

Special Counsel's Second Quarterly Report to the Board of Trustees of
Stevens Institute of Technology, Pursuant to the Final Consent Judgment in
*The Trustees of the Stevens Institute of Technology v. Anne Milgram and Anne
Milgram v. The Trustees of the Stevens Institute of Technology, Harold J. Raveche
and Lawrence T. Babbio.*

July 26, 2010

SPECIAL COUNSEL'S SECOND QUARTERLY REPORT

BACKGROUND

On or about September 16, 2009, The Trustees of the Stevens Institute of Technology (“Stevens”) commenced an action in the Superior Court of New Jersey, Chancery Division, Hudson County, naming as Defendant Anne Milgram in her official capacity as Attorney General of the State of New Jersey. On or about September 17, 2009, Attorney General Milgram commenced an action against Stevens in the same court (collectively “the Actions”), also naming as defendants Harold J. Raveche and Lawrence T. Babbio. Following negotiations among the parties, the Honorable Thomas Olivieri entered a Final Consent Judgment on January 15, 2010 (the “Consent Judgment”), embodying the agreement of the parties resolving almost all of the issues raised in the Actions.

Among other things, the Consent Order sets forth a number of actions that Stevens is obligated to take over time. In addition, the Consent Order named the undersigned as “Special Counsel.” Under the terms of the Consent Order, Special Counsel is to “review Stevens’ actions to ensure that Stevens is complying with its obligations under this Judgment.” As part of that review process, the Consent Judgment provides that Special Counsel “will provide quarterly reports to the Stevens Board regarding Stevens’ compliance with this Consent Judgment and with any further recommendations.” This is the second such quarterly report. Pursuant to the terms of the Consent Judgment, Stevens is required to publish this report on its web page.

SECOND QUARTERLY REPORT

This report sets forth below the operative paragraphs of Section C of the Consent Judgment, which contains the affirmative obligations imposed upon Stevens. As to each such operative paragraph, Special Counsel then reports upon the state of compliance. All numbered paragraph and subparagraph references, therefore, are to section C of the Consent Judgment:

“1. Board Governance. The Board of Trustees shall take and implement the following actions with respect to Board membership and governance:

a. Within thirty days of the Effective Date, the Board shall commence the process of amending Stevens’ charter and/or by-laws to provide that a trustee having served 12 years on the Board and having reached age 72 shall, at the conclusion of the Board’s spring regular meeting, no longer continue as a voting member of the Board but may be elected “Trustee Emeritus,” a non-voting member of the Board. Emeritus Trustees retain the right to participate in all Board and committee meetings in a non-voting capacity and subject to such further limitations as stated in this Consent Judgment.”

Status of Compliance:

On February 11, 2010, The Board of Trustees of Stevens (the “Board”) adopted Amended and Restated Bylaws, which have since been replaced by a slightly modified version adopted April 6, 2010 (the “Amended Bylaws”). The Amended Bylaws were attached to Special Counsel’s First Quarterly Report (“First Report”). Article 2, Sections 2.3.3, 2.4.5, and 2.7.3 of the Amended Bylaws largely achieve compliance with this provision of the Judgment. In the First Report, Special Counsel reported that Stevens, Special Counsel and representatives of the Attorney General were in discussions concerning whether one minor amendment to these provisions was necessary to achieve full compliance. Special Counsel believes that such an amendment will be made. Stevens and representatives of the Attorney General are discussing a variety of relatively minor modifications to the Bylaws and the Consent Judgment, with the goal of making all the necessary adjustments in a single revision. The current expectation is that final

agreement on these modifications will be achieved by August 1, 2010 or soon thereafter, and Special Counsel will thus report on this progress in the next quarterly report.

“b. The Board shall amend Stevens’ charter and/or by-laws to provide that there shall be a maximum 15-year term for the Chairman of the Board and Vice-Chairmen of the Board. Any trustee is eligible thereafter to be elected to serve as Chairman or a Vice-Chairman who has not served in those positions during the two-year period preceding the election.”

Status of Compliance:

Article 4, Sections 4.2 and 4.3 of the Amended Bylaws achieve full compliance with this provision of the Judgment.

“c. The Board shall amend Stevens’ charter and/or by-laws to provide that the entire Board will be vested with exclusive power and/or obligated to:

- 1. Approve the contract and annual compensation of the President;**
- 2. Approve the salary of the five other employees with the highest annual total compensation;**
- 3. Review all financial results at every Board meeting;**
- 4. Approve the annual budget, any changes to the spending rate of the general endowment, and any amendments to the Investment Policy of the endowment;**
- 5. Review the annual IRS Form 990 submission;**
- 6. Meet with the external auditor annually;**
- 7. Review the internal control letters of the external auditor and any material weaknesses and significant control deficiencies identified by the external auditor;**
- 8. Review the performance and asset allocation of the endowment annually;**
- 9. Establish an orientation and education program for new trustees;**
- 10. Prepare annual assessments of committees and Board performance;**
- 11. Elect Chairperson, Vice-Chairpersons, committee members, committee chairs, new trustees, and Emeritus Trustees based on the recommendation of the Nominating and Governance Committee; and**
- 12. Meet in executive session at each Board meeting in the absence of any Stevens employees or officers.”**

Status of Compliance:

Article 2, Section 2.1, et seq. of the Amended Bylaws has begun the process of compliance with this provision of the Consent Judgment. In the First Report, special Counsel reported that Special Counsel was in discussions with the Board concerning whether a minor amendment to these provisions is necessary to achieve full compliance. Special Counsel believes that this minor amendment will be included in the revisions referred to in Section 1a above, and Special Counsel will report further in the next quarterly report.

“d. The Board shall engage the following consultants: a nationally recognized board governance consultant to recommend other changes that are appropriate to achieve best practices for Stevens; an Audit Committee consultant, who also may serve as the chair of the Audit Committee, to review and oversee the Committee’s and Office of Finance’s processes and procedures; and a independent compensation consultant.”

Status of Compliance:

Stevens has engaged Ronald E. Salluzzo to serve as Chair of the Audit Committee. Mr. Salluzzo is a Certified Public Accountant, and his experience includes, among other things, having been the chief financial officer of a publicly traded company and having been a partner at KPMG, with extensive experience related to higher education. Stevens has also engaged Dr Barbara E. Taylor as a governance consultant. Dr. Taylor is a well known, published expert in this area, and served for twelve years as director and vice president at the Association of Governing Boards of Universities and Colleges. Special Counsel will report in the future concerning the implementation of any recommendations by these consultants.

“e. Within thirty days of the Effective Date, the Board shall commence the process of amending Stevens’ by-laws to provide that the President shall not be a voting member of the Board, but may participate in Board and committee meetings in a non-voting capacity.”

Status of Compliance:

Article 2, Section 2.2 of the Amended Bylaws achieves full compliance with this provision of the Judgment.

“f. Within thirty days of the Effective Date, the Board shall commence the process of amending Stevens’ by-laws to provide that neither the Chairman, Vice-Chairmen, nor any member of the Executive Committee shall serve as the chair of any committee or sub-committee (other than the reconstituted Executive Committee).”

Status of Compliance:

Article 5, Section 5.1.2 of the Amended Bylaws achieves full compliance with this provision of the Judgment.

“2. Committee Governance. Within thirty days of the Effective Date, the Board of Trustees shall commence the process of amending Stevens’ by-laws to implement the following actions with respect to the membership and governance of the committees listed in paragraph 4 hereof:

a. All committees shall include at least four trustees and two faculty members.”

Status of Compliance:¹

Article 5, Section 5.1.1 of the Amended Bylaws achieves compliance with this provision of the Judgment in most respects. The Amended Bylaws exclude the Human Resources Committee and the “Audit Committee” from the two faculty member requirement. This exclusion is not found in the Consent Judgment. Stevens is of the view that such an exclusion is necessary to achieve best practices and to meet certain legal requirements. Special Counsel believes that is likely that an agreement between Stevens and the Attorney General’s office

¹ Note that Sections C.2.a. through C.2.h. of the Consent Judgment refer to requirements that must be incorporated into the Stevens Bylaws. Thus, to the extent this report comments on the “status of compliance” with respect to these items, this report is referring to compliance with the requirements to so amend the Bylaws, not to compliance with the Bylaws, as thus amended.

resolving this issue will be reflected in the upcoming Consent Judgment and by-law amendments referred to above in Section 1a above, and Special Counsel will report further in his next report.

“b. Committee members’ terms shall be limited to four years. A rotation shall be accomplished by one trustee leaving the committee each year and one faculty member leaving the committee every two years. Initial terms may be adjusted in order to establish the annual rotation.”

Status of Compliance:

Article 5, Section 5.1.3 of the Amended Bylaws achieves full compliance with this provision of the Judgment. Special Counsel notes that the referenced section of the Amended Bylaws carve out an exception not found in the Consent Judgment, i.e. “except the trustee professional [] on the Audit Committee.” Insofar as Section C. 4. a. of the Consent Judgment specifically deals with the hiring of a professional trustee for the Audit Committee and makes no reference to a term limit for that professional, Special Counsel is of the opinion that the carve-out is consistent with the overall language of the Consent Judgment, taken as a whole.

“c. Committee chairs’ terms shall be limited to terms of four years, except when the chair is a non-trustee professional. Committee chairs may be re-elected two years after the end of a term.”

Status of Compliance:

Article 5, Section 5.1.4 of the Amended Bylaws achieves full compliance with this provision of the Judgment. See comment above concerning the carve out for the trustee professional.

“d. Committee members may rejoin a committee after two years.”

Status of Compliance:

Article 5, Section 5.1.5 of the Amended Bylaws achieves full compliance with this provision of the Judgment.

“e. Subject to Board approval, committees shall prepare and adopt charters detailing responsibilities, meeting requirements, duties, membership, and other issues consistent with this Consent Judgment.”

Status of Compliance:

Article 5, Section 5.1.7 of the Amended Bylaws achieves full compliance with this provision of the Judgment.

“f. Committees shall complete self-evaluation reviews at least every two years.”

Status of Compliance:

Article 5, Section 5.1.8 of the Amended Bylaws achieves full compliance with this provision of the Judgment.

“g. Committees shall prepare or cause to be prepared complete, detailed and accurate minutes for each committee meeting and all sub-committees. The minutes, which will reflect discussions and decisions, must be submitted to the entire Board at its next meeting or within the time required under N.J.S.A. 15A:6-9.”

Status of Compliance:

Article 5, Section 5.1.9 of the Amended Bylaws achieves full compliance with this provision of the Judgment.

“h. In the event of any unresolved dispute between a majority of trustees on a committee and a trustee who was engaged or compensated to serve on that committee due to his or her expertise, the dispute shall be submitted to the entire Board for a vote.”

Status of Compliance:

Article 5, Section 5.2 of the Amended Bylaws achieves full compliance with this provision of the Judgment.

“3. Executive Committee. Within thirty days of the Effective Date, the Board shall commence the process of amending Stevens’ charter and/or by-laws to reconstitute and reorganize the Executive Committee to serve as an advisory group to the Board with no power or authority to act or approve any matter on behalf of or in the name of the Board or Stevens or to otherwise exercise any Board powers.”

Status of Compliance:

On or about May 26, 2010, the Board adopted a new charter for the Executive Committee that achieves full compliance with this provision of the Consent Judgment. Special Counsel is advised that publication of Stevens’s governance documents on its website is imminent.

“a. The reconstituted Executive Committee will propose a charter for the entire Board’s approval that includes the following duties and responsibilities:

- 1. advising the Board and other committees on various matters;**
- 2. lending support, expertise, experience and/or assistance to various Board or committee efforts and activities (e.g., fundraising activities); and**
- 3. engaging an in-house secretary to record minutes and decisions.”**

Status of Compliance:

On or about May 26, 2010, the Board adopted a new charter for the Executive Committee that achieves full compliance with this provision of the Consent Judgment.

“b. No member of the Executive Committee may serve as a chair or co-chair of any other committee or sub-committee.”

Status of Compliance:

Article 5, Section 5.1.2 of the Amended Bylaws incorporates this restriction, and a review of current committee memberships discloses that Stevens is in compliance.

“4. Other Committees. On or before July 1, 2010, the Board of Trustees shall amend Stevens’ Governance Documents to implement the following actions with respect to Board committees:

a. Audit Committee. The Audit Committee shall engage a professional with appropriate financial expertise to serve as a trustee and chair the Committee. The Committee’s charter shall state its responsibilities and powers, which shall include, but not be limited to, the following: (1) engaging and interfacing with the external auditor; (2) reviewing and approving all financial statements; (3) reviewing the internal and financial controls; (4) reviewing accounting changes; (5) reviewing Form 990s and other required governmental filings; (6) approving policies for approval of expenses, including pre-authorization, documentation requirements and approval schedules; and (7) conducting an annual audit of all expenses of the President and the other five most highly compensated Stevens employees.

b. Human Resources and Compensation Committee. The Human Resources and Compensation Committee shall engage an independent consultant to advise the Board on establishing a peer group and a compensation policy, including performance metrics for the President and other top five compensated employees. The Committee shall have a charter that will set out its functions, including but not limited to: (1) establishing a formal objective process to decide compensation; (2) establishing a revised process to review performance results; (3) establishing a presidential evaluation process; (4) establishing procedures to review annually all evaluations with the Board; (5) reviewing succession planning; (6) reviewing and recommending to the Board a policy on loans to Stevens staff; (7) reviewing and recommending to the Board the contract and annual compensation of the President; (8) reviewing and recommending to the Board the annual compensation of the President and the other five most highly compensated employees; and (9) approving the salary of other top officers.

c. Nominating and Governance Committee. The charter of the Nominating and Governance Committee shall state its responsibilities and powers, which shall include, but not be limited to, the following: (1) proposing candidates for the positions of Chairman, Vice-Chairmen, committee members, committee chairs, new trustees, and Emeritus Trustees to the entire Board for its approval and election; (2) reviewing and submitting all committee charters to the Board for approval; (3) reviewing all committee self-evaluation results and recommending any changes to the Board; and (4) reviewing all trustee conflict of interest statements and recommending approval and/or actions to the Board.

d. Investment Committee. The Investment Committee shall engage a non-trustee professional investment advisor or advisors to assist in the determination of the proper asset allocation target and investment policy for Stevens’ endowment’s investment portfolio, and to evaluate outside portfolio managers’ performance versus a peer group and accepted benchmarks. The charter of the Committee shall state its responsibilities and powers, which shall include, but not be limited to, the following: (1) monitoring and evaluating the asset allocation and the investment performance of the endowment’s

investment portfolio, and regularly reporting on these issues to the Board; (2) disclosing the endowment's investment portfolio's performance at the end of each fiscal year on Stevens' website; (3) recommending changes to the spending rate of the general endowment for the entire Board's approval; and (4) overseeing the distribution of funds from individual endowment funds.”

Status of Compliance:

Article 5, Section 5.1 of the Amended Bylaws authorizes the Board to appoint each of the above referenced committees. The Board has also approved new Charters for each of these committees, and those Charters are in full compliance with the requirements of this provision of the Consent Judgment. Special Counsel is advised that publication of Stevens' governance documents on its web site is imminent.

“5. General Provisions. The Board of Trustees shall take and implement the following other actions:

a. The Board's resolutions, including those of October 2, 2009 and subsequent, relating to governance and other reforms shall be integrated into Stevens' Governance Documents, including its charter and/or by-laws, as appropriate.”

Status of Compliance:

This process is ongoing, as reflected in the status of the various specific items referenced above.

“b. The Audit Committee shall exercise financial control over Stevens, including its Office of Finance, until it or the entire Board delegates such powers to an appropriate officer.”

Status of Compliance:

By Resolution dated April 6, 2010, the Board has delegated financial control over Stevens to the Chief Financial Officer, Vice President for Finance & Treasurer, an office presently held by Mr. Randy Greene. The CFO reports directly to the Audit Committee.

“c. The Board and Dr. Raveché will agree upon terms for the full satisfaction of Dr. Raveché’s outstanding mortgage to Stevens. Those terms will include, among other terms agreed to by Stevens and Dr. Raveché, full satisfaction of the mortgage by July 1, 2014.”

Status of Compliance:

The process of amending Dr. Raveche’s employment and consulting agreements is ongoing, and nearly complete. Special Counsel is advised that the execution of all necessary written agreements will likely be accomplished in the near future. Those agreements, as approved by the Board, will include the full satisfaction of the outstanding mortgage well in advance of the deadline set by the Consent Judgment. Special Counsel will report further in the next quarterly report, after the agreements have been signed.

“d. The Board shall conduct a limited accounting for the following restricted assets: (1) Taylor Trust; (2) funds supporting endowed chairs and endowed professorships; and (3) endowment funds with a current fair market value greater than \$2,000,000.00. The limited accounting must include: (1) a review of the historic application of accounting and control measures to these restricted assets since 2004 and recommendations regarding changes necessary to enhance accountability and performance for these assets; and (2) a report to the Audit Committee for each fund supporting an endowed chair and or professorship with the information required under Section 6(e) of Stevens’ current “Policy on Endowed Chairs & Professorships”; and (3) a report to the Audit Committee regarding the processes employed when the investment portfolios of the Taylor Trust were pooled with the general endowment , the effect of such pooling and recommendations, if any, on remedial actions.”

Status of Compliance:

The required process is ongoing. Stevens anticipates that the analysis of the data will continue throughout the summer and early fall of 2010 before the required reports are produced. Special Counsel will report further on this item in the next quarterly report.

“e. Stevens will hire an in-house counsel. The in-house counsel position will include all powers and duties associated with the in-house counsel position based on an analysis of several comparable institutions.”

Status of Compliance:

Stevens has formed a search committee and authorized a search for an appropriate candidate for this position. The selection process is nearly complete, but as of the date of this report the position has not yet been filled.

“f. Stevens shall designate an in-house secretary with responsibility for preparation and maintenance of all minutes and records of the Board and each committee and sub-committee, which secretary shall be answerable to the Board.”

Status of Compliance:

Minutes are being prepared for Board and committee meetings, but Stevens has not yet made the designation required by this section of the Judgment. Stevens presently contemplates that this role will be filled or supervised by the in-house counsel hired pursuant to the preceding subsection of the Judgment. Special Counsel will report further on this item in the next quarterly report.

“g. Within thirty days of the Effective Date, the Board shall commence the process of amending Stevens’ by-laws to provide that Steven will not make any new loans to or act as a guarantor on behalf of any officers.”

Status of Compliance:

Article 4, Section 4.9 of the Bylaws achieves compliance with this provision of the Judgment.

“h. By no later than six months from the Effective Date, the Board shall approve a Donors’ Bill of Rights, which must be posted on Stevens’ website and include, at the least, the pledges included in the Donors’ Bill of Rights of the Council for Advancement and Support of Education.”

Status of Compliance:

On April 6, 2010, the Board adopted a Donor's Bill of Rights that complies with this provision of the Judgment, and it is posted on the Stevens website.

“i. By no later than six months from the Effective Date, the Board shall approve a “Gift Acceptance Policy,” meaning policies/guidelines governing acceptance of gifts received by Stevens.”

Status of Compliance:

A Gift Acceptance Policy in compliance with this provision of the Consent Judgment was approved, effective July 14, 2010.

“j. Stevens will post its consolidated financial statements, credit rating agencies' reports, Form 990s, annual budgets, endowment investment portfolio's performance, and key Governance Documents on its website.”

Status of Compliance:

Stevens has begun the process of making these items available on its website and the vast majority of the required posting have now occurred. Stevens advises that the remainder will be posted in the near future, and Special Counsel will thus report further in the next quarterly report.

“k. Stevens, in consultations with its governance and other relevant consultants, will evaluate its policies and practices relating to: institutional conflicts of interest policy; its current institutional whistleblower policy; endowed chair policy; technology commercialization programs, including, but not limited to, practices and policies relating to for-profit subsidiaries and the licensing of Stevens-generated technology.”

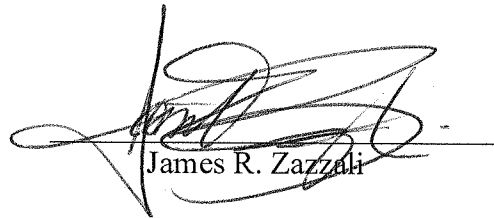
Status of Compliance:

This process is ongoing, and Special Counsel will further report on this item in the next quarterly report.

Overall Conclusion

Stevens has been fully cooperative with Special Counsel's efforts to review and report on compliance with the Judgment. Special Counsel finds that Stevens has been pursuing compliance diligently and in good faith, and has achieved appropriate progress toward full compliance. At this time, Special Counsel perceives no reason for concern about Stevens' willingness and ability to achieve full and timely compliance with the Judgment.

July 26, 2010



James R. Zazzali