basis.
- 7.369 Establishing, maintaining, and supervising on a System-wide basis, a program for police personnel promotion.
- 7.36(10) Reviewing and recommending the pay scale for police personnel throughout the System.
- 7.36(11) Surveying all component institutions of the System for security needs of existing buildings, grounds, and lighting, in order to make the appropriate recommendations to insure the prevention of criminal activities and the protection of life and property.
- 7.36(12) Consulting with the Office of Facilities Planning and Construction on security needs for new construction including security lighting on the property of the component institutions of the System.
- 7.36(13) Coordinating the use of police throughout the System in emergency situations.
- 7.36(14) Submitting periodic reports to the Vice Chancellor for Business Affairs concerning the operations of the police departments of the System.

Sec. 8. Vice Chancellor and General Counsel.

The Vice Chancellor and General Counsel reports to the Chancellor. The Vice Chancellor and General Counsel is responsible for the provision of legal services to the Board of Regents of The University of Texas System as set out in Section 8.2 of this Chapter. The Vice Chancellor and General Counsel provides staff assistance to the Chancellor and the Executive Vice Chancellors in the exercise of their responsibilities. The Vice Chancellor and General Counsel has direct access to the Board of Regents of The University of Texas System and is expected to work directly with the appropriate committees of the Board in discharging the duties of the office.

8.1

Appointment and Tenure.

The Vice Chancellor and General Counsel shall be appointed by the Board after nomination by the Chancellor. The Vice Chancellor and General Counsel shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor and General Counsel are subject to review and approval by the Board.

8.2

Duties and Responsibilities.

The primary responsibilities of the Vice Chancellor and General Counsel include:

- 8.21 The provision of staff assistance to the Chancellor and the Executive Vice Chancellors in the execution of their responsibilities.
- 8.22 Providing all legal services required by the Board of Regents of The University of Texas System and its personnel to insure the proper protection and advancement of the System's interests.
- 8.23 Maintaining the supervision, and delivery of legal services at a high level of effectiveness.
- 8.24 Directing and managing all legal personnel and legal affairs of the System, its units and its component institutions.
- 8.25 Providing advice, counsel and legal interpretations to System officials and personnel concerning legal matters affecting System operations.
- 8.26 Directing the Office of Vice Chancellor and General Counsel personnel with respect to work priorities and assignments, standards of performance, and career development, delegating to staff members responsibility for particular legal and administrative tasks; and coordinating and controlling budget and personnel levels.
- 8.27 Directing and managing (within applicable limits of authority) all litigation and administrative agency hearings; authorizing and approving the institution of legal proceedings; evaluating, directing and approving action and procedures relative to prosecution or defense of pending litigation and administrative proceedings; employing outside counsel; and authorizing and approving settlement or appeal of litigation.
- 8.28 Advising, counseling, and disseminating information to affected System units relative to the nature, evaluation, progress, and results of litigation, administrative proceedings, and other legal

- matters, and making recommendations to System officials and other personnel as to future operations and objectives.
- 8.29 Approving as to form all contracts and agreements and all amendments to the Regents' Rules and Regulations; and approving as to form all institutional Handbooks of Operating Procedures, whether finally approved or not, and all amendments to such Handbooks.
 - 8.2(10) Drafting all legislation that has been approved by the Board or requested by any System officer for submission to the Board for approval and providing legal counsel on pending legislation.
 - 8.2(11) Identifying and evaluating administrative and functional problems and directing or recommending, as appropriate, courses of action for solution.
 - 8.2(12) Representing the System before legal, educational and governmental groups and associations.
 - 8.2(13) Acting as administrator of the System Plan for Professional Medical Malpractice Self-Insurance and the System Intellectual Property Offices.
 - 8.2(14) Working in cooperation with the Attorney General of the State of Texas, State agency legal counsel and outside counsel.
 - 8.2(15) Assuming responsibility for any other legal, administrative or operational matters delegated by the Chancellor.

Sec. 9. Vice Chancellor for Governmental Relations.

The Vice Chancellor for Governmental Relations reports to the Chancellor. The Vice Chancellor for Governmental Relations is responsible for coordinating the effective representation of the System in the area of governmental affairs as set out in Section 9.2 of this Chapter. The Vice Chancellor for Governmental Relations provides staff assistance to the Chancellor and the Executive Vice Chancellors in the exercise of their responsibilities. The Vice Chancellor for Governmental Relations has direct access to the Board of Regents of The University of Texas System and is expected to work directly with appropriate committees of the Board in discharging the duties of the office.

9.1 Appointment and Tenure.

The Vice Chancellor for Governmental Relations shall be appointed by the Board after nomination by the Chancellor. The Vice Chancellor for Governmental Relations shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor for Governmental Relations are subject to review and approval by the Board.

- 9.2 Duties and Responsibilities of the Vice Chancellor for Governmental Relations.
The primary responsibilities of the office include:
- 9.21 The provision of staff assistance to the Chancellor and the Executive Vice Chancellors in the execution of their responsibilities.
 - 9.22 Representing the Board of Regents of The University of Texas System in its relations with federal, state, and local legislative bodies and agencies.
 - 9.23 Making recommendations to the Chancellor in the area of public policy as it affects the relationship of the System with the federal, state, and local governments.
 - 9.24 Informing appropriate administrative officers of current operations and long-range developments on the federal and state level, which may affect the System.
 - 9.25 Maintaining and distributing information to, and advising appropriate System Administration and component institution officials, in order to assure proper action by the System with respect to federal, state, and local governmental programs and activities.
 - 9.26 Defining the job responsibilities, the assignment of duties, and supervising staff members employed in or assigned to work in the governmental affairs area.
 - 9.27 Performing such other duties and responsibilities for the efficient operation of the System as shall be assigned by the Chancellor.

Sec. 10. Councils of the System.

- 10.1 The System Council.
The System Council is composed of the Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Asset Management, the Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Executive Assistant to the Chancellor, the Director of Development, and the chief administrative officers of all the component institutions of The University of Texas System. The Chancellor shall serve as the Council's permanent chairman and shall conduct regular meetings to discuss those matters of general concern to the operation of The University of Texas System.

- 10.2 The Council of Academic Institutions.
The Council of Academic Institutions is composed of the Executive Vice Chancellor for Academic Affairs and the chief administrative officers of the general academic institutions of the System. The Chancellor, the Executive Vice Chancellor for Asset Management, the Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Executive Assistant to the Chancellor, and the Director of Development, serve as ex officio members of this Council. The Executive Vice Chancellor for Academic Affairs shall serve as the Council's permanent chairman and shall conduct regular meetings to review common problems of planning, development, and operation of the several institutions represented.
- 10.3 The Council of Health Institutions.
The Council of Health Institutions is composed of the Executive Vice Chancellor for Health Affairs and the chief administrative officers of the component institutions of the System concerned directly with health affairs. The Chancellor, the Executive Vice Chancellor for Asset Management, the Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Executive Assistant to the Chancellor, and the Director of Development serve as ex officio members of this Council. The Executive Vice Chancellor for Health Affairs acts as the Council's permanent chairman and shall conduct regular meetings to review common problems of planning, development, and operation of the several institutions represented.
- 10.4 The Business Management Council.
The Business Management Council advises the System Administration in the areas of component budgeting, business management, data processing, physical plant operations, planning, construction, and accounting systems development. The Council is composed of the Vice Chancellor for Business Affairs and the chief business officers of the component institutions. The Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Asset Management, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Executive Assistant to the Chancellor, and the Director of Development, or their delegates, serve as ex officio members of this Council. The Vice Chancellor for Business Affairs shall serve as the Council's permanent chairman and shall conduct regular meetings of the Council.

Sec. 11.

Chief Administrative Officers of Component Institutions.

11.1 The Board selects the chief administrative officer of each component institution.

11.11 When there is a vacancy or it is known that there is to be a vacancy in the office of a chief administrative officer of a component institution having faculty and students, an Advisory Committee shall be established to recommend candidates to the Board. The Executive Vice Chancellor having responsibility for the operation of the institution where the vacancy has occurred or is to occur shall be chairman of the Advisory Committee. In circumstances where this Executive Vice Chancellor may be a candidate for the office, the chairman of the Advisory Committee shall be the Chancellor or the Chancellor's designee. In addition to the chairman, committee membership is as follows:

The Chancellor;
Three Chief Administrative Officers;

(to be appointed by the Chairman of the Board from three of the component institutions)

Three Regents;
(to be appointed by the Chairman of the Board)

Five Faculty members of the institution involved, at least three of whom shall have the rank of associate professor or higher; (method of selection to be determined by the General Faculty of the campus)

One Dean;
(for academic institutions to be selected by Dean's Council of the institution involved)
(for health-related institutions to be the Dean of the Medical School involved)

Two Students from the institution involved;
(method of selection to be determined by

the Student Government of the campus involved or, if there be no Student Government, by the chief administrative officer of the institution)

President of the Ex-Students' Association of the campus involved; (if institution does not have an active alumni organization, then an alumnus of the component selected by the Chairman of the Board of Regents)

Not more than three representatives of the component's external constituency who have demonstrated a deep interest in and support of the institution, its programs and its role in community activities to be appointed by the Chairman of the Board of Regents.

- 11.12 When there is a vacancy or it is known that there is to be a vacancy in the office of a chief administrative officer of a component institution not having faculty and students, an Advisory Committee shall be appointed by the Executive Vice Chancellor having responsibility for the institution, subject to approval of the Chairman of the Board. The Executive Vice Chancellor having such responsibility shall be Chairman of the Committee.
- 11.13 The Advisory Committee shall set up selection criteria that relate to the needs of the individual component, initiate mechanisms to develop an appropriate candidate pool, seek information on the several candidates and inquire from competent sources as to the candidates' academic, administrative and business ability. The Committee may also interview candidates as a part of its selection process keeping in mind that the confidentiality of the process is important to its ultimate success.
- 11.14 Finally, the Advisory Committee shall submit, through its Chairman, a recommended list of not less than five or more than ten candidates with no preference indicated. Candidates submitted shall have received a majority vote of the

Committee. The recommended list should be developed and submitted without regard to the Advisory Committee's assessment of the potential availability of any candidate. If none of the names submitted in the report of the Advisory Committee is satisfactory to the Board, then the Board in its discretion may either name a new committee or proceed to select a chief administrative officer under such other procedures as in its discretion it may deem proper and appropriate.

11.2 Each chief administrative officer reports to and is responsible to the Executive Vice Chancellor having responsibility for the institution, and serves without fixed term, subject to the pleasure of the appropriate Executive Vice Chancellor and approval by the Chancellor and the Board. The chief administrative officer has access to the Chancellor and is expected to consult with the appropriate Executive Vice Chancellor and the Chancellor on significant issues on an as needed basis.

11.3 Within the policies and regulations of the Board, and under the supervision and direction of the Executive Vice Chancellor having responsibility for the institution, the chief administrative officer has general authority and responsibility for the administration of that institution.

11.31 Specifically, the chief administrative officer is expected, with the appropriate participation of the staff, to:

- 11.311 Develop and administer plans and policies for the program, organization, and operation of the institution.
- 11.312 Interpret the System policy to the staff, and interpret the institution's programs and needs to the System Administration and to the public.
- 11.313 Develop and administer policies relating to students, and where applicable, to the proper management of services to patients.
- 11.314 Recommend appropriate operating budgets and supervise expenditures under approved budgets.
- 11.315 Nominate all members of the faculty and staff, maintain efficient personnel programs, and recommend staff members for promotion, retention, or dismissal for cause.

- 11.316 Insure efficient management of business affairs and physical property; recommend additions and alterations to the physical plant.
- 11.317 Serve as presiding officer at official meetings of faculty and staff of the institution, and as ex officio member of each college or school faculty (if any) within the institution.
- 11.318 Appoint, or establish procedures for the appointment of, all faculty, staff, and student committees.
- 11.319 Cause to be prepared and submitted to the appropriate Executive Vice Chancellor the rules and regulations for the governance of the institution. When such rules and regulations have been finally approved by the Chancellor, they shall thereafter constitute the Handbook of Operating Procedures for that institution. Provided, however, that whether or not finally approved by the Chancellor, any rule or regulation in any such institutional Handbook of Operating Procedures that is in conflict with any rule or regulation in the Regents' Rules and Regulations, is null and void and has no effect, and whenever any such conflict is detected, the Chancellor and the chief administrative officer of the component institution shall immediately make such amendments to the institutional Handbook of Operating Procedures as may be necessary to eliminate such conflict.
- 11.31(10) Assume initiative in developing long-range plans for the program and physical facilities of the institution.
- 11.31(11) Assume active leadership in developing private fund support for the institution in accordance

with policies and procedures established in the Regents' Rules and Regulations.

Sec. 12.

Appointment of Other Officers and Staff.

- 12.1 The Board delegates to the Chancellor and the Executive Vice Chancellor having responsibility for the institution and they, in turn, delegate to the chief administrative officer of each component institution the responsibility for the appointment and dismissal of all other administrative officers of each component institution, including vice presidents, deans, directors and their equivalents. However, prior approval of the appropriate Executive Vice Chancellor shall be necessary for each such permanent or acting appointment and for each such dismissal whether from a permanent or acting appointment. All such other administrative officers serve without fixed terms and subject to the pleasure of the chief administrative officer of the institution and the aforesaid approval of the Executive Vice Chancellor.
- 12.2 The Board delegates to the Chancellor and the Executive Vice Chancellor having responsibility for the institution and they, in turn, delegate to the chief administrative officer of each component institution the responsibility for the permanent or acting appointment of department chairmen, department heads, and their equivalents. Such department chairmen, department heads and their equivalents serve without fixed terms and subject to the pleasure of the chief administrative officer of the institution.
- 12.3 The Board endorses the principle of reasonable faculty and student consultation in the selection of administrative officers of the component institutions, and the primary operating units, and expects the chief administrative officer, as he or she deems appropriate, to consult in the selection process with the representatives of the faculty and student body. However, the chief administrative officer of the component institution is responsible for executing the duties of the office and consequently shall not be bound by nominations to administrative positions by campus selection committees, and the Handbook of Operating Procedures of each component institution shall so state.
- 12.4 Staff and Officers of System Administration. Staff and officers of System Administration shall be appointed by the Chancellor, the Executive Vice Chancellors, or Vice Chancellors to whom they will report. Officers so appointed shall not have tenure by virtue

of their respective offices. They shall hold office without fixed term subject to the pleasure of the officer to whom they report. The actions of the Executive Vice Chancellors or Vice Chancellors concerning such staff and officers are in turn subject to approval by the Chancellor.

12.5

Honorary Titles.

The titles Chancellor Emeritus, President Emeritus and similar honorary designations shall be conferred only by appropriate action of the Board on individuals who are fully retired. No person is authorized to use any such title unless it has been bestowed by the Board.

4. U. T. System and U. T. Southwestern Medical Center - Dallas: Approval to Waive the Regents' Rules and Regulations, Part One, Chapter III, Section 1.87, and to Appoint Donald Seldin, M.D., System Professor of Internal Medicine and Special Consultant to the Executive Vice Chancellor for Health Affairs Effective Immediately.--Regent Hay moved that, in accordance with the recommendation of Executive Vice Chancellor Mullins and President Wildenthal, the Regents' Rules and Regulations, Part One, Chapter III, Section 1.87 be waived and that Donald Seldin, M.D., of The University of Texas Southwestern Medical School at Dallas, who recently retired from his administrative position as Chairman of Internal Medicine following 35 years of distinguished service, be given the additional title of System Professor of Internal Medicine effective immediately.

It is understood that Dr. Seldin will continue to (a) hold the William Buchanan Professorship in Medicine, (b) hold tenure by virtue of his professorship and (c) serve on the faculty of the U. T. Southwestern Medical School - Dallas.

This appointment as System Professor of Internal Medicine recognizes Dr. Seldin's extraordinary leadership and vision in the development of the U. T. Southwestern Medical Center - Dallas to its present level of international recognition.

Regent Hay further moved that, effective immediately, Dr. Seldin be appointed as a part-time Special Consultant to the Executive Vice Chancellor for Health Affairs so that his remarkable abilities and talents may be utilized to encourage the development of the academic, research and patient care programs of the other health-related components.

Vice-Chairman Ratliff seconded the motion which carried without objection.

Chairman Blanton stated that the Board could not be more pleased that Dr. Seldin, with his truly distinguished record of service to the U. T. Southwestern Medical Center - Dallas and his national reputation for the development of quality programs in academic medicine, had agreed to serve in a capacity which will make his expertise available throughout the U. T. System.

REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

Regent Yzaguirre, a member of the Board for Lease of University Lands, submitted the following report on behalf of that Board:

Report

The Board for Lease of University Lands met in Midland, Texas, on February 18, 1988, and offered for sale by sealed bid oil and gas leases on 35,329 acres.

Total bonuses for the sale were \$2,042,345 for 60 of the 112 tracts offered. The average bid was \$108 per acre for the 18,904 acres approved for lease and 16,425 acres received no bids. All tracts offered provide for 1/4th royalty and five-year terms.

Amoco Production Company submitted the highest total bids of \$819,925 for 7,311 acres.

On April 5, 1988, the School Land Board offered twenty tracts in far West Texas and the Permian Basin for oil and gas lease. Average bonus per acre for this sale was \$95 as compared to the University's lease sale which averaged \$108 per acre.

The Board discussed various leasing procedures to stimulate interest for the leasing and development of acreage on University lands in Hudspeth, El Paso, Culberson and Terrell Counties, Texas. University lands in these counties have never produced any oil and gas, although some of these acreages have been leased.

SCHEDULED MEETING.--Chairman Blanton announced that the next meeting of the U. T. Board of Regents will be held on June 9, 1988, and will be hosted by The University of Texas at Austin.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 3:35 p.m.


Arthur H. Dilly
Executive Secretary

April 21, 1988