

OCLC ONLINE COMPUTER LIBRARY CENTER, INC.
Meeting of the Board of Trustees
February 24, 2003

This meeting of the Board of Trustees of OCLC Online Computer Library Center, Inc., pursuant to the notice of the Secretary dated February 14, 2003, and in accordance with Article VII, Section I, of the Code of Regulations of OCLC Online Computer Library Center, Inc., convened at 9:00 a.m., on February 24, 2003 at 6600 Frantz Road, Dublin, Ohio. Mr. Crowe presided and Mr. Houfek kept the minutes of the meeting.

Trustees present:

Larry Alford
Bradley F. Baker
Edward W. Barry
William J. Crowe
Ralph K. Frasier
Maurice Glicksman
Martín Gómez
Barbara Gubbin
Victoria Hanawalt
Jay Jordan
David P. Lauer
Jane N. Ryland
Thomas W. Shaughnessy
Jerry Stephens
Lizabeth A. Wilson

Trustees Absent:

None

Also, present for all or portions of the meeting:

Meg Bellinger, Vice President, Digital & Preservation Resources
Cathy De Rosa, Vice President, Corporate Marketing
Lorcan Dempsey, Vice President, Research
James T. Houfek, Vice President, General Counsel and Secretary
Gary R. Houk, Vice President, Metadata and Content Management Services
Fred Lauber, Vice President, Information Technology
George Needham, Vice President, Member Services
Rich Rosy, Corporate Vice President, netLibrary Division
Rick J. Schwieterman, Vice President, Finance & Human Resources and Treasurer
Phyllis B. Spies, Vice President, Worldwide Library Services
Richard Van Orden, Program Director, Members Council

To begin the meeting, Mr. Crowe indicated that Cees Datema would be unable to attend this meeting and had sent his regrets. Mr. Crowe also wished to have it noted in the minutes that because of inclement weather Mr. Frasier was participating in this meeting via a telephonic connection over which he could hear all of the other Trustees at the same time, and all

of the other Trustees could hear him, and each other, at the same time. The Chair then noted that Ms. Spies had recently completed thirty years of service to OCLC, after which he read the following from a letter he had recently delivered to her:

“Many of us have known you for almost all of this time and have seen you always as a true mainstay in the leadership of OCLC. You have been tireless and creative in your work, have served as a valued mentor to countless OCLC staff and many librarians across the world, and in all things have reflected the spirit that brought OCLC into being.

If you were not present at OCLC's creation, you came soon enough after its birth to have taken an active part--often in a leading role--in almost every venture in which this once small single-U.S. state cooperative has pioneered. Your work has been to the lasting benefit of libraries and the people we serve. I offer special tribute for your always-evident commitment, as a librarian, that the values of the membership be at the forefront as OCLC continues to transform itself.

The members of OCLC and those of us who represent them in its governance are greatly in your debt. We wish you only continued success!”

Mr. Crowe then indicated that Mr. Baker had recently received a very prestigious honor in being named the recipient of the Hugh C. Atkinson Memorial/Demco Award as presented by the Illinois Library Association and Demco, Inc. The award is made annually “for sustained activity and contributions having a lasting impact on librarianship.” Mr. Crowe offered his and the Board’s congratulations to Mr. Baker for this achievement.

Following discussion as to certain corrections which the Chair requested be made by the Secretary, at the request of Mr. Crowe for a motion, and upon motion duly made and seconded, the Board of Trustees unanimously approved the minutes of their November 18, 2002 meetings, as corrected.

Mr. Crowe referred the Board to his Chair’s report that had previously been sent to them, and which could be found at Tab 2 of the Board materials. Mr. Crowe also then brought the following matters to the attention of the Board: (i) in the future, the Board minutes would be accessible via the Internet through the OCLC webpage, following formal approval of said minutes, (ii) the April Board meeting would be held on April 14th and 15th, and due to the Monday/Tuesday format, Committee meeting scheduling might well be different than the usual practices (with notice to follow), (iii) the orientation of new Trustees was under continuing review and comment was

always being sought, and finally (iv) any Trustee is encouraged to step forward at any time in order to pursue placing items on the agenda of future Committee and/or Board meetings.

Mr. Crowe then reported on the meeting of the Executive Committee of the Board, stating that there was one action item. Having been recommended for approval by the Executive Committee, and therefore needing no second, the following resolution was approved by the full Board:

RESOLVED, That regular meetings of the Board of Trustees shall be held, in calendar 2004, at the offices of the Corporation or at other locations designated by the Board at 9:00 a.m., local time, on the following dates:

February 23, 2004
April 20, 2004
June 7, 2004

September 18-20, 2004
November 15, 2004

FURTHER RESOLVED, That the annual meeting of the Board of Trustees shall be held immediately following the annual meeting of the Trustee Members on November 15, 2004.

Mr. Crowe then indicated that the following additional matters had been discussed by the Committee: (i) review with the Committee chairs and vice-chairs as to future agenda items, (ii) a suggestion that the President and President-Elect of the Members Council be invited to the Board's strategic retreat in September of each year, and that the Council President make a presentation to the Board regarding his or her perception, on behalf of the Council, of the future needs of libraries and the potential for OCLC's role in meeting those needs, (iii) the possibility of more closely aligning or perhaps combining the Finance and Audit Committees, and (iv) the Blue Ribbon Commission's study on corporate governance issues. Mr. Glicksman made the point that this study provided only guidelines that were advisory in nature, rather than absolute rules of governance. Discussion then followed regarding the involvement of delegates from the Members Council in the September retreat as being fully in keeping with the recent expression of including the Council further upstream in OCLC's planning.

The Chair then called for the President's report. Mr. Jordan first mentioned that the Board should look to his written report for details, but that he wanted to call their attention to the

following specific items: (i) that OCLC would miss its budgeted revenue plan of \$210 million, and was now expecting to come in between \$192 and \$195 million in revenues for the fiscal year, (ii) all international business units were making or exceeding budgeted revenue at this time, (iii) OCLC's online security people deserved special thanks for the efforts they have been making to keep the online activities free of the many viruses and worms that arise so frequently, (iv) the efforts towards succession management are well underway, (v) the new Trustee orientation method utilized this year worked well, but additional time needs to be included to allow the Trustees to dialog with the presenters, (vi) OCLC management needs to address specifically whether or not it can continue all of its current products and services during these difficult economic times, (vii) OCLC is continually exploring new market opportunities with, his trip to the Middle East being a recent example of that, and (viii) a charity event which raised over \$80,000 was recently hosted at OCLC on behalf of cancer research. Discussions then followed resulting from questions of the Trustees, as follows: (i) had management considered altering the corporate metrics in response to the current economic conditions; Mr. Jordan indicated that such alteration was a possibility but not now being proposed, (ii) what was being done about the inappropriate harvesting of OCLC records; Mr. Jordan responded that OCLC's first step is to try and prompt libraries to contact the harvesters and remove their libraries from the process, (iii) are the networks properly marketing the netLibrary and Digital Preservation products and services; Mr. Jordan responded that the networks were doing so, but that, as always, there are definitely improvements that can be made in these efforts; (iv) what was the status of the BioOne contract; Mr. Jordan responded that it would be terminated effective May 21, 2003; and (v) couldn't OCLC offer a package of services to libraries that would better help them deal with the shortfalls in their infrastructure budgets; Mr. Jordan responded that this sort of package is already being offered in several different forms, and the search for additional combinations to address these issues was in progress. There being no further questions, that concluded Mr. Jordan's comments regarding the President's report.

Mr. Frasier then reported that the Audit Committee had met with all members present, and discussed the following issues: (i) the Sarbanes-Oxley legislation and the recommendations

of the Blue Ribbon Commission on governance, (ii) the need to consider rotating OCLC's independent auditors, which included discussion (after excusing representatives of the current auditors from the room) of past performance, the presence of *red flags*, audit partner rotation, the uniqueness of OCLC's business and the suggestion that the external audit function become the subject of a bidding process whenever the next audit partner rotation was scheduled but in any event, within the next 2 years, with the proviso that the current external auditors be permitted to bid as well, (iii) the need for an internal audit person or staff and the associated costs thereof, and (iv) reports from Ms. Kowaluk and Mr. Houfek as to current internal audit efforts. Following some discussion, the Board agreed to support the Audit Committee's recommendation regarding the bidding process initiation, to take place no longer than two years into the future.

Mr. Lauer then reported on behalf of the Finance Committee that the Committee had met, had one resolution to present and that they had reviewed the following items: (i) corporate financial results through January and the budget for the remainder of FY 2003, (ii) a new corporate bond refinancing that is in progress and expected to result in a savings of over \$1.5 million to the cooperative through the retirement of previous bond debt, (iii) an update on current mergers and acquisitions activity, (iv) an enterprise resources plan review provided by Mr. Lauber, and (v) the following resolution which the Committee reviewed and brings to the Board for approval:

WHEREAS, by previous resolution the Corporation was authorized to pursue a merger of certain of its operations based in Birmingham, England with OCLC PICA; and

WHEREAS, in light of additional research it has become apparent that rather than pursuing a merger, OCLC should instead sell certain assets and liabilities of its Birmingham operations to OCLC PICA;

NOW THEREFORE, it is hereby

RESOLVED, that in view of the Corporation's interest in increasing efficiencies of its European operations the Corporation is hereby authorized to proceed with the sale of certain of its assets and liabilities related to its business in certain regions of OCLC Europe, Middle East and Africa operation to OCLC PICA as it deems appropriate; and

FURTHER RESOLVED, That the officers of this Corporation be and they are each individually authorized to execute and deliver in the name and on behalf of this Corporation such additional documents, and to do such other acts and things as they or any of them individually shall deem necessary or appropriate to carry out the purposes of the foregoing Resolution.

There being no further discussion, and no second being necessary, a vote was taken on the above resolution, and said resolution was unanimously approved by the Board. This concluded the report of the Finance Committee.

The Chair then called for a break at approximately 10:05 a.m.

The meeting reconvened at 10:25 a.m., at which point Ms. Hanawalt then reported on behalf of the Personnel and Compensation Committee that the members had met and had reviewed the following matters: (i) a presentation by Mr. Marth regarding the succession management program currently underway at OCLC, and (ii) a draft of the Committee Charter and Task Calendar, which was being brought to the Board for approval:

RESOLVED, that the proposed Personnel and Compensation Committee Charter, as presented to this Board be, and the same is, hereby approved.

Following some discussion, and no second being necessary, a vote was taken on the above resolution, and the Board unanimously approved said resolution. Continuing with her report, Ms. Hanawalt indicated that the Committee had additionally considered an executive summary of the current inclusion efforts, including the MIP inclusion objectives, and had requested that Mr. Kendall address the Committee in April for purposes of an update on this subject. Ms. Hannawalt then indicated there was an additional resolution to be brought before the Board later today in Executive Session.

Mr. Crowe then called on Mr. Baker for his report from the Nominating and Board Development Committee. Mr. Baker related that the Committee had considered the following issues: (i) a final draft of the Committee Charter and guidelines for which approval would be requested at the end of his report, (ii) a continuing review of the meeting assessment pilot project, (iii) preparation of a summary of the results of the Trustee exit surveys acquired from the four Trustees who recently left the Board, (iv) review of the new Trustee orientation process, (v) review of a Board self-assessment program, (vi) Board succession planning to produce a pool of viable candidates for future openings on the Board, including such strategies as soliciting suggestions from delegates to the Members Counsel; (vii) Committee input relative to the planning for the September Board retreat, and (viii) updating and improving the Board website in the near future. Mr. Baker then offered the following Resolution for approval by the Board:

RESOLVED, that the proposed Nominating and Board Development Committee Charter as presented to this Board be, and the same is, hereby approved.

There being no further discussion, and no second being necessary, a vote was taken on the above resolution, and said resolution was unanimously approved by the Board.

Mr. Baker then reported on behalf of the Joint Standing Committee on Membership that two meetings had occurred since the last report, during which the Committee considered: (i) finalization of a report from the Committee to both the Board and the Members Council regarding the timeline and process recommendations of the Committee, (ii) a process whereby the new members would be named to the Committee first by the Board as to its members, and then by the Members Council as to its members, (iii) a methodology for staff to submit new products and services for review as to *contribution* under the algorithm, though there were not likely to be any additional items submitted for FY 2003, (iv) a review of PICA activity and how it might qualify as a contribution, and (v) continuing discussion regarding the next round of international delegates to the Members Council. Additional comments were then added by the other members of the Committee. Mr. Glicksman indicated that consideration was being given to selecting the international members by region (e.g. PICA, Latin America, Asia Pacific) rather than by country with those regions selecting the actual representatives. Mr. Stephens then mentioned that the

OCLC Online Computer Library Center, Inc.
Personnel & Compensation Committee of the Board of Trustees
Personnel & Compensation Committee Charter

In order to provide guidance to the Personnel & Compensation Committee (“Committee”) in fulfilling its responsibilities, this Committee Charter (“Charter”) has been adopted by the Board of Trustees (“Board”) of OCLC Online Computer Library Center, Inc. (“OCLC”). The Committee shall review and reassess this charter at least annually and recommend any proposed changes to the full Board for approval.

Purpose and Responsibilities:

Purpose

1. The purpose of the Personnel & Compensation Committee is to provide oversight review of compensation and benefits of the employees of the corporation. The Committee evaluates and reports to the Board of Trustees on matters concerning management performance, employee compensation and personnel policies, programs and plans, including management development and continuity plans, and approves (but does not administer or manage) employee compensation and benefit programs.

Responsibilities

1. Approves and oversees (but does not administer or manage) the company's executive compensation programs.
2. Reviews and approves compensation matters for the Chief Executive Officer of the corporation, including the establishment of the annual performance objectives with respect to the Chief Executive Officer's compensation and benefits, including long-term and incentive based compensation. In addition, the Committee will evaluate performance and approve individual compensation actions for the remaining corporate officers, including long-term and incentive based compensation. In determining the long-term incentive component of the overall compensation, the Committee shall consider the company's performance and relative member return, the value of similar incentive awards at comparable companies, and the awards given to the participants in prior years. The Committee will provide a thorough annual (or more often, if the Committee deems it appropriate) review of such matters with the full Board.
3. Oversees (but does not administer or manage) the establishment and administration of the Company's benefit programs.
4. May select and retain independent compensation and benefits consultants and other outside counsel, as needed, to provide independent advice to the Committee with respect to the Company's current and proposed executive compensation and employee benefit programs.
5. Oversees and approves the Succession Management planning process. Succession Management discussions for the Chief Executive Officer will be reviewed with the full Board. With respect to other officers, the Committee will provide preliminary review and approval, with final succession management discussions and planning presented to the full Board.
6. The Committee shall review and assess its own performance on a periodic basis, and update its Charter accordingly.

7. The Committee may form and delegate authority to subcommittees when appropriate.
8. The Committee shall also assist with other duties as may from time to time be assigned to it by the Board
9. The Committee will use the “Task Calendar” attached as Exhibit A as a guide to its regular duties and responsibilities, but said Task Calendar will only be advisory in nature, and the Committee is fully empowered to alter either the function or the timing thereof in its sole discretion as it may deem appropriate.

Membership and Organization

1. The Committee shall be composed of no fewer than three members of the Board, as designated by the Board. The Board may remove and/or replace any Committee member at any time in its sole discretion. These trustees shall be free of any relationship that, in the opinion of the Board, may interfere with such member’s individual exercise of independent judgment. During the past three years Committee members: shall not have been employees of OCLC; shall not have received any compensation from OCLC other than for service on the Board; and shall not have been a partner, board member or officer of a corporation transacting significant business with OCLC. Committee members whose institutions are OCLC members or participants purchasing goods and services from OCLC on terms generally available to all members of that category shall be deemed to meet this independence requirement. In addition, Committee members shall not have been employed as an executive of another entity where any of OCLC’s executives serve on the entity’s compensation or audit committee or be an immediate family member of an individual who was an executive officer of OCLC within the past five years.
2. One member of the Committee shall be appointed as Chair. The Chair shall be responsible for leadership of the Committee, including scheduling and presiding over meetings, preparing agendas and making regular reports to the Board. The Chair will also maintain regular contact with the President and Chief Executive Officer, the Chief Financial Officer and the General Counsel of the company.
3. The Committee shall meet as often as deemed necessary by the Committee.



EXHIBIT A
P&C Committee Task Calendar

MEETING:	TASK:
November	<ul style="list-style-type: none"> ▪ Review and update the P&C Committee Charter.
February	<ul style="list-style-type: none"> ▪ Review and approve performance and merit increases for Vice Presidents (to be effective January 1).
April	<ul style="list-style-type: none"> ▪ Review and approve the new year MIP corporate performance measures, thresholds and targets.
June	<ul style="list-style-type: none"> ▪ Review and approve performance and merit increase of CEO (to be effective July 1). ▪ Review and approve preliminary MIP payout (in total) for executives and non-executives. ▪ Review and approve new year MIP target percentages and objectives for executives.
September	<ul style="list-style-type: none"> ▪ Review and approve final MIP payout (in total) for executives and non-executives. Approve individual executive awards. ▪ Review and approve LTIP target awards (beginning September 2005) and metric objectives.
Annual Review	<ul style="list-style-type: none"> ▪ Inclusion Program. ▪ HR Strategic Planning. ▪ EEOC Review/Affirmative Action Program. ▪ Employee Opinion Survey. ▪ Succession Management. ▪ HR Metric – Saratoga Institute Index.

**OCLC
NOMINATING AND BOARD DEVELOPMENT COMMITTEE
CHARTER**

In order to provide guidance to the Nominating and Board Development committee in fulfilling its responsibilities, the Board of Trustees (“Board”) of OCLC Online Computer Library Center, Inc. (“OCLC”), has adopted this Nominating and Board Development Committee Charter (Charter). The Nominating and Board Development Committee of the Board shall review and reassess this charter annually and recommend any proposed changes to the Board for approval.

Committee Role

The Nominating and Board Development Committee assists the Board in fulfilling its responsibility for maintaining continuity of Board membership and managing the internal affairs of the Board. The Committee also assists with other duties as may from time to time be assigned to it by the Board.

Committee Membership and Organization

The Nominating and Board Development Committee will consist of at least one (1) Board member (plus the Board Chair who is automatically an ex-officio member of all Committees), such final number and composition to be approved by the Board from time to time, as deemed appropriate. One member of the Committee shall be appointed by the full Board as Committee Chair. The Committee Chair shall be responsible for leadership of the Committee, including scheduling and presiding over meetings, preparing agendas and making regular reports to the Board.

The Committee shall meet a minimum of twice a year, with additional meetings scheduled as deemed necessary by the committee.

Committee Responsibilities

Though the Committee may consider additional duties from time to time, the general responsibilities of the Committee in carrying out its role are described as follows:

		WHEN PERFORMED					
		Nominating and Board Development Committee meetings					
		Feb	Apr	June	Sept	Nov	A/N
1.	The Nominating and Board Development Committee will meet its responsibilities for advising the Board on appropriate continuity of membership by taking the following actions:						
1.a.	Regularly refresh a pool of potential Trustee nominees.						X
1.b.	Identifying and proposing a slate of nominees for consideration by the Trustee Members of OCLC as successors to the Trustee-elected members of the Board, in advance of the expiration of their respective terms of office		even years			even years	
1.c.	Working with management or other Board members, as appropriate, to secure permission from the nominees to submit their names for election and confirm their willingness to serve if elected.		even years				
1.d.	With each Trustee nomination recommendation, considering the mix of Trustee characteristics, experiences, diverse perspectives and skills that is appropriate to OCLC.		even years				
1.e.	In considering continuing Trustee tenure, the Nominating and Board Development Committee works to ensure that the Board maintains openness to new ideas and a willingness to critically re-examine the status quo. The Nominating and Board Development Committee recognizes that endorsing a Trustee for re-nomination implies evaluation of individual Trustees. Re-nomination is neither to be expected nor guaranteed.		even years				

**OCLC
NOMINATING AND BOARD DEVELOPMENT COMMITTEE
CHARTER**

WHEN PERFORMED

Nominating and Board Development Committee meetings

		Feb	Apr	June	Sept	Nov	A/N
2.	The Nominating and Board Development Committee will meet its responsibilities for making annual recommendations for the organization of the Board by taking the following actions:						
2.a	Developing, and reviewing as necessary, a set of principles to guide the development and continuity of leadership for the Board.						X
2.b.	Recommending a slate of Board officers and Board committee assignments for Board action at each November Board meeting.					X	
3.	The Nominating and Board Development Committee will meet its responsibilities for review of performance of all Trustees by taking the following actions:						
3.a.	Consulting with the Board Chair for appropriate action if any Trustee's performance requires such consultation.						X
3.b	Report on Board effectiveness to the Board annually.				X		
4	The Nominating and Board Development Committee will meet its responsibilities for Board development by taking the following actions:						
4.a.	Establishing current practice for, monitoring, and reviewing the orientation procedures for new Board members.						X
4.b.	Recommending a Board member to be a mentor to each newly elected Board member for a period deemed appropriate.				even years		X
4.c.	Developing continuing education experiences for the Board as may be appropriate from time to time.						X
4.d	Monitoring maintenance, use and development of the Board website through a liaison relationship with designated OCLC staff members responsible for the website.						X
5.	The Nominating and Board Development Committee will review and reassess this charter annually and recommend any proposed changes to the Board for approval.					X	